MEDIOBANCA

Annual Accounts and Report as at 30 June 2018

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,521,470
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Annual General Meeting
27 October 2018

BOARD OF DIRECTORS

		Term expires
Renato Pagliaro	Chairman	2020
* Maurizia Angelo Comneno	Deputy Chairman	2020
Alberto Pecci	Deputy Chairman	2020
* Alberto Nagel	Chief Executive Officer	2020
* Francesco Saverio Vinci	General Manager	2020
Marie Bolloré	Director	2020
Maurizio Carfagna	Director	2020
Maurizio Costa	Director	2020
Angela Gamba	Director	2020
Valérie Hortefeux	Director	2020
Maximo Ibarra	Director	2020
Alberto Lupoi	Director	2020
Elisabetta Magistretti	Director	2020
Vittorio Pignatti Morano	Director	2020
* Gabriele Villa	Director	2020

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Natale Freddi	Chairman	2020
Francesco Di Carlo	Standing Auditor	2020
Laura Gualtieri	Standing Auditor	2020
Alessandro Trotter	Alternate Auditor	2020
Barbara Negri	Alternate Auditor	2020
Stefano Sarubbi	Alternate Auditor	2020

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Massimo Bertolini — Secretary to the Board of Directors

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REVIEW OF GROUP OPERATIONS

In the twelve months ended 30 June 2018, the Mediobanca Group delivered a net profit of €863.9m, 15.2% higher than the €750.2m posted last year, with record performances in revenues (over €2.4bn) and gross operating profit (€1,057.2m). This result reflects healthy performances by all the divisions, in particular Consumer Banking, and the ongoing consolidation of Wealth Management [1]. Capital solidity was also strengthened further, with the Common Equity Tier 1 (CET1) ratio increasing from 13.3% to 14.2% (and the Total Capital ratio at 18.1%), in part due to the introduction of the AIRB models for calculating RWAs for the CIB large corporate portfolios as from March 2018, which yielded an overall benefit of some 140 bps.

Gross operating profit, net of loan loss provisions, climbed by 23.6% in the twelve months, from €855.2m to €1,057.2m, on 10.2% growth in revenues (from €2,195.6m to €2,419.3m), with the main income items performing as follows:

– Net interest income grew by 5.6%, from €1,287.8m to €1,359.4m, and reflects the increase in Consumer Banking (up 6.2%, from €818.1m to €868.8m), a cut in the loss by the Holding Functions (from €76.3m to €37.5m), and an improved contribution from Wealth Management (up 4.5%, from €244.1m to €255.2m); conversely, net interest income from Corporate and Investment Banking activity declined from €292.6m to €266.1m, reflecting the lower profitability of the loan book;

– Net treasury income increased from €121.3m to €157.4m, with all business lines contributing positively: revenues from client trading were up from €72.7m to €82.3m, while revenues from the proprietary trading portfolio climbed from €31.6m to €53m (with gains on the banking book doubling, from €7.4m to €14.7m); AFS dividends (equities and funds) were up from €17m to €22.1m;

– Net fee and commission income rose by 19.1% (from €522.6m to €622.2m), driven by the 48% increase in fees from Wealth Management (from €175.1m

[1] Compared to last year, the Wealth Management division's results now include Mediobanca Private Banking (which comprises the former Banca Esperia activities), CheBanca! (the results of which were boosted by the inclusion of the former Barclays' volumes for the whole twelve months rather than just ten), and RAM Active Investments (for four months).

to €258.7m), in part due to the expanded area of consolidation (RAM added €15.5m), which now account for more than 40% of the Group total; fee income from Wholesale Banking was unchanged at €207.3m (33% of the total): the excellent performance in M&A advisory services, which delivered a 35.4% increase in fee income (from €47.8m to €64.7m), offset the expected reduction in equity capital market fees following last year's result which was boosted by one particularly lucrative transaction;

– The contribution from the equity-accounted companies, virtually all of which is now attributable to Assicurazioni Generali, rose from €263.9m to €280.3m.

Operating costs rose by 8.9%, from €1,023.7m to €1,114.9m, largely due to the increased area of consolidation (the inclusion of RAM added €8.2m, and the consolidation of Banca Esperia €56m) as well as to the expansion in banking activities (in particular Consumer Banking and Specialty Finance); CheBanca! in fact cut costs by 0.7% (or 7% on a like-for-like basis): with the extra expense incurred to launch the FAs network entirely offset by the efficiencies generated through full integration of the business unit acquired from Barclays.

Loan loss provisions decreased by 21.9%, from €316.7m to €247.2m, reflecting a cost of risk of 62 bps, comfortably below the strategic plan target despite higher provisioning for non-performing items (with the coverage ratio up from 54.6% to 56.7%), due in particular to writebacks in Wholesale Banking (€44m) and a cost of risk in Consumer Banking which is near to its lowest-ever levels (below 200 bps).

Gross operating profit also reflects:

– Net gains on disposals of €98.3m (30/6/17: €168.6m), chiefly in respect of the Atlantia disposal in the first quarter;

– Payments to the resolution funds and deposit guarantee schemes totalling €49.1m (€87.9m), €26.3m of which as the ordinary contribution to the Single Resolution Fund, €5.4m for the ordinary contribution to the DGS, and €17.4m in one-off payments, €7.8m of which to the voluntary interbank deposit scheme [2] FITD (including €2.8m to wipe out the Cassa di Risparmio di Cesena investment and the ABS received in exchange), and a €9.5m payment required by the Italian national resolution fund in May 2018 [3];

[2] In connection with the capital increases implemented by the Rimini, Cesena and San Miniato *casse di risparmio* ahead of their disposal to Crédit Agricole Italy.

[3] Paid in completion of the bail-outs of Banca Marche, Banca Popolare di Etruria, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara.

– Other non-recurring items of €9.3m (net of writebacks on securities), chiefly linked to the reorganization of certain internal Group activities.

The divisional performances for the year were as follows:

– Corporate and Investment Banking delivered a net profit of €264.5m, up 4.2% on last year's result, after revenues of €631m (30/6/17: €635.9m), costs of €255.9m (€247.4m), and net writebacks of €19m (versus €11m in writedowns last year); the net profit earned from Wholesale Banking operations was basically flat at €233.8m, with the writebacks offsetting the 6% reduction in revenues due to the decline in net interest income on the loan book and the proprietary portfolio; Specialty Finance posted an increase in net profit, from €21.6m to €30.7m, with factoring virtually doubling its performance (from €8m to €14.5m), and MBCredit Solutions reporting an increase in bottom line from €13.6m to €16.2m, driven partly by the new acquisitions of NPL portfolios (with a gross book value of approx. €1.65bn);

– Consumer Banking reported a net profit of €315.3m for the twelve months, up 22.1% on the €258.2m reported last year, on higher revenues (up 6.4%), flat costs (up 1.6%) and lower loan loss provisions (down from €276.2m to €241.9m), near the lowest levels ever despite the higher coverage ratios;

– Wealth Management posted a net profit of €69.2m, higher than the €55m posted last year; the expanded area of consolidation (Barclays' business unit, full consolidation of Banca Esperia, the acquisitions by Spafid, plus the recent addition of RAM) translated to higher revenues of €526m (30/6/17: €459.5m) and operating costs of €416.8m (€376.3m). The CheBanca! Affluent & Premier segment contributed a net profit of €27.7m (versus €26.9m last year, including non-recurring income of €15.2m in connection with the Barclays acquisition), on revenues of €292.5m and costs of €235.3m (compared to €274.6m and €237m last year); Private Banking (including the product factories and Spafid) delivered a net profit of €41.5m (€28.1m, including €17.2m in integration expenses last year), on revenues of €233.5m (€15.4m of which from consolidation of RAM's operations for four months), and costs of €181.5m (€8.2m net of RAM); this area reflects lower performance fees of €12.9m (€17m);

– Principal Investing delivered a net profit of €373.8m, lower than the €422.1m reported last year, on lower gains on disposals of AFS shares of €96.3m (€161.6m);

– Holding Functions saw its net loss cut from €241.8m to €158.9m, as a result of net interest expense halving (from €76.3m to €37.5m) and lower contributions to the resolution funds of €49.1m (€87.9m). Leasing delivered a net profit of €4.8m (€3.1m, excluding tax litigation expenses).

Turning to the balance-sheet data, total assets rose from €70.4bn to €72.3bn, due primarily to higher lending volumes offsetting the decrease in banking book bonds and treasury financial assets. Compared to the figures posted at 30 June 2017, the main asset items reflected the following performances:

– Loans and advances to customers rose by 7.7%, from €38.2bn to €41.1bn, with the increase regarding all portfolios: Wholesale Banking (up 9%), Specialty Finance (up 30.2%), Consumer Banking (up 6.5%), and CheBanca! mortgage loans (up 7.9%);

– Banking book bonds and net treasury assets both decreased, from €8.4bn to €7.7bn and from €7.3bn to €4.8bn, as part of the process to manage the Group's liquidity position more efficiently in a negative interest rate scenario;

– Funding decreased slightly, from €49.1bn to €48.9bn, and chiefly reflects the repayment of the first T-LTRO programme (€1.5bn), only in part offset by the increase in CheBanca! retail deposits (up €0.8bn) and Private Banking funding (up €0.4bn);

– Total financial assets in Wealth Management, or TFAs, rose from €59.9bn to €63.9bn, due to the addition of RAM (which brought €4.1bn, concentrated in systematic equity funds) and net new money of €4.7bn, against outflows totalling some €4.5bn, most of which were concentrated in unprofitable assets under custody (€3.7bn of which were Cairn Capital legacy assets). Mediobanca Private Banking and its product factories added €1.3bn in the twelve months) with a stock of €19.1bn as at end-June), CheBanca! Affluent & Premier customers €2.2bn (€22.6bn), Cairn Capital €1,018.7m (€3.5bn), and Compagnie Monégasque de Banque €342m (€10bn).

The Group's capital ratios, calculated by applying the CRR and weighting the Assicurazioni Generali investment at 370% and including the proposed dividend (€0.47 per share), reflect further improvement, helped in part by the first-time adoption of the AIRB models to calculate RWAs for the large corporate loan book (adding 140 bps). The Common Equity Tier 1 ratio rose from 13.31% to 14.24% and the total capital ratio from 16.85% to 18.11% following the effects of the RAM Active Investments SA acquisition (which generated a 30 bps reduction in the CET1 ratio due to a combination of goodwill, seed capital and use of treasury shares owned to pay for part of the consideration). RWAs fell from €52.7bn to €47.4bn as a result of adoption of the AIRB models (which accounted for €5.1bn), covering the increase in the other business lines (up €1.6bn), market risks (up from €2.2bn to €2.4bn), and operational risks (up from €3.6bn to €3.9bn). Virtually one-half of the Assicurazioni Generali investment has been deducted, to comply with the new concentration limit set at 20% as from 31 December 2017, with an impact of approx. 40 bps on the CET1 ratio (conversely, RWAs decreased by €1.4bn). Fully-loaded (i.e. without weighting the Assicurazioni Generali investment at 370%), the ratios stood at 13.1% (CET1 ratio) and 17.3% (total capital ratio). The liquidity requisites remain comfortably above the regulatory limits.

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In accordance with the 2016-19 business plan strategy, one of the priorities of which was growth in wealth management, the following events took place during the twelve months:

– The merger of Banca Esperia into Mediobanca was completed, resulting in the new Mediobanca Private Banking division, targeting the top end of the asset management market; the merger will generate cost synergies as a result of streamlining overheads and eliminating one of the banking legal entities;

– The acquisition of RAM Active Investments SA was completed, with a view to strengthening the Group's alternative asset management platform. RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic asset managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client basis of professional and institutional investors. The company manages fourteen funds with a combined value of approx. CHF 5bn. The agreement involved the acquisition of a 69% stake, with management retaining an interest and continuing to work for the company for at least ten years; the Reyl group, which is an historical shareholder and institutional investor in RAM, has retained a minority interest of 7.5% in the company. A preliminary valuation of the goodwill [4] generated by the acquisition of RAM Active Investments has been made, quantified at CHF 204.8m, equivalent to €177m based on the exchange rate prevailing at 30 June 2018;

– The asset management platform has been strengthened, in both the traditional and alternative segments, with the hiring of a new CEO for Mediobanca SGR (Emilio Franco), which also includes the fourteen advisors previously employed by Banca Esperia, and the appointment of a new head of Group MAAM (Frank Goasguen);

[4] As provided by IFRS3, the buyer has twelve months from the acquisition date in which to complete the purchase price allocation process.

– Reorganization of the Mediobanca S.p.A. Corporate and Investment Banking division, which is now headed up by Francisco Bachiller (Country Head, Spain & Latin America) and Francesco Canzonieri (Country Head, Italy).

Other significant events that took place in the year under review include:

– The ECB's decision, at the outcome of the SREP 2017 process, to confirm last year's capital requirements for the Mediobanca Group. In particular, the minimum CET1 ratio has been set at 7.625%, including the Pillar 2 requirement ("P2R") of 1.25%, while the minimum total capital ratio has been set at 11.125%. These ratios are higher than last year (7% and 10.5% respectively), due solely to the capital conservation buffer being increased for the phase-in period (1.25% in 2017, 1.875% in 2018, and 2.50% in 2019). The requirements are among the best at European level, and reflect the Mediobanca Group's strong risk coverage and capital solidity even in stressed conditions;

– Authorization from the European Central Bank for Mediobanca to adopt its own internal risk management systems (AIRB models) as from 31 March 2018 to measure the capital requisites for credit risk in the large corporate segment; the roll-out plan for the models to be adopted progressively for the other businesses has also been approved (use of the models for CheBanca! mortgage loans should be launched this year);

– Agreement with IBM Italy (effective from 1 January 2018) to outsource IT infrastructure, end-user, data connectivity and computer security services for the whole Mediobanca Group, which were previously provided by the Group consortium services company Mediobanca Innovation Services;

– In October 2017, rating agency S&P upgraded its ratings for Mediobanca from BBB- to BBB for the long term and from A-3 to A-2 for the short term, with stable outlook. This decision reflects the upgrade in the long- and short-term ratings for the republic of Italy (on 27 October 2017), from BBB-/A-3 to BBB/A-2 respectively; while the BBB rating assigned by rating agency Fitch remains unchanged. Rating agency Moody's also issued its first ratings for Mediobanca: Baa1 long-term, A3 for deposits, and P-2 short-term. These are the highest ratings assigned to an Italian bank and higher even than the sovereign ratings for the republic of Italy. The outlook assigned by Moody's is stable for the long term, and has been changed from negative for deposits to "under review for downgrade", after the same decision was made for the outlook for the republic of Italy on 30 May 2018.

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On 3 August 2018, an agreement was reached between Group company Compass Banca S.p.A. and the Trinugraha consortium to acquire 19.9% [5] of Indonesian company BFI Finance. With this deal the Mediobanca Group is continuing the process of redeploying capital to specialized, high-growth and highly-profitable banking businesses. The deal represents a significant value creation option to complete the already impressive growth story achieved on the Italian domestic market. The deal is expected to close by year-end 2018, subject to authorization by the ECB. The impact on CET1 is expected to be as low as 30bps.

Developments in capital markets

Recourse by companies to the Italian capital market showed a reduction in the twelve months ended 30 June 2018, down €3.1bn to €10.9bn, more than three-quarters of which in relation to a single capital increase reserved to institutional investors which was implemented by a leading banking group. Conversely, the value of public tender offers increased from €2.2bn to €3.1bn, with dividends rising from €17.6bn to €20bn. The net outflow of funds to companies totalled €12.2bn, compared with €5.8bn the previous year, meaning the aggregate balance for the past ten years reflects a net outflow of €67bn, approx. 13% of the stock market capitalization at end-June 2018:

(€m)

		12 mths to 30/6/16		**12 mths to 30/6/17**		**12 mths to 30/6/18**
Issues and placements of:						
convertible ordinary and savings shares		8,122		14,806		10,893
non-convertible preference and savings shares		—		—		—
convertible and cum warrant bonds		—		—		—
Total		8,122		14,807		10,893
*of which, for rights issues *:*						
par value	*2,823*		*457*		*331*	
share premiums	*1,860*	*4,683*	*13,020*	*13,477*	*1,511*	*1,842*
Dividends distribution		15,722		17,627		19,974
Public tender offers		6,435		2,198		3,096
Balance		(14,035)		(5,018)		(12,177)

* Excluding IPOs and other public offers (none were implemented during the years shown in the table), offers restricted to employees, and offers without option rights.

[5] Without considering treasury shares representing 6.3% of the share capital.

Fund-raising was once again carried out primarily by banks (this has been the case in eight out of the last nine years), which accounted for just under two-thirds of the rights issues, with share premiums still at very high levels at 90% (compared with 97% in FY 2016-17). Public tender offers were up slightly, from €386m to €582m. Issues reserved to employees, generally as part of stock option schemes, totalled €59m, representing a reduction from the €114m reported the previous year, while the number of companies involved increased, from eight to ten this year. The most recent convertible issues for significant amounts date back to 2010-11.

Dividends increased for the fourth year running, up approx. 13%, from €17.6bn to €20bn, the highest amount in the past ten years, with the payout ratio down from 53% the previous year to 46%. The increase was driven in particular by the banks (up €1.5bn), followed by the industrial groups (€0.7bn and the insurance companies (€0.2bn). The banks' share of the total dividends distributed rose from 23.3% to 27.8%, against a reduction in the industrial companies' shares from 63.6% to 59.7%, and in that of the insurances (from 13.1% to 12.5%). Some 44% of listed companies failed to pay dividends, although in the aggregate such companies account for barely 6% of the total market capitalization (versus 14% last year). Public tender offers resulted in seven companies being delisted (compared with two last year).

The net 2017 aggregate results posted by Italian companies listed at end-June 2018 reflect combined earnings of €34.2bn, compared with €1.1bn in 2016. The benefit deriving from the banking groups' return to profit (they posted a bottom line of €13.2bn, at a ROE of 8.6%, compared with a €13.5bn net loss last year) was bolstered by further recovery from the industrial groups' net profit (from €12bn to €19.1bn, at a ROE of 9.9%), while the insurance companies built on the previous twelve months' result with a net profit of €1.9bn (€2.6bn).

The contributing factors to the banks' performance included the growth in net revenues (up €8.3bn) and the reduction in labour costs (down €1bn), overheads (down €1.1bn), and depreciation/amortization charges (down €0.4bn), the lower loan loss provisioning (down €12.1bn) and higher extraordinary gains (up €3.2bn), along with a €0.4bn reduction in tax. In 2017, stronger regulatory capital (which was 19.3% higher), along with a 2.8% reduction in risk-weighted assets, drove an increase in the total capital ratio (from 13.9% to 17%). Leverage, expressed in terms of the ratio between total assets and tangible net equity, decreased from 19.2x to 15.5x (compared with an average for the leading European banking groups of approx. 18.9x (versus 20.2x the previous year).

The insurance companies' profits reduced from €2.6bn to €1.9bn in 2017 (ROE down from 8.7% to 6%). The increase in underwriting income (€3bn) was entirely offset by a combination of the increase in claims-related expenses (up €1.5bn), the reduction in sundry insurance revenues (down €1.3bn), and the deterioration in non-insurance revenues (down €0.9bn).

Industrial groups posted further growth in operating profit, from €12bn to €19.1bn, with ROE up from 6% to 9.9%. The €6.3bn increase in value added, combined with net interest expense of €0.7bn, a €1bn reduction in net writedowns, and higher gains on disposals (up €3.3bn) was offset only in part by the higher cost of labour (up €1.6bn), the higher long-term depreciation/amortization charges (up €0.4bn), the increase in net non-recurring expenses (€1bn), the higher tax burden (up €0.4bn), and the increase in the share of profit attributable to minority shareholders (up €0.5bn).

Profits earned by companies listed on the STAR segment also rose further, from €1.3bn to €1.5bn (with ROE up from 10.4% to 11.9%). The stability of the industrial companies' net equity levels meant that, with borrowings down 2%, the debt/equity ratio was lower than in 2016, down from 93% to 91%.

The Mediobanca share price index retreated slightly this year, by 1% (but climbed 3% in the total return version); the recoveries by the industrial companies (which were up 5%) and the insurers (which rose by 1%) were offset by the 11% reduction posted by the banks. The average daily value of stocks traded on the MTA in the twelve months ended 30 June 2018 showed an approx. 5% increase on the previous year, up from €2.4bn to €2.6bn per session. The free float remained close to its all-time highs, at 61% (62%), while the turnover ratio fell from 15% to 12%, the lowest levels seen in the past twenty years; volatility too fell from 1.9% to 1.4%, the lowest level reported since 2006-7.

In the twelve months ended 1 April 2018, the changes in share prices which affected all Western markets were generally reflected in the changes recorded in the dividend yield and also in the price/earnings ratios, as follows:

	Dividend/price ratio (%)		Earnings/price ratio (%)	
	2016	**2017**	**2016**	**2017**
Benelux (**)	2.8	3.2	4.6	5.7
France *	2.6	2.7	4.8	5.5
Germany *	2.1	2.4	4.7	5.6
Italy *	3.1	2.9	5.4	6.2
United Kingdom *	2.9	3.7	4.3	6.1
United States *	2.3	2.1	4.9	4.3
Switzerland **	3.2	3.1	4.1	4.0

* Top 50 profitable, dividend-paying companies by market capitalization.
** Top 20 profitable, dividend-paying companies by market capitalization.
NB: Median indicators based on share prices at 1 April 2018. The changes in prices on the principal stock markets between 1 April 2017 and 1 April 2018 were as follows (indexes used are in brackets): Italy up 6.8% (Mediobanca MTA), Switzerland up 1.2% (SMI), Netherlands up 3.1% (AEX), Germany up 0.2% (CDAX), United States up 9.5% (S&P 500), Belgium down 3.5% (BAS), France up 2.9% (SBF 250), United Kingdom down 1.9% (FTSE All-Share).

Assets managed by mutual funds incorporated under Italian law (including funds of funds, closed and hedge funds) continued their increase, rising to €254.8bn in June 2018, compared with €248.3bn at end-June 2017, on net inflows of €10.2bn, despite an operating loss of €3.7bn for the twelve months. Roundtrip funds were boosted by subscriptions outweighing redemptions (by €10.8bn) and a €5.3bn operating profit, but also reflect the change of ownership of one leading fund manager into non-Italian hands (causing an outflow of €67.7bn); as at end-June 2018, total assets managed by such funds had fallen from €367.8bn to €316.2bn in the nine months.

The aggregate market capitalization of listed companies at 30 June 2018 totalled €533bn, compared with €514bn twelve months previously, with the free float increasing from €320bn to €325bn; the €19bn increase, net of rights issues and changes to the stock market composition, is largely due to changes in market prices.

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The Italian consumer credit market continued its upward trend in the first six months of 2018, albeit at a slower pace than in 2017. New loans in the period ended 30 June 2018 totalled €30.5bn, up 6.8% on the equivalent period last year.

Various factors contributed to this result which was due chiefly to the trend in household consumption, buoyed by the increase in disposable income, higher employment levels and increased consumer confidence in general.

During the period under review there was double-digit growth in vehicle credit (up 15.2% on 1H 2017) and other specific purpose loans (up 10.2%), growth of 9.0% in salary-backed finance, and of 6.1% in credit cards, while the trend in personal loans was less impressive, up just 4.6% (this product accounts for the majority of the flows, some 44% of the total new finance).

	2015		2016		2017		1H 2018	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	11,805	22.6	13,687	22.6	8,619	14.7	2,986	9.8
Personal loans	17,570	33.6	20,137	33.2	22,441	38.2	13,338	43.7
Specific purpose loans	3,931	7.5	4,075	6.7	3,782	6.4	2,178	7.1
Credit cards	14,474	27.7	17,472	28.8	18,759	32.0	9,261	30.3
Salary-backed finance	4,484	8.6	5,221	8.6	5,103	8.7	2,782	9.1
	52,264	100.0	60,592	100.0	58,705	100.0	30,545	100.0

The Italian real estate market in 2017 continued its recovery of recent years, with the number of properties sold rising to 542,000, up more than 5% on 2016. This trend was confirmed in 1Q 2018, with an increase of 4.3%. The mortgage lending market reflects the reduction in subrogations, and shows a decrease of approx. €1.5bn versus 2016, from €48.9bn to €47.4bn.

The Italian leasing market in 2017 saw the positive trend recorded in 2016 continue. Overall, 684,000 new leases were executed, an increase of 10.1%, for a total of €26.6bn, up 12.9% on 2016. In the first six months of 2018 the market continued to grow, with more than 413,000 new contracts and approx. €15.7bn financed; this represents year-on-year growth of 8.7% in terms of number and 9% in terms of value.

New loans	2015		2016		2017		1H 2018	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicles	9,005	45.3	11,809	50.1	13,371	50.2	8,831	56.4
Core goods	6,741	33.9	7,640	32.4	8,993	33.8	4,468	28.5
Property	3,829	19.2	3,809	16.1	3,742	14.0	2,034	13.0
Yachts	322	1.6	328	1.4	522	2.0	320	2.1
	19,897	100.0	23,586	100.0	26,628	100.0	15,653	100.0

Source: Dataforce data processed by Assilea.

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Consolidated profit-and-loss/balance-sheet data *

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations. The results are also presented in the format recommended by the Bank of Italy as an annex.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30/06/17	12 mths ended 30/06/18	Chg. (%)
Profit-and-loss data			
Net interest income	1,287.8	1,359.4	5.6
Treasury income	121.3	157.4	29.8
Net fee and commission income	522.6	622.2	19.1
Equity-accounted compsanies	263.9	280.3	6.2
Total income	**2,195.6**	**2,419.3**	**10.2**
Labour costs	(516.0)	(557.8)	8.1
Administrative expenses	(507.7)	(557.1)	9.7
Operating costs	**(1,023.7)**	**(1,114.9)**	**8.9**
Gain (losses) on AFS, HTM and L&R	168.6	98.3	-41.7
Loan loss provisions	(316.7)	(247.2)	-21.9
Provisions for financial assets	(7.9)	(1.3)	-83.5
Other profits (losses)	(101.9)	(58.4)	-42.7
Profit before tax	**914.0**	**1,095.8**	**19.9**
Income tax for the period	(171.7)	(228.1)	32.8
Minority interests	7.9	(3.8)	n.m.
Net profit	**750.2**	**863.9**	**15.2**
Gross operating profit from banking activities	**586.6**	**767.0**	**30.8**

* For a description of the method by which the data have been restated, see also the section entitled "Significant accounting policies".

RESTATED BALANCE SHEET

(€m)

	30/6/17	30/6/18
Assets		
Financial assets held for trading	7,833.9	8,204.9
Treasury financial assets	9,435.1	8,358.2
AFS equity	786.1	772.3
Banking book securities	8,357.7	7,744.7
Loans and advances to customers	38,190.9	41,127.9
Equity investments	3,036.5	3,210.8
Tangible and intangible assets	857.8	1,027.7
Other assets	1,947.5	1,854.0
Total assets	**70,445.5**	**72,300.5**
Liabilities and net equity		
Funding	49,120.6	48,893.2
Treasury funding	4,037.2	5,290.4
Financial liabilities held for trading	5,920.6	6,462.4
Other liabilities	1,919.9	1,709.3
Provisions	255.6	213.0
Net equity	8,358.7	8,780.4
Minority interests	82.7	87.9
Profit for the period	750.2	863.9
Total liabilities and net equity	**70,445.5**	**72,300.5**
Tier 1 capital	*7,017.3*	*6,746.6*
Regulatory capital	*8,879.0*	*8,575.3*
Risk-weighted assets	*52,708.2*	*47,362.7*
Tier 1 capital/risk-weighted assetts	*13.31%*	*14.24%*
Regulatory capital/risk-weighted assets	*16.85%*	*18.11%*
No. of shares in issue (million)	*881.2*	*886.6*

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

(€m)

30 June 2018	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	266.1	868.8	255.2	(7.2)	(37.5)	1,359.4
Treasury income	110.5	—	12.1	21.9	13.1	157.4
Net fee and commission income	254.4	127.4	258.7	—	15.5	622.2
Equity-accounted companies	—	—	—	280.3	—	280.3
Total income	**631.0**	**996.2**	**526.0**	**295.0**	**(8.9)**	**2,419.3**
Labour costs	(137.4)	(96.1)	(201.1)	(3.8)	(118.2)	(557.8)
Administrative expenses	(118.5)	(188.4)	(215.7)	(1.0)	(55.1)	(557.1)
Operating costs	**(255.9)**	**(284.5)**	**(416.8)**	**(4.8)**	**(173.3)**	**(1,114.9)**
Gains (losses) on AFS, HTM and L&R	—	—	2.0	96.3	—	98.3
Net loss provisions	19.0	(241.9)	(16.4)	(1.8)	(7.5)	(248.5)
Other profits (losses)	(2.0)	(6.6)	(0.6)	—	(49.3)	(58.4)
Profit before tax	**392.1**	**463.2**	**94.2**	**384.7**	**(239.0)**	**1,095.8**
Income tax for the period	(127.6)	(147.9)	(24.4)	(10.9)	83.3	(228.1)
Minority interest	—	—	(0.6)	—	(3.2)	(3.8)
Net profit	**264.5**	**315.3**	**69.2**	**373.8**	**(158.9)**	**863.9**
Cost/Income (%)	*40.6*	*28.6*	*79.2*	*n.m.*	*n.m.*	*46.1*
Balance-sheet data						
Loans and advances to customers	16,134.2	12,517.8	10,359.2	—	2,116.7	41,127.9
Risk-weighted assets	19,510.9	11,822.0	5,757.2	6,256.6	4,016.0	47,362.7
No. of staff	587	1,429	1,888	12	801	4,717

Notes:

1) Divisions comprise:
   - Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
     - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
     - Specialty Finance: comprises factoring and credit management (including NPL portfolios) performed by MBFACTA and MBCredit Solutions;
   - Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
   - Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
     - Affluent & Premier, addressed by CheBanca!;
     - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque and CMB Asset Management;
     - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion and RAM Active Investments;
   - Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
   - Holding Functions: division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS).

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €0.3m).

(€m)

30 June 2017	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	292.6	818.1	244.1	(7.1)	(76.3)	1,287.8
Treasury income	93.4	—	12.3	16.7	3.3	121.3
Net fee and commission income	249.9	118.1	203.1	—	16.5	522.6
Equity-accounted companies	—	—	—	263.6	—	263.9
Total income	**635.9**	**936.2**	**459.5**	**273.2**	**(56.5)**	**2,195.6**
Labour costs	(135.5)	(93.9)	(187.0)	(3.8)	(113.8)	(516.0)
Administrative expenses	(111.9)	(186.0)	(189.3)	(0.8)	(52.4)	(507.7)
Operating costs	**(247.4)**	**(279.9)**	**(376.3)**	**(4.6)**	**(166.2)**	**(1,023.7)**
Gains (losses) on AFS, HTM and L&R	—	—	7.6	161.6	—	168.6
Net loss provisions	(11.0)	(276.2)	(22.0)	(0.9)	(16.0)	(324.6)
Other profits (losses)	—	—	(2.0)	—	(103.0)	(101.9)
Profit before tax	**377.5**	**380.1**	**66.8**	**429.3**	**(341.7)**	**914.0**
Income tax for the period	(123.6)	(121.9)	(11.8)	(7.2)	92.0	(171.7)
Minority interest	—	—	—	—	7.9	7.9
Net profit	**253.9**	**258.2**	**55.0**	**422.1**	**(241.8)**	**750.2**
Cost/Income (%)	*38.9*	*29.9*	*81.9*	*n.m.*	*n.m.*	*46.6*
Balance-sheet data						
Loans and advances to customers	14,481.0	11,750.3	9,686.1	—	2,273.5	38,190.9
Risk-weighted assets	23,104.2	11,782.7	5,790.6	7,714.9	4,315.8	52,708.2
No. of staff	590	1,405	2,023	11	769	4,798

Balance sheet

The Group's total assets increased from €70.4bn to €72.3bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54%, showed the following trends for the twelve months under review (comparative data as at 30 June 2017).

Funding – the decrease in funding, from €49.1bn to €48.9bn, chiefly reflects the repayment of the first T-LTRO programme (€1.5bn) and other funding (€600m in deposits and corporate current accounts) only in part offset by higher CheBanca! retail deposits (up from €13.4bn to €14.2bn) and Private Banking deposits (up from €4.5bn to €4.9bn). Debt security issuance was virtually unchanged, at €19.2bn (€19.3bn); more than twenty issues were made for a total amount of some €4bn against redemptions in a similar amount (€4bn), plus market buybacks of just under €100m; institutional issues accounted for 72% (€2.9bn), around half of which secured by Futuro assets (€600m) and a covered bond with CheBanca! mortgage receivables as the underlying instrument (€750m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,301.5	39%	19,179.4	39%	-0.6%
CheBanca retail funding	13,353.3	27%	14,163.0	29%	6.1%
Private Banking deposits	4,482.0	9%	4,933.7	10%	10.1%
Interbank funding (+CD/CP)	4,301.0	9%	5,031.5	11%	17.0%
LTRO	5,854.1	12%	4,336.5	9%	-25.9%
Other funding	1,828.7	4%	1,249.1	2%	-31.7%
Total funding	**49,120.6**	**100%**	**48,893.2**	**100%**	**-0.5%**

Loans and advances to customers – the 7.7% increase in this item regarded all the portfolios: Wholesale Banking (up €1.2bn), Consumer Banking (up €0.8bn), CheBanca! mortgage loans (up €0.6bn), and Specialty Finance (up €0.5bn). The twelve months under review saw intense business levels in Consumer Banking activity, with new loans up 5.8% (from €6,638.1bn to €7,025.1m) and mortgage lending up 28.5% (from €1,240.9m to €1,594m), strong growth in factoring business (where turnover rose from €3,730.4m to €5,178m), and some new purchases of NPLs portfolios by MBCredit Solutions (worth a nominal €1.6bn concentrated in the retail and SMEs unsecured segment, and involving an outlay of €174.2m. The corporate loan book showed growth of 61.6% in €7,331.7m, against redemptions totalling €6,284.5m, including €3,104.5m in early redemptions.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Wholesale Banking	12,840.0	33%	13,996.9	34%	9.0%
Specialty Finance	1,641.0	4%	2,137.3	5%	30.2%
Consumer Banking	11,750.3	31%	12,517.8	30%	6.5%
Retail Banking	7,513.2	20%	8,107.1	20%	7.9%
Private Banking	2,172.9	6%	2,252.1	6%	3.6%
Leasing	2,273.5	6%	2,116.7	5%	-6.9%
Total loans and advances to customers	**38,190.9**	**100%**	**41,127.9**	**100%**	**7.7%**

Gross NPLs declined from €2,072.2m to €1,943.1m, in the Leasing and Wholesale Banking segments in particular (by 19.1% in the case of the former, and by 13.1% in the case of the latter), and now account for just 4.6% of the total loan book (5.2%). Net NPLs similarly reduced, from €940.5m to €842.1m, still near their lowest-ever levels, decreasing also as a percentage of the total loan book, from 2.5% last year to 2.1%, with the coverage ratio rising from 54.6% to 56.7%. Net bad loans decreased to €141.5m (€156.8m), and represent 0.35% (0.41%) of the loan book. The item does not include the NPLs portfolios acquired by MBCredit Solutions in the course of the twelve months, which rose from €134.8m to €287.9m.

	30/6/17		30/6/18		Chg.
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	
Wholesale Banking	372.5	50.0%	341.7	47.3%	-8.3%
Specialty Finance	14.4	67.5%	10.4	72.7%	-27.7%
Consumer Banking	189.6	71.2%	186.0	73.4%	-1.9%
Retail Banking	180.6	47.8%	155.1	53.3%	-14.1%
Private Banking	14.4	35.6%	8.7	56.0%	-39.6%
Leasing	169.0	33.8%	140.2	32.2%	-17.0%
Total net non performing loans	**940.5**	**54.6%**	842.1	**56.7%**	**-10.5%**
– of which: bad loans	*156.8*		*141.5*		*-9.8%*

Equity investments – these increased, from €3,036.5m to €3,210.8m, and reflect the performance of the Assicurazioni Generali investment, the book value of which totalled €3,171.4m (30/6/17: €2,997.5m), after profits of €279.9m, adjusted for the dividend received (€172.3m), and higher valuation reserves (up €66.3m). This figure is higher than the stock market price at end-June 2018 (€2,913m) and the current price (€3,000.2m) but not higher than the net present value established in the impairment test which was passed without the need for any value adjustments. The stake in Istituto Europeo di Oncologia is carried at €39.4m, after profits for the year totalling €0.4m.

(€m)

	% share capital	30/6/17	30/6/18
Assicurazioni Generali	13.0	2,997.5	3,171.4
Burgo	22.1	—	—
Istituto Europeo di Oncologia	25.4	39.0	39.4
Total investments		**3,036.5**	**3,210.8**

Banking book bonds – these reduced from €8.4bn to €7.7bn, after redemptions amounting to €1.3bn and sales totalling €1.6bn (generating gains of €14.7m), only in part offset by new purchases of €2.4bn. The sovereign debt portfolio component grew from 67% to 70%, and reflects greater diversification within the Eurozone area; holdings in Italian sovereign debt totalled €2.7bn (35% of the segment), with an average duration of less than three years.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
AFS securities	5,606.6	67%	4,949.6	64%	-11.7%
Financial assets held to maturity	2,400.2	29%	2,595.8	33%	8.1%
Unlisted debt securities (stated at cost)	350.9	4%	199.3	3%	-43.2%
Total banking book securities	**8,357.7**	**100%**	**7,744.7**	**100%**	**-7.3%**

(€m)

	30/6/17			30/6/18			Chg. %
	Book Value	%	AFS reserve	Book Value	%	AFS reserve	
Italian government bonds	3,319.0	40%	63.3	2,745.0	35%	19.6	-17.3%
Foreign government bonds	2,284.2	27%	16.7	2,670.4	35%	14.5	16.9%
Bonds issued by financial institutions	1,862.1	22%	39.9	1,529.8	20%	14.3	-17.8%
- of which: Italian	*1,053.3*	*13%*	*25.6*	*1,042.1*	*13%*	*11.9*	*-1.1%*
Corporate bonds	892.4	11%	27.7	799.5	10%	16.0	-10.4%
Total debt securities	**8,357.7**	**100%**	**147.6**	**7,744.7**	**100%**	**64.4**	**-7.3%**

The valuation reserve for the portfolio decreased from €147.6m to €64.4m, following disposals totalling €29.4m and a small reduction in the reserve for Italian government securities. The reserve also reflects the reduction in unrealized gains on fixed financial assets, from €86.5m to €19.9m.

AFS securities – this portfolio brings together the Group's holdings in equities and investments in funds, including in those promoted by the Group itself (seed capital).

	30/6/17			30/6/18			Chg. %
	(€m)	%	AFS reserve	(€m)	%	AFS reserve	
Equity shares and UCITS	602.9	77%	234.8	438.1	57%	87.0	-27.3%
Seed capital	183.2	23%	11.9	334.2	43%	7.1	82.4%
Total AFS equity securities	**786.1**	**100%**	**246.7**	**772.3**	**100%**	**94.1**	**-1.8%**

The reduction in this item, from €786.1m to €772.3m, reflects the difference between net sales of shares and direct investment in funds managed by companies forming part of the Mediobanca Group, in the form of seed capital. During the twelve months under review, the rest of the Atlantia investment was sold (discharging €275.6m from this item in the process), as were other equity investments (€11.9m), with more than half of the disposals offset by new investments totalling €143.5m, primarily in listed equities. The heading also includes investments in private equity funds of €71.5m (€70.7m) which reflect new calls on capital totalling €20.8m, against redemptions amounting to €16.6m and downward adjustments of €3.4m. Seed capital activity totalled €334.2m, after five RAM segments were subscribed to a NAV amount as at end-June 2018 of €171.4m, and new net investments in Cairn Capital totalling €12.7m; upward adjustments of €2.4m were also made, to reflect NAV at end-June 2018.

(€m)

	30/6/17			30/6/18		
	Book Value	% Ord.	AFS reserve	Book Value	% Ord.	AFS reserve
Atlantia	275.6	1.4	124.6	—	—	—
Italmobiliare	69.2	6.1	45.4	60.8	6.1	37.0
RCS MediaGroup	41.8	6.6	20.1	36.9	6.6	15.2
Other listed shares	12.7	—	5.0	141.6	—	(0.9)
Private equity	70.7	—	28.6	71.5	—	23.2
Other unlisted shares	132.9	—	11.1	127.3	—	12.5
Seed capital	183.2	—	11.9	334.2	—	7.1
Equity shares and UCITS	**786.1**		**246.7**	**772.3**		**94.1**

The valuation reserve for equity shares and funds (including seed capital) decreased from €246.7m to €94.1m, after €133.6m was discharged due to disposals and downward adjustments of €17.6m were charged to reflect fair value as at 30 June 2018.

Net treasury assets – the net balance between financial instruments held for trading and treasury assets and liabilities was €4,810.3m, lower than the

€7,311.2m reported last year, due to more effective liquidity management in a negative market interest rate scenario. Net deposits held in the form of repos were drastically reduced for this reason, from €3,030m to €1,098.5m; liquid assets, including those held with the European Central Bank (€1,172.6m), decreased from €2,368m to €1,969.2m, while equities – more than 87% of which are hedged by derivatives with clients – fell from €1,702.5m to €1,658.3m, and debt securities from €579.4m to €312.7m.

(€m)

	30/6/17	30/6/18	Chg.
Financial assets held for trading	7,833.9	8,204.9	5%
Treasury funds	9,435.1	8,358.2	-11%
Financial liabilities held for trading	(5,920.6)	(6,462.4)	9%
Treasury funding	(4,037.2)	(5,290.4)	31%
Net treasury assets	**7,311.2**	**4,810.3**	**-34%**

(€m)

	30/6/17	30/6/18	Chg.
Loan trading	69.6	25.0	-64%
Derivative contract valuations	(438.1)	(253.4)	-42%
Equities	1,702.5	1,658.3	-3%
Bonds securities	579.4	312.7	-46%
Financial instruments held for trading	**1,913.4**	**1,742.6**	**-9%**

(€m)

	30/6/17	30/6/18	Chg.
Cash and banks	2,368.0	1,969.2	-17%
PCT&PT	1,535.5	(605.1)	n.m.
Financial assets deposits	457.0	426.9	-7%
Stock Lending	1,037.3	1,276.7	23%
Net treasury assets	**5,397.8**	**3,067.7**	**-43%**

(€m)

	30/6/17	30/6/18	Chg.
	Book Value	Book Value	
Italian government bonds	138.1	165.2	20%
German government bonds	(40.6)	(75.6)	86%
Other foreign government bonds	(259.7)	(218.9)	-16%
Bonds issued by financial institutions	624.1	335.4	-46%
- of which: Italian	*392.2*	*313.1*	*-20%*
Corporate bonds	117.5	106.6	-9%
Total debt securities	**579.4**	**312.7**	**-46%**

Tangible and intangible assets – the increase in this item, from €857.8m to €1,027.7m, is principally due to goodwill deriving from the RAM acquisition (€177m); [6] the other movements generated a negative balance of €7.1m, representing the difference between capex for the twelve months of €32.9m (mostly software), depreciation/amortization of €43.9m, the sale of the MIS IT business unit to IBM Italy (for €10.7m), other changes amounting to €0.6m, and a €0.3m downward exchange rate adjustment to the goodwill attributable to Cairn. As part of the purchase price allocation process, a share of the goodwill (€11.1m) has been transferred in respect of two client lists (to CMB for the former Crédit Agricole business unit, and to Mediobanca Private Banking for the former Banca Esperia operations); while €15.5m has been booked in respect of the Mediobanca Private Banking brand (in continuity with amount previously recognized for Esperia).

No items showed any evidence of impairment.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Land and properties	268.0	31%	262.3	26%	-2.1%
- of which: core	*188.7*	*22%*	*184.9*	*18%*	*-2.0%*
Other tangible assets	37.5	4%	25.5	2%	-32.0%
Goodwill	483.6	57%	649.8	63%	34.4%
Other intangible assets	68.7	8%	90.1	9%	31.1%
Total tangible and intangible assets	**857.8**	**100%**	**1,027.7**	**100%**	**19.8%**

(€ '000)

Operation	30/6/17	30/6/18
Compass-Linea	365,934	365,934
Spafid	12,793	12,793
Cairn Capital	42,225	41,905
Banca Esperia Private Banking	55,981	52,103
CMB-ex Crédit Agricole	6,624	—
RAM	—	177,046
Total goodwill	**483,557**	**649,781**

[6] Given that IFRS3 allows the buyer twelve months in which to complete the purchase price allocation process, this is only a preliminary valuation of the goodwill generated by the RAM Active Investments acquisition. The Group expects to complete the PPA by end-December and provide disclosure in the interim financial statements for the six months ending 31 December 2018.

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

	Squ. M	Book value (€m)	Book value per Squ. M (€ '000)
Milan:			
– Piazzetta Enrico Cuccia n. 1	6,874	15.1	2.2
– Via Filodrammatici n. 3, 5, 7 - Piazzetta Bossi n. 1	11,093	57.8	5.2
– Piazza Paolo Ferrari n. 6	1,967	5.6	2.8
– Foro Buonaparte n. 10	3,918	8.5	2.2
– Via Siusi n. 1-7	22,608	25.7	1.1
Roma *	1,790	8.2	4.6
Vicenza	4,239	5.1	1.2
Luxembourg	442	3.9	8.8
Monaco	4,576	54.3	11.9
Other minor properties	2,736	0.7	0.3
Total properties	**60,243**	**184.9**	

* The Piazza di Spagna property, carried at a book value of €25.2m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties were worth €77.4m, basically unchanged versus the €79.3m reported last year, despite improvements costing €0.5m and €2.4m in depreciation charges; workout activity on properties collected as part of real estate leasing generated no new acquisitions or sales.

Provisions – these fell from €255.6m to €213m, chiefly due to withdrawals from provisions set aside for restructuring in connection with the former Barclays, Esperia and SelmaBipiemme reorganizations, in an amount of €40.1m, €8.4m and €2.8m respectively. New provisions amounting to €39m for the twelve months were made, mostly to cover the turnover plan in Consumer Banking (€7.7m), the SelmaBipiemme tax dispute (€6.8m) and branch refurbishments by CheBanca! (€11.9m). Other changes are mainly due to the inclusion of Banca Esperia within the Group's consolidation area. The staff severance indemnity provision decreased from €29.8m to €27.5m, on withdrawals for the period totalling €4.9m and higher actuarial reserves of €2.2m (€1.6m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Provisions for risks and charges	225.8	88%	185.5	87%	-17.8%
Staff severance indemnity provision	29.8	12%	27.5	13%	-7.7%
of which: staff severance provision discount	*1.6*	—	*2.2*	—	*37.5%*
Total provisions	**255.6**	**100%**	**213.0**	**100%**	**-16.7%**

Net equity – the 5.9% increase in net equity, to €535.4m, reflects the profit for the twelve month (€863.9m), the 2017 dividend (€320.2m), and the €107.1m reduction in the valuation reserve, representing the difference between an approx. €200m decrease in the AFS reserve and increases in the cash flow hedge reserve of approx. €30m and in the Assicurazioni Generali consolidation reserve of €65.7m. The share capital increased from €440.6m to €443.3m, following the exercise of 3,800,000 stock options and the distribution of 1,537,782 shares to staff members worth a total of €23.7m, including the share premium.

(€m)

	30/6/17	30/6/18	Chg.
Share capital	440.6	443.3	0.6%
Other reserves	7,046.7	7,572.8	7.5%
Valuation reserves	871.4	764.3	-12.3%
- of which: AFS securities	*319.4*	*121.5*	*-62.0%*
cash flow hedge	*(44.3)*	*(15.7)*	*-64.6%*
equity investments	*598.6*	*663.7*	*10.9%*
Profit for the period	750.2	863.9	15.2%
Total Group net equity	**9,108.9**	**9,644.3**	**5.9%**

Of the AFS reserve, €94.2m involves equities, and €64.3m bonds and other financial instruments (including €19.6m in Italian government securities), net of the €37m tax effect.

(€m)

	30/6/17	30/6/18	Chg.
Equity shares and UCITS	246.7	94.2	-61.8%
Bonds	147.6	64.3	-56.4%
of which: Italian government bonds	*63.3*	*19.6*	*-69.0%*
Tax effect	(74.9)	(37.0)	-50.6%
Total AFS reserve	**319.4**	**121.5**	**-62.0%**

Profit and loss account

Net interest income – the 5.6% increase in net interest income, from €1,287.8m to €1,359.4m, reflects the positive trend in Consumer Banking (up 6.2%), driven by higher volumes with yields resilient, and in treasury management, where the negative contribution improved due to the lower cost of funding (which in the twelve months under review decreased from 100 bps to 90 bps) and more efficient liquidity management. The contributions from Specialty Finance and Wealth Management also increased, by 53.6% and 4.5% respectively, due to the former Barclays and Banca Esperia loan books becoming fully operative. By contrast, net interest income earned by Wholesale Banking was down 20%, despite the higher volumes, reflecting the negative trend in market spreads exacerbated by a shift in loan to customers with higher ratings; the contribution from own securities also decreased.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Consumer Banking	818.1	868.8	6.2%
Wealth Management	244.1	255.2	4.5%
Wholesale Banking	248.6	198.5	-20.2%
Specialty Finance	44.0	67.6	53.6%
Holding Functions and other (including intercompany)	(67.0)	(30.7)	-54.2%
Net interest income	**1,287.8**	**1,359.4**	**5.6%**

Net treasury income – net treasury income increased from €121.3m to €157.4m, driven by the growing contribution from customer trading by the Capital Market Solutions unit which added €82.3m (€72.7m) and proprietary trading, which added €27.2m (€17.2m). AFS dividends climbed from €17m to €22.1m, on distributions by some of the funds; profit-taking on the banking book bond component increased from €7.4m to €14.7m.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
AFS dividends	17.0	22.1	30.0%
Fixed income trading profit	59.7	79.6	33.3%
of which: banking book	*7.4*	*14.7*	*n.m.*
Equity trading profit	44.6	55.7	24.9%
Net trading income	**121.3**	**157.4**	**29.8%**

Net fee and commission income – net fee and commission income grew from €522.6m to €622.2m, on an increased contribution from Wealth Management (up 27.4%, from €203.1m to €258.7m) helped by the expanded scope of operations

(Banca Esperia, the former Barclays' business unit, the minor Spafid acquisitions and RAM Active Investments); overall this segment now accounts for more than 40% of total fee income, with CheBanca! contributing €79.7m (up 15.7%) and Mediobanca Private Banking and the product factories €77.2m. There was also growth in Specialty Finance, where fees rose from €42.5m to €47.1m, reflecting higher amounts collected on the NPL portfolios totalling €24.3m (€17.6m), and in factoring (from €1.6m to €4.2m). Wholesale Banking fees were stable at €207.3m (€207.4m), despite the expected decrease in capital market fees (from €86.1m to €65.8m) which was offset by a 35.4% rise in M&A advisory fees, from €47.8m to €64.7m.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Wealth Management	203.1	258.7	27.4%
Wholesale Banking	207.4	207.3	n.m.
Consumer Banking	118.1	127.4	7.9%
Specialty Finance	42.5	47.1	10.8%
Holding Functions and other (including intercompany)	(48.5)	(18.3)	-62.3%
Net fee and commission income	**522.6**	**622.2**	**19.1%**

Equity-accounted companies – the €280.3m profit reported by the equity-accounted companies (€263.9m) reflects the higher contribution by Assicurazioni Generali, which increased from €263.6m to €279.9m.

Operating costs – operating costs rose by 8.9%, from €1,023.7m to €1,114.9m, chiefly due to the expanded area of consolidation, with the increase split equally between labour costs (up 8.1%) and other administrative expenses (up 9.7%). Of the €41.8m increase in labour costs, €32m derives from the Private Banking area (RAM and Esperia), alongside the enhancement of the Consumer Banking and Corporate and Investment Banking divisions and the central co-ordination units. The headcount was cut from 4,798 to 4,717 staff, as a result of the former MIS IT operations being outsourced and rationalization following the Barclays and Banca Esperia mergers.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Labour costs	516.0	557.8	8.1%
of which: directors	*8.3*	*8.0*	*-3.6%*
stock options and performance share schemes	*12.1*	*7.8*	*-35.5%*
Sundry operating costs and expenses	507.7	557.1	9.7%
of which: depreciations and amortizations	*44.6*	*43.9*	*-1.6%*
administrative expenses	*459.2*	*512.1*	*11.5%*
Operating costs	**1,023.7**	**1,114.9**	**8.9%**

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Corporate & Investment Banking	111.9	118.5	5.9%
Consumer Banking	186.0	188.4	1.3%
Wealth Management	189.3	215.7	13.9%
Holding Functions	52.4	55.1	5.2%
Others (including intercompany)	(31.9)	(20.6)	-35.4%
Other administrative expenses	**507.7**	**557.1**	**9.7%**

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Legal, tax and professional services	15.3	16.8	9.8%
Other consultancy expenses	39.5	45.7	15.6%
Credit recovery activities	43.2	50.4	16.7%
Marketing and communication	49.3	47.7	-3.2%
Rent and property maintenance	47.9	52.6	9.7%
EDP	77.0	107.6	39.8%
Financial information subscriptions	34.2	37.6	9.8%
Bank services, collection and payment commissions	17.3	19.7	13.6%
Operating expenses	75.4	65.6	-13.0%
Other labour costs	20.1	23.5	17.1%
Other costs	18.1	25.0	38.3%
Direct and indirect taxes	21.9	19.9	-9.1%
Total administrative expenses	**459.2**	**512.1**	**11.5%**

Loan loss provisions – these reduced by 21.9%, from €316.7m to €247.2m, due to the continuing high quality of the loan book to corporates and households, and reflecting a cost of risk of 62 bps, substantially lower than the 87 bps reported one year previously, due in part to writebacks as a result of repayments. Wholesale Banking recorded net writebacks of €44m, €34.4m of which due to collections on non-performing items. The increase in provisioning for Specialty Finance (from €22.9m to €25.7m) reflects the amounts set aside on a prudential basis to cover the new portfolios acquired in order to neutralize any extra amounts collected. Consumer Banking saw a reduction in provisioning, from €276.2m to €241.9m, at a cost of risk of 199 bps (versus 243 bps last year); loan loss provisions in Wealth Management decreased from €20m to €16.4m, in part due to application of the new CheBanca! risk parameters with the AIRB model validation activity still in progress. The coverage ratio for non-performing items increased from 54.6% to 56.7% (73.4% for Consumer Banking, 53.3% for mortgage loans, 47.3% for Wholesale Banking, and 32.2% for leasing).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Wholesale Banking	(15.0)	(44.0)	n.m.
Specialty Finance	22.9	25.7	12.2%
Consumer Banking	276.2	241.9	-12.4%
Wealth Management	20.0	16.4	-18.0%
Holding Functions	12.6	7.2	-42.9%
Loan loss provisions	**316.7**	**247.2**	**-21.9%**
Cost of risk (bps)	**87**	**62**	**-28.4%**

Provisions for other financial assets – these refer chiefly to the holding in Cassa di Risparmio di Cesena allocated to all banks comprised in the Italian banking system being written off (€2.1m) as part of the Crédit Agricole Italia transaction, and to other minor charges in respect of AFS provisions totalling €2.6m. Writebacks were also credited in an amount of €3.9m for bonds held to maturity.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Equity investments	0.4	—	n.m.
Shares	3.1	4.7	51.6%
Bonds	4.4	(3.4)	n.m.
Total	**7.9**	**1.3**	**-83.5%**

Income tax – income tax for the six months totalled €228.1m, at an effective tax rate of 20.8%, slightly higher than last year's figures of €171.7m and 18.8% respectively. This represents the weighted average between the 31% tax rate on profits from banking activities and the 2.8% tax rate for the PEX regime on dividends and gains on equity investments.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions and Futuro. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

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

CORPORATE AND INVESTMENT BANKING

This division provides services to corporate customers (including sales and corporate gains) in the following areas:

- *Wholesale Banking:* CIB client business (lending, capital market activities and advisory services) and proprietary trading, performed by Mediobanca, Mediobanca International, Mediobanca Securities and Mediobanca Turkey;
- *Specialty Finance,* factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions;

It also includes the gains realized on the Group's proprietary portfolio.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	292.6	266.1	-9.1
Treasury income	93.4	110.5	18.3
Net fee and commission income	249.9	254.4	1.8
Total income	**635.9**	**631.0**	**-0.8**
Labour costs	(135.5)	(137.4)	1.4
Administrative expenses	(111.9)	(118.5)	5.9
Operating costs	**(247.4)**	**(255.9)**	**3.4**
Net loss provisions	(11.0)	19.0	n.m.
Other profits (losses)	—	(2.0)	n.m.
Profit before tax	**377.5**	**392.1**	**3.9**
Income tax for the period	(123.6)	(127.6)	3.2
Net profit	**253.9**	**264.5**	**4.2**
Cost/Income (%)	*38.9*	*40.6*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	14,481.0	16,134.2
New loans	8,338.3	12,686.0
No. of staff	590	587
Risk-weighted assets	23,104.2	19,510.9

WHOLESALE BANKING

This division includes the client business (lending, advisory services and capital markets activities) and proprietary trading; the activities are carried out by Mediobanca, Mediobanca International, Mediobanca Securities and Mediobanca Turkey.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	248.6	198.5	-20.2
Treasury income	93.5	110.5	18.2
Net fee and commission income	207.4	207.3	n.m.
Total income	**549.5**	**516.3**	**-6.0**
Labour costs	(119.6)	(121.0)	1.2
Administrative expenses	(92.3)	(91.4)	-1.0
Operating costs	**(211.9)**	**(212.4)**	**0.2**
Net provisions	11.9	44.7	n.m.
Other profits (losses)	—	(2.0)	n.m.
Profit before tax	**349.5**	**346.6**	**-0.8**
Income tax for the period	(117.2)	(112.8)	-3.8
Net profit	**232.3**	**233.8**	**0.6**
Cost/Income ratio (%)	*38.6*	*41.1*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	12,840.0	13,996.9
New loans	4,536.9	7,331.7
No. of staff	367	344
Risk-weighted assets	21,499.7	17,362.9

The net profit earned by Wholesale Banking was up slightly, from €232.3m to €233.8m, driven by a healthy performance in investment banking fees, plus writebacks on loans and securities totalling €44.7m (€11.9m), with operating costs flat at €212.4m and revenues down 6%, from €549.5m to €516.3m, due to the reduction in net interest income.

The main items performed as follows:

Net interest income – this item recorded a decrease of 20.2%, from €248.6m to €198.5m, due to lower returns on loans and despite the 61.6% increase in new business, attributable to the widespread tightening of credit spreads and the priority given to safeguarding the quality of the portfolio, which also benefits regulatory capital absorption levels (AIRB models).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Interest income	332.6	282.6	-15.0%
Interest expense	(85.9)	(86.0)	n.m.
Others [1]	1.9	1.9	n.m.
Net interest income	**248.6**	**198.5**	**-20.2%**

[1] Includes margins on interest rate derivative contracts (heading 80) and the hedging effect (heading 90).

Net treasury income – this item was up 18.2%, from €93.5m to €110.5m, despite the instability in the last few months of the financial year, with positive contributions from both segments: equity trading added €55.7m (€44.6m) and fixed-income trading €54.8m (€48.9m). Client-driven business totalled €82.3m (€72.7m), and proprietary dealing involving the trading book €28.2m (€20.8m).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Fixed income trading profit	48.9	54.8	12.1%
Equity trading profit	44.6	55.7	24.9%
Treasury income	**93.5**	**110.5**	**18.2%**

Net fee and commission income – fee income was virtually unchanged at €207.3m (€207.4m), due to a good performance in M&A advisory and DCM (up 35% and 44% respectively), offsetting the anticipated reduction in equity capital market fees which last year included one particularly large deal. The main items performed as follows:

– Corporate finance fees (M&A advisory) were up 35.4%, from €47.8m to €64.7m, despite the downturn which affected the whole European market (down 27%) with the exception of France (up 24%) with Italy the worst performer (down 29%). Some of the main deals completed include: assistance in acquiring investments (mostly in Italy) provided to Atlantia and ICBPI, Amundi, GEA Group, Deutsche Alternative Asset Management, Cerberus Capital Management, Global Infrastructure Management, EDF, Permira, Anima Holding and Quaestio Capital Management, and assistance in selling stakes provided to Clessidra, Maillefer International, F2i SGR, L.F S.p.A., A.L.P.E. Invest, MN Coil GmbH and MPS;

- Equity capital markets (ECM) fees decreased from €68.7m to €40.9m, in respect of some twenty deals, in line with the widespread fall on markets in the leading European countries (down 14%) with Italy the worst performer (down 46%) and growth in Spain (up 48%);
- Debt capital market (DCM) fees increased from €17.4m to €24.9m, generated from around 60 deals, in a weak market scenario where the European market fell by 6% and the Italian market by 14%;
- Lending fees increased from €48.2m to €50.7m, helped by renegotiations and amendments in a weak market scenario (the EMEA debt market was down 13%), driven by growth of 29% in leveraged finance;
- The other segments (i.e. equity sales and other income) delivered fees of €26.1m (€25.3m).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Capital Market	86.1	65.8	-23.6%
Lending	48.2	50.7	5.2%
Advisory M&A	47.8	64.7	35.4%
Markets, sales and other gains	25.3	26.1	3.2%
Net fee and commission income	**207.4**	**207.3**	**n.m.**

Operating costs – the slight increase in operating costs, from €211.9m to €212.4m, is attributable solely to staff recruitment and certain restructuring costs. Administrative expenses declined slightly, on lower IT expenses.

			(€m)
	12 months ended 30/6/17	**12 months ended 30/6/18**	**Chg.**
Labour costs	119.6	121.0	1.2%
Operating expenses and sundry costs	92.3	91.4	-1.0%
of which: EDP and IT projects	*13.8*	*12.9*	*-6.7%*
Info provider	*11.4*	*10.5*	*-7.7%*
Legal, fiscal and other professional services	*4.1*	*4.1*	*-0.8%*
Operating costs	**211.9**	**212.4**	**0.2%**

Loan loss provisions – financial assets (loans and banking book securities) recorded net writebacks of €44.7m, €34.4m of which in respect of non-performing items (chiefly Sorgenia Power and Maillefer), plus €10m in net writebacks to loans and performing securities.

Loans and advances to customers – these rose from €12.8bn to €14bn, on new loans of €7.3bn and repayments of €6.3bn, €3.1bn of which were early repayments. The domestic Italian share of the loan book was cut to under half, with loans to French, Spanish and UK clients rising accordingly.

	30/6/17		**30/6/18**		**Chg.**
	(€m)	**%**	**(€m)**	**%**	
Italy	6,444.1	50%	6,629.4	47%	2.9%
France	1,025.5	8%	1,202.8	9%	17.3%
Spain	774.1	6%	1,404.7	10%	81.5%
Germany	818.1	6%	899.7	6%	10.0%
U.K.	846.1	7%	1,171.4	8%	38.4%
Other non resident	2,932.1	23%	2,688.9	20%	-8.3%
Total loans and advances to customers	**12,840.0**	**100%**	**13,996.9**	**100%**	**9.0%**

Gross NPLs, represented solely by unlikely-to-pay items, declined from €745.5m to €648m, or 4.5% (5.6%) of the loan book; net NPLs decreased from €372.5m to €341.7m, or 2.4% of the loan book, with a coverage ratio of 47.3%.

SPECIALTY FINANCE

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	44.0	67.6	53.6
Treasury income	(0.1)	—	n.m.
Net fee and commission income	42.5	47.1	10.8
Total income	**86.4**	**114.7**	**32.8**
Labour costs	(15.9)	(16.4)	3.1
Administrative expenses	(19.6)	(27.1)	38.3
Operating costs	**(35.5)**	**(43.5)**	**22.5**
Net provisions	(22.9)	(25.7)	12.2
Profit before tax	**28.0**	**45.5**	**62.5**
Income tax for the period	(6.4)	(14.8)	n.m.
Net profit	**21.6**	**30.7**	**42.1**
Cost/Income ratio (%)	*41.1*	*37.9*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	1,641.0	2,137.3
New loans	3,801.4	5,353.9
No. of staff	223	243
Risk-weighted assets	1,604.5	2,148.0

The net profit of €30.7m (€21.6m) was split between factoring, which reported €14.5m (€8m), and credit/NPL portfolio management, which reported €16.2m (€13.6m). Revenues climbed by 32.8%, from €86.4m to €114.7m, reflecting the following performances:

– Net interest income rose steeply by 53.6%, on higher NPL assets (which grew from €10.2m to €28.7m) boosted by the increase in volumes, and a higher contribution from factoring (up from €33.9m to €39m);

– Net fee and commission income rose from €42.5m to €47.1m, and includes €24.3m in revenues from higher amounts collected on the NPL portfolio (€17.6m); factoring contributed €4.2m, up sharply on the €1.6m reported last year.

Operating costs were up 22.5%, from €35.5m to €43.5m, due to the increase in credit recovery costs related to the higher volumes and the performance of the NPL portfolios (which grew from €4.6m to €11.6m). Labour costs were also up slightly, due to the increase in headcount from 223 to 243 members of staff.

Loan loss provisions decreased from €22.9m to €25.7m, €15.2m of which in respect of factoring (€15.8m) and the other €10.5m of the NPL portfolio (€7.2m). The latter consist almost entirely of amounts set aside on a prudential basis in respect of the portfolios of assets most recently acquired, to neutralize the higher collections which are normally recorded during the first months of processing.

The increase in loans and advances to customers, which were up 30.2%, from €1,641m to €2,137.3m, chiefly regards ordinary factoring (€1,449.4m, as against €1,199.4m last year), as well as instalment factoring (€399.6m, as against €306.9m), and acquisitions of NPLs on a non-recourse basis (€288.3m, as against €134.8m), concentrated in the retail unsecured segment (more than 80%).

CONSUMER BANKING

This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance (Compass Banca and Futuro). The division also includes Compass RE, which reinsures risks linked to insurance policies sold.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	818.1	868.8	6.2
Net fee and commission income	118.1	127.4	7.9
Total income	**936.2**	**996.2**	**6.4**
Labour costs	(93.9)	(96.1)	2.3
Administrative expenses	(186.0)	(188.4)	1.3
Operating costs	**(279.9)**	**(284.5)**	**1.6**
Loan loss provisions	(276.2)	(241.9)	-12.4
Other profits (losses)	—	(6.6)	n.m.
Profit before tax	**380.1**	**463.2**	**21.9**
Income tax for the period	(121.9)	(147.9)	21.3
Net profit	**258.2**	**315.3**	**22.1**
Cost/Income ratio (%)	*29.9*	*28.6*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	11,750.3	12,517.8
New loans	6,638.1	7,025.1
No. of branches	166	171
No. of staff	1,405	1,429
Risk-weighted assets	11,782.7	11,822.0

Compass reported a net profit of €315.3m for the twelve months (30/6/17: €258.2m), on higher revenues (up 6.4%, from €936.2m to €996.2m), flat costs (up 1.6%) and lower loan loss provisions (down 12.4%). In particular, revenues benefited from the trend in net interest income (up 6.2%, from €818.1m to €868.8m), due to the combined effect of higher volumes (up 6.5%) and resilient profits; the increase in fee income (up 7.9%) is due to the higher volumes, in particular revenues from insurance products.

Operating costs rose slightly, by 1.6%, from €279.9m to €284.5m, due to new hirings (24 new employees taken on, which translated to a €2m increase in labour costs, certain project activities (AIRB models, Group treasury), and higher credit recovery costs. Loan loss provisions were down 12.4%, from €276.2m to €241.9m, and reflect a cost of risk of 199 bps, representing further improvement since the reporting date last year (243 bps).

The increase in loans and advances to customers also continued, which at end-June totalled €12,517.8m (€11,750.3m), on new loans of €7,025.1m (up 5.8%, from €6,638.1m). Gross NPLs increased from €658.8m to €698.5m, remaining virtually unchanged in relative terms at 5.2% of the gross loan book; whereas net NPLs were at all-time lows, at €186m (or 1.5% of the total loan book), with a coverage ratio of 73.4% (71.2%). Net NPLs totalled €13.6m, unchanged at just 0.1% of the total loan book, reflecting a coverage ratio of 93.9%. The coverage ratio for performing loans was also basically flat versus last year, at 2.7% (2.6%). Sales of NPLs were made external to the Group during the twelve months for a total of €171.5m (€192.5m).

WEALTH MANAGEMENT

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

– *Affluent & Premier* (CheBanca!);

– *Private & High Net Worth Individuals* (Mediobanca Private Banking, Mediobanca SGR and Spafid in Italy, Compagnie Monégasque de Banque in the Principality of Monaco; Cairn Capital, alternative asset management in London; Mediobanca Management Company in Luxembourg; and RAM Active Investments in Geneva).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	244.1	255.2	4.5
Treasury income	12.3	12.1	-1.6
Net fee and commission income	203.1	258.7	27.4
Total income	**459.5**	**526.0**	**14.5**
Labour costs	(187.0)	(201.1)	7.5
Administrative expenses	(189.3)	(215.7)	13.9
Operating costs	**(376.3)**	**(416.8)**	**10.8**
Gains (losses) on AFS, HTM and L&R	7.6	2.0	-73.7
Net loss provisions	(22.0)	(16.4)	-25.5
Other profits (losses)	(2.0)	(0.6)	-70.0
Profit before tax	**66.8**	**94.2**	**41.0**
Income tax for the period	(11.8)	(24.4)	n.m.
Minority interest	—	(0.6)	n.m.
Net profit	**55.0**	**69.2**	**25.8**
Cost/Income ratio (%)	*81.9*	*79.2*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	9,686.1	10,359.2
Loans	1,240.9	1,594.0
No. of staff	2,023	1,888
Risk-weighted assets	5,790.6	5,757.2

	30/6/17	30/6/18
AUM/AUA	30,005.4	37,311.7
AUC	12,106.0	7,583.3
Direct fundng	17,755.6	18,956.2
Total Asseis under management, advice and custody	**59,867.0**	**63,851.2**

CHEBANCA!

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	205.3	212.0	3.3
Treasury income	0.4	0.8	n.m.
Net fee and commission income	68.9	79.7	15.7
Total income	**274.6**	**292.5**	**6.5**
Labour costs	(101.5)	(102.6)	1.1
Administrative expenses	(135.5)	(132.7)	-2.1
Operating costs	**(237.0)**	**(235.3)**	**-0.7**
Net provisions	(19.4)	(16.5)	-14.9
Other profits (losses)	15.2	—	n.m.
Profit before tax	**33.4**	**40.7**	**21.9**
Income tax for the period	(6.5)	(13.0)	n.m.
Net profit	**26.9**	**27.7**	**3.0**
Cost/Income ratio (%)	*86.3*	*80.4*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	7,513.2	8,107.1
New loans	1,240.9	1,594.0
No. of branches	141	111
No. of staff	1,401	1,321
Risk-weighted assets	3,498.9	3,713.8

	30/6/17	30/6/18
AUM/AUA	7,079.0	8,435.1
Direct funding	13,353.3	14,163.0
Total assets under management	**20,432.3**	**22,598.1**

CheBanca! increased its net profit to €27.7m, higher than the €26.9m posted last year (which also reflected non-recurring income of €15.2m), on higher volumes due to the former Barclays' business unit being consolidated for the full twelve months (rather than ten months last year) and to the launch of the new financial advisors' network, along with the cost base being kept down. Revenues were up 6.5%, from €274.6m to €292.5m, due in particular to fee income which climbed 15.7%, from €68.9m to €79.7m, most of which were recurring (management and banking fees). At the same time, operating costs were down 0.7%, from €237m to €235.3m, but on a like-for-like basis the reduction would be 6.9%, as a result of synergies deriving from the merger and integration of the Barclays' business unit. Loan loss provisions decreased from €19.4m to €16.5m, due to an improvement in the mortgage lending risk and the adjustment of risk parameters to reflect the new internal models.

The growth initiatives were reflected in an increase in business volumes: total financial assets (TFAs) reached €22.6bn, up 10.6% on end-June 2017, with increases in assets under management (AUM, up 19% Y.o.Y. to €6.3bn), assets under administration (AUA up 19.5%, to €2.1bn) and deposits (up 6.1%, to €14.2bn). Net new money totalled €2.2bn (€1bn of which in AUM, €0.4bn in AUA and €0.8bn in direct funding; the latter in particular saw an increase in the highest transactional component (current accounts amounted to €9.5bn), confirming a certain amount of stability. The growth derives from the proprietary network, which delivered an increase of €0.8bn, and the FAs, which generated NNM of €1.4bn. Mortgage loans to households climbed from €7.5bn to €8.1bn, on new loans of €1.6bn (up 28.5% on the €1.2bn reported at end-June 2017). Asset quality remained at excellent levels: gross NPLs declined from €346.1m to €332.1m, and account for 4% (4.5%) of total loans; while net NPLs declined from €180.6m to €155.1m and account for 1.9% of net total loans, with a coverage ratio of 53.3% (47.8%); net bad debts totalled €92.7m (1.1% of net total loans), with a coverage ratio of 60.9% (56.4%).

PRIVATE BANKING

This division comprises Mediobanca Private Banking, Compagnie Monégasque de Banque, Spafid, Cairn Capital (alternative AM), Mediobanca SGR, Mediobanca Management Company and RAM Active Investments.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	38.8	43.2	11.3
Treasury income	11.9	11.3	-5.0
Net fee and commission income	134.2	179.0	33.4
Total income	**184.9**	**233.5**	**26.3**
Labour costs	(85.5)	(98.5)	15.2
Administrative expenses	(53.8)	(83.0)	54.3
Operating costs [1]	**(139.3)**	**(181.5)**	**30.3**
Gains (losses) on AFS, HTM and L&R	7.6	2.0	-73.7
Net provisions	(2.6)	0.1	n.m.
Other profits (losses)	(17.2)	(0.6)	n.m.
Profit before tax	**33.4**	**53.5**	**60.2**
Income tax for the period	(5.3)	(11.4)	n.m.
Minority interest	—	(0.6)	n.m.
Net profit	**28.1**	**41.5**	**47.7**
Cost/Income ratio (%)	*75.3*	*77.7*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	2,172.9	2,252.1
No. of staff [1]	622	567
Risk-weighted assets	2,291.7	2,043.4

	30/6/17	30/6/18
AUM/AUA	22,926.4	28,876.6
AUC	12,106.0	7,583.3
Direct funding	4,402.3	4,793.2
Total assets under management	**39,434.7**	**41,253.1**

[1] Since December 2017, the former Banca Esperia central staff functions have been transferred to the Holding Functions division, while the division's service expenses continue to be accounted for as administrative expenses.

The net profit earned in Private Banking rose in the twelve months, from €28.1m to €41.5m, helped by the full consolidation of Banca Esperia (which last year provided 50% of the result for three quarters), the acquisition of RAM AI (four months), and the minor Spafid acquisitions becoming fully operative. Accordingly, GOP rose by 16%, from €44.9m to €52.1m, on revenues up 26.3% (from €184.9m to €233.5m), with the main items performing as follows:

- Net interest income was up 11.3%, from €38.8m to €43.2m, with substantial contributions from CMB of €34.7m (€32.5m), and Mediobanca Private Banking of €8.3m (€6.1m);
- Net treasury income, chiefly attributable to CMB's activities, was virtually unchanged at €11.3m (€11.9m);
- Fee income climbed sharply, up 33.4% (from €134.2m to €179m, more than 70% of which recurring), following excellent performances by all the divisions: Mediobanca Private Banking and its product factories posted an increase in fees from €46.2m to €77.2m, CMB from €46.9m to €49.3m, while RAM Active Investments added €15.5m for the four months for which it was consolidated, and the fees earned by Spafid increased from €13.6m to €18.9m; the only reduction was by Cairn Capital with fees of €18.1m (€27.5m), due to lower performance fees and advisory business levels.

At the same time, operating costs grew by 30.3%, from €139.3m to €181.5m; the increase reduces to 10% net of the Banca Esperia effect, and was concentrated on upgrading the CMB and domestic Private Banking IT system. On a like-for-like basis, labour costs were down 3% due to reorganization post-merger with Banca Esperia.

By individual business unit, CMB reported a net profit of €32.1m, on revenues of €95m (€89.4m), costs of €59.5m (€51.8m), gains on disposals of AFS shares totalling €2m (€7m), and tax of €5.7m (€6.6m); Mediobanca Private Banking and the product factories delivered a net profit of €9.3m (compared with an €11.2m loss at the same time last year), on revenues of €85.7m (€53.7m) and costs of €71.7m (€47.7m); while Cairn Capital posted revenues of €18.2m (€28m) and costs of €19.5m (€24.6m), due to the reduction in performance and advisory fees; Spafid, which provides fiduciary business and corporate services, reported revenues of €19.1m (€14m) and costs of €18.6m (€12.1m).

AUM/AUA for the twelve months totalled €28.9bn (30/6/17: €22.9bn), split as follows: CMB €7bn (€6.7bn), Mediobanca Private Banking and the product factories €14.5bn (€13.7bn), and Cairn €3.3bn (€2.5bn). AUC fell from €12.1bn to €7.6bn, due to the winding up of legacy positions managed by Cairn under long-term advice (now just €0.2bn, compared with €3.9bn last year), and the reduction in assets held by Mediobanca Private Banking and its product factories (€2.7bn, versus €3.6bn); conversely, Spafid posted an increase in volumes, from €4.4bn to €4.5bn.

(€m)

	12 mths ended 30/6/17	Net New Money	12 mths ended 30/6/18	Chg.
Mediobanca Private Banking	17,341.1	603.3	17,157.8	-1.1%
- of which: assets under custody	*3,630.6*	—	*2,702.0*	*-25.6%*
Compagnie Monegasque de Banque	6,855.0	440.7	7,197.0	5.0%
RAM Active Investiments		—	4,071.1	n.m.
Cairn Capital	6,462.3	1,009.7	3,525.9	-45.4%
- of which: on a Long Term Advice basis	*3,949.4*	—	*221.2*	*n.m.*
Spafid	4,374.0	—	4,508.1	3.1%
Total AUM/AUA and AUC	**35,032.4**	**2,053.7**	**36,459.9**	**4.1%**

PRINCIPAL INVESTING

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

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Other incomes	9.6	14.7	53.1
Equity-accounted companies	263.6	280.3	6.3
Total income	**273.2**	**295.0**	**8.0**
Labour costs	(3.8)	(3.8)	n.m.
Administrative expenses	(0.8)	(1.0)	25.0
Operating costs	**(4.6)**	**(4.8)**	**4.3**
Gain (losses) on disposal of AFS shares	161.6	96.3	-40.4
Net loss provisions	(0.9)	(1.8)	n.m.
Profit before tax	**429.3**	**384.7**	**-10.4**
Income tax for the period	(7.2)	(10.9)	51.4
Net profit	**422.1**	**373.8**	**-11.4**

	30/6/17	30/6/18
Balance-sheet data		
AFS securities	659.5	746.8
Equity investments	3,036.5	3,210.8
Risk-weighted assets	7,714.9	6,256.6

The reduction in net profit by the Principal Investing division compared to last year (from €422.1m to €373.8m) is chiefly attributable to the lower gains on disposals of AFS shares of €96.3m (€161.6m), only in part offset by the higher contribution from Assicurazioni Generali (up from €263.6m to €280.3m) and in dividends collected (up from €9.6m to €14.7m).

The book value of the Assicurazioni Generali investment increased from €2,997.5m to €3,171.4m, on profit for the period totalling €279.9m, and positive equity adjustments of €66.3m net of the dividend collected (€172.3m).

AFS shares increased from €659.5m to €746.8m, following new investments in equities totalling €143.5m and subscription to seed capital at Cairn and the newly-acquired RAM in an amount of €183.2m, offset by the sale of shares for €251.1m (with a surplus of €96.3m), referring almost entirely to the disposal of the entire shareholding in Atlantia and other listed equities. The twelve months under review include consolidation of the former Banca Esperia funds in an amount of €45.5m, net investments in private equity funds of €5.7m and downward changes to reflect fair value in an amount of €18.3m.

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING FUNCTIONS)

The centralized Holding Functions division houses the Group's the leasing operations, its Treasury and ALM activities (with the objective of optimizing management of the funding and liquidity process at consolidated level), and all costs relating to Group staffing and management functions.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	(76.3)	(37.5)	50.9
Treasury income	3.3	13.1	n.m.
Net fee and commission income	16.5	15.5	-6.1
Total income	**(56.5)**	**(8.9)**	**84.2**
Operating costs	**(166.2)**	**(173.3)**	**-4.3**
Net loss provisions	(16.0)	(7.5)	53.1
Other profits (losses)	(103.0)	(49.3)	52.1
Profit before tax	**(341.7)**	**(239.0)**	**30.1**
Income tax for the period	92.0	83.3	9.5
Minority interest	7.9	(3.2)	n.m.
Net profit	**(241.8)**	**(158.9)**	**34.3**

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	2,273.5	2,116.7
Banking book securities	7,624.5	6,487.2
No. of staff [1]	769	801
Risk-weighted assets	4,315.8	4,016.0

[1] Since December 2017, the former Banca Esperia central staff functions have been transferred to the Holding Functions division.

The loss posted by this division was cut from €241.8m to €158.9m, after lower contributions to resolution funds (down from €87.9m to €49.1m), the ongoing improvement in net interest expense from treasury management, which was cut from €123.5m to €82.9m due to the lower cost of funding (which reduced from 100bps to 90bps), and more effective liquidity management, including at intra-Group level. Conversely, operating costs rose by 4.3%, from €166.2m to €173.3m, due to centralization of the control functions (Compliance, IT Governance and Risk Management), and to certain support functions being strengthened (back office and accounts), plus costs linked to non-recurring projects.

The division comprises:

- Group Treasury and ALM, which delivered a €66m loss, much improved on last year's €112m, driven by the performance in net interest expense which was cut from €123.5m to €82.9m. Overall, the unit disbursed funding of €39.4bn (€40.6bn), €33bn (€31.4bn) of which was distributed to the various divisions, €6.5bn (€7.6bn) invested in banking book securities, and €2bn (€2.2bn) in net treasury assets.
- Leasing delivered a higher net profit of €4.8m following the reduction in loan loss provisions (from €12m to €7.3m), on revenues which were basically flat at €48m, and costs up slightly at €26.3m (€25.2m). Leases outstanding decreased from €2,273.5m to €2,116.7m, despite the increase in new business (from €418m to €423m). Gross NPLs totalled €206.6m (€255.3m), accounting for a lower percentage of the total (9.4%, versus 10.8%). Net non-performing exposures also decreased, from €169m to €140.2m, and represent 6.6% (7.4%) of the total, with a coverage ratio of 32.2% (33.8%). Bad debts closed at €33.1m (€35.8m), and represent 1.6% of the total, with a coverage ratio of 47.4% (54.8%).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	47.2	45.2	-4.2
Treasury income	0.3	0.2	-33.3
Net fee and commission income	0.3	2.6	n.m.
Total income	**47.8**	**48.0**	**0.4**
Labour costs	(14.2)	(13.8)	-2.8
Administrative expenses	(11.0)	(12.5)	13.6
Operating costs	**(25.2)**	**(26.3)**	**4.4**
Loan loss provisions	(12.0)	(7.3)	-39.2
Other profits (losses)	(27.5)	(2.9)	-89.5
Profit before tax	**(16.9)**	**11.5**	**n.m.**
Income tax for the period	(2.9)	(3.5)	20.7
Minority interest	7.9	(3.2)	n.m.
Net profit	**(11.9)**	**4.8**	**n.m.**
Cost/Income ratio (%)	*52.7*	*54.8*	

	30/6/17	30/6/18
Balance-sheet data		
Loans to customers	2,273.5	2,116.7
New loans	418.0	423.0
No. of staff	144	142
Risk-weighted assets	2,053.6	1,879.0

* * *

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

(€m)

Company	**Percentage shareholding**	**Business Line**	**Total assets**	**Loans and advances to customers**	**Total net equity [1]**	**No. of employees**
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	6.7	—	4.7	4
Mediobanca Turchia (data in TRYm)	100%	Wholesale Banking	5.6	—	9.9	4
Quarzo MB	90%	Wholesale Banking	0.1	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.5	—	0.4	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	7,021.1	4,699.8	328.6	13
MBFACTA	100%	Specialty Finance	1,873.7	1,849.1	122.6	27
MBCredit Solutions	100%	Specialty Finance	327.3	288.3	117.4	218
Compass Banca	100%	Consumer Banking	12,403.5	10,897.9	1,582.0	1,358
Futuro	100%	Consumer Banking	1,713.0	1,617.8	108.1	76
Quarzo	90%	Consumer Banking	0.5	—	—	—
Quarzo CQS	90%	Consumer Banking	0.3	—	—	—
Compass RE	100%	Consumer Banking	350.5	—	97.4	1
CheBanca!	100%	Affluent & Premier	20,158.4	8,107.1	341.8	1,320
Mediobanca Covered Bond	90%	Affluent & Premier	0.5	—	0.1	—
Compagnie Monégasque de Banque	100%	Private Banking	3,806.7	1,287.1	739.7	211
Spafid	100%	Private Banking	56.5	—	48.9	51
Spafid Connect	100%	Private Banking	30.7	—	18.6	18
Spafid Family Office SIM	100%	Private Banking	1.1	—	0.7	5
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	11.7	—	9.7	58
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	1.3	—	1.4	—
RAM Active Investments (data in CHFm) **	89.3%	Private Banking	22.6	—	6.9	37
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	7.7	—	1.6	4
Compagnie Monégasque de Gestion	100%	Private Banking	11.5	—	(1.7)	9
Spafid Trust	100%	Private Banking	1.5	—	1.2	3
Mediobanca SGR	100%	Private Banking	31.6	—	19.7	42
Mediobanca Management Company	100%	Private Banking	14.6	—	2.9	6
Mediobanca International Immobilierè	100%	Holding Functions	1.9	—	1.7	—
SelmaBipiemme Leasing	60%	Holding Functions	2,324.5	2,116.9	208.4	141
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.9	—	(3.0)	—
Mediobanca Innovation Services	100%	Holding Functions	82.7	—	37.5	115
Ricerche e Studi	100%	Holding Functions	1.4	—	0.1	14

[1] Does not include profit for the period.

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 109.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 109.

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	4.2	(2.7)	—	0.9
Mediobanca Turchia (data in TRYm)	100%	Wholesale Banking	1.0	(5.8)	—	(4.8)
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.2	(0.2)	—	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	26.1	(8.3)	(0.2)	12.4
MBFACTA	100%	Specialty Finance	43.1	(7.9)	(15.2)	13.5
MBCredit Solutions	100%	Specialty Finance	72.6	(36.6)	(10.8)	17.2
Compass Banca	100%	Consumer Banking	888.9	(265.6)	(237.0)	252.8
Futuro	100%	Consumer Banking	56.6	(18.4)	(4.9)	22.4
Quarzo	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	51.0	(0.7)	—	37.0
CheBanca!	100%	Affluent & Premier	292.5	(235.3)	(16.5)	19.0
Mediobanca Covered Bond	90%	Affluent & Premier	0.1	(0.1)	—	—
Compagnie Monégasque de Banque	100%	Private Banking	92.9	(56.2)	0.3	34.9
Spafid	100%	Private Banking	9.9	(9.0)	(0.3)	0.4
Spafid Connect	100%	Private Banking	7.2	(7.8)	—	(0.5)
Spafid Family Office SIM	100%	Private Banking	1.3	(1.4)	—	(0.1)
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	17.4	(18.6)	—	(1.0)
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	—	(0.1)	—	(0.1)
RAM Active Investments (data in CHFm) **	89,3%	Private Banking	16.3	(8.8)	—	5.6
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	1.8	(0.8)	—	0.7
Compagnie Monégasque de Gestion	100%	Private Banking	8.1	(2.8)	—	3.5
Spafid Trust	100%	Private Banking	0.9	(0.7)	—	0.1
Mediobanca SGR	100%	Private Banking	17.7	(11.2)	—	4.4
Mediobanca Management Company	100%	Private Banking	7.2	(2.7)	—	3.0
Mediobanca International Immobilierè	100%	Holding Functions	0.1	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	Holding Functions	48.0	(26.3)	(7.3)	8.1
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.2	(1.2)	—	(1.1)
Mediobanca Innovation Services	100%	Holding Functions	78.3	(80.0)	—	—
Ricerche e Studi	100%	Holding Functions	2.2	(2.2)	—	—

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 109.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 109.

Finally, it should be noted that:

– On 26 April 2018, Compagnie Monégasque de Banque approved its consolidated financial statements for 2017, which reflect a net profit of €16.6m (€2m). The significant improvement compared to last year is chiefly due to a single, negative non-recurring item in 2016, consisting of a €22.5m contribution to the general banking risks provision, to cover possible expenses from regulatory changes in the Principality of Monaco (this provision is not recorded in the in IFRS accounts used for the Mediobanca Group's consolidated financial statements). Total income rose from €83.4m to €99.4m, due chiefly to higher net fees (up from €46.5m to €61.2m) and higher net interest income (up from €21.6m to €24.3m). Conversely, operating costs rose from €52m to €58.3m, reflecting the strengthening work done to the IT system. Loans and advances were stable during the twelve months, at €1,201.5m (€1,192.2m), while bank deposits increased, from €1,690.1m to €2,328.5m, mainly represented by Mediobanca S.p.A. where the treasury operations are centralized. Funding from customers was down slightly at €3,350.6m (€3,453.6m). AUM/AUA (including direct funding) rose to €10.1bn (€9.4bn).

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2018 between companies forming part of the Mediobanca Group and related parties, and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in terms of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (former Art. 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies which control companies incorporated or regulated by the laws of non-EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company covered by this regulatory provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

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

In particular, this involves concentration risk in the Group's corporate finance activities towards the leading Italian industrial groups, its operations in the Consumer Banking and Affluent & Premier business segments concentrated on the Italian domestic market, and exposure to volatility on financial markets for the securities portfolios held by the Wholesale Banking, Principal Investing and Holding Functions divisions.

Section 12 of the Liabilities in the Notes to the Accounts also contains information on the most relevant litigation involving the Mediobanca Group still pending and the principal disputes outstanding with the Italian revenue authorities, which overall are fairly minor.

Consolidated non-financial disclosure

As from this year, the Group is publishing the Consolidated Non-Financial Disclosure, drawn up in accordance with the provisions of Article 4 of Italian Legislative Decree 254/16, which contains information on environmental, social and staff-related issues and on human rights and measures to tackle bribery and corruption. The document, which is published on the Bank's website, in the section entitled "Sustainability", is of use to provide an understanding of the activities performed by the Group, its performance, results and the impact produced by it.

The Consolidated Non-Financial Disclosure will be published annually, and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally-recognized standards in non-financial reporting.

Research

R&S has continued its analysis of companies and capital markets as in the past. The company produced the forty-second edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around ninety other industrial and financial groups online. The fifth edition of the survey about local utilities owned by local authorities and the twenty-second edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the sixteenth edition of its survey of the leading international banks and the seventh edition of its review of industrial companies in southern Italy on behalf of the Fondazione Ugo La Malfa.

Credit rating

The long-term rating assigned by Standard & Poor's to Mediobanca is BBB with stable outlook, while the short-term rating is A-2 (both aligned with the Italy sovereign risk). The rating assigned by Fitch to Mediobanca is BBB with stable outlook (short-term rating F2). The long-term rating assigned by Moody's to Mediobanca is Baa1, the deposit rating A3, and the short-term rating P-2.

Outlook

The budget for the next financial year is in line with the Group's current earnings performance, despite continuing to be affected by a low interest rate scenario and uncertainty on domestic and international financial markets. Net interest income should rise moderately, partly as a result of the increase in the cost of funding. Growth by the Wealth Management platform should ensure that fee income increases. The performance in terms of cost will continue to be affected by the need to further strengthen the commercial divisions and for further IT investment, mostly for regulatory reasons. The cost of risk should remain at favourable levels, despite increasing slightly compared to this year.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	Net profit (loss)
Balance at 30/6 as per Mediobanca S.p.A. accounts	4,948,473	337,034
Net surplus over book value for consolidated companies	14,822	427,355
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(8,063)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,825,986	99,531
Dividends received during the period	—	—
Total	**8,781,218**	**863,920**

Milan, 20 September 2018

THE BOARD OF DIRECTORS

DECLARATION BY HEAD
OF COMPANY FINANCIAL REPORTING

DECLARATION IN RESPECT
OF THE CONSOLIDATED FINANCIAL STATEMENTS
as required by Article 81-ter of Consob resolution no. 11971
issued on 14 May 1999 as amended

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1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca hereby declare, and in view inter alia of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the consolidated financial statements:
   - were adequate in view of the company's characteristics;
   - were effectively applied in the year ended 30 June 2018.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2018 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT framework).
3. It is further hereby declared that

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

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

Milan, 20 September 2018

Chief Executive Officer
Alberto Nagel

Head of Company
Financial Reporting
Emanuele Flappini

EXTERNAL AUDITORS' REPORT

Mediobanca SpA

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

Consolidated Financial Statements as of 30 June 2018

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Independent auditor's report

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

To the shareholders of Mediobanca SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediobanca Group (the Group), which comprise the consolidated balance sheet as of 30 June 2018, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flow statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

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Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans to customers *Notes to the accounts:* *Part A – Accounting policies;* *Part B – Notes to the consolidated balance sheet, Assets, section 7;* *Part C – Notes to the consolidated profit and loss account, section 8;* *Part E - Information on risks and related hedging policies.* Loans to customers as of 30 June 2018 were equal to Euro 40.8 billion, corresponding to 56% of total assets of the consolidated financial statements. Net value adjustments for impairment of loans to customers charged in the year under examination amounted to Euro 210.6 million. We paid special attention to those items during our audit considering the materiality of the balance and that the valuation processes and criteria involve the use of judgement and complex processes for the estimation of a large number of variables. These variables refer mainly to the existence of indicators of impairment, the calculation of the expected future cash flows and related timing of recovery, the realisation value of guarantees, the type of customers, as well as the use of internal and external inputs observable at the measurement date.	As part of the audit, to address this key audit matter we performed the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls in place on the IT systems and application software used; • Analyses of business procedures and processes and tests of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • Comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • Analyses of the valuation models and methodologies, both in aggregate and individually, and sample tests of the actual application of previously defined criteria, of the reasonableness of the variables estimated in those models, as well as of the recovery assumptions, with the support of experts from the PwC network; • On a sample basis, tests of the valuation and classification of loans to customers in the consolidated financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting; • Examination of the completeness and adequacy of disclosures provided in the consolidated financial statements considering the requirements of the applicable reporting standards.

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of complex unlisted financial instruments measured at fair value *Notes to the accounts:* *Part A – Accounting policies;* *Part B – Notes to the consolidated balance sheet, Assets, sections 2 and 8, and Liabilities, sections 4 and 6;* *Part C – Notes to the consolidated profit and loss account, sections 4 and 5.* As part of our audit, we paid special attention to the analysis of the valuation models applied to complex unlisted financial instruments measured at fair value. The use of estimates applies mainly to certain types of compound instruments and derivative financial instruments, which are measured using complex valuation models, commonly adopted in prevailing practice, fed by inputs that are not directly observable in the market and that were estimated internally (financial instruments classified in Levels 2 and 3 of the fair value hierarchy).	As part of the audit, to address this key audit matter we performed the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls in place on the IT systems and application software used; • Analyses of business procedures and processes and tests of the operating effectiveness of relevant controls in place for the purpose of the valuation of financial instruments classified in Levels 2 and 3 of the fair value hierarchy; • On a sample basis, tests of the valuation models used by the Group and of the reasonableness of the inputs and parameters used, with the support of experts from the PwC network; • On a sample basis, tests of the valuation and classification of complex unlisted financial instruments in the consolidated financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting.
Recognition of extraordinary transactions, specifically, business combinations (Operazione Gruppo Esperia) *Notes to the accounts:* *Part A – Accounting policies;* *Part B – Notes to the consolidated balance sheet, Assets, sections 10 and 12;* *Part G – Combination involving Group companies or business units.* Following the acquisition of control over the Banca Esperia Group completed in April 2017, during the fiscal year under examination the Company completed the allocation process ("PPA"), recognizing residual goodwill, and then merged the Banca Esperia Group.	As part of the audit, with the support of experts from the PwC network, to address this key audit matter we performed the following main activities: • Analysis of documentary evidence and discussion with the corporate functions involved; • Understanding and evaluation of the method applied to calculate fair value and its allocation to the assets and liabilities identified; • Understanding and evaluation of the criteria used by the Company to identify and recognize the brand, the customer list and goodwill; • Analysis of the accounting treatment applied to the transaction in accordance with the applicable reporting standards

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Throughout the course of our audit, we paid special attention to this aspect due to the complexity of the valuation models used, in prevailing practice, which require the use of estimates. As a result of the purchase price allocation process, after identifying the fair values of the identifiable assets acquired and liabilities assumed, the Company identified and recognized the intangible assets "brand" and "customer list", respectively amounting to Euro 15.5 million and Euro 4.5 million, and residual goodwill amounting to Euro 55.2 million, which was recognized and allocated to the identified cash generating units.	and check of the completeness and adequacy of disclosures provided in the consolidated financial statements considering the requirements of the applicable reporting standards.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on

Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

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

Report on Compliance with other Laws and Regulations

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

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Mediobanca Group as of 30 June 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Mediobanca Group as of 30 June 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediobanca SpA as of 30 June 2018 and are prepared in compliance with the law.

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

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

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

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

Milan, 1 October 2018

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	30/6/18	30/6/17
10. Cash and cash equivalents	1,238,001	1,330,224
20. Financial assets held for trading	8,204,911	7,833,903
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	5,721,877	6,392,680
50. Financial assets held-to-maturity	2,595,747	2,400,203
60. Due from banks	7,552,958	7,959,931
70. Due from customers	40,977,889	38,763,124
80. Hedging derivatives	225,814	462,300
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,210,839	3,036,541
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	287,809	305,556
130. Intangible assets	739,864	552,208
of which:		
goodwill	*649,781*	*483,557*
140. Tax assets	816,484	847,361
a) current	*181,771*	*132,002*
b) deferred	*634,713*	*715,359*
of which under L. 214/2011	*548,385*	*609,074*
150. Loans classified as held-for-sale	—	—
160. Other assets	728,329	561,533
Total assets	**72,300,522**	**70,445,564**

(€'000)

Liabilities and net equity	30/6/18	30/6/17
10. Due to banks	12,263,459	12,689,595
20. Due to customers	21,320,043	20,365,999
30. Debt securities in issue	20,608,518	20,108,721
40. Trading liabilities	6,462,404	5,920,583
50. Financial liabilities designated at fair value	—	—
60. Hedging derivativessss	233,086	341,159
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	531,587	559,982
a) current	*191,999*	*189,736*
b) deferred	*339,588*	*370,246*
90. Liabilities included in disposal groups classified as held for sale	—	—
100. Other liabilities	760,375	846,260
110. Staff severance indemnity provision	27,510	29,779
120. Provisions	185,482	225,850
a) post-employment and similar benefits	—	—
b) other provisions	*185,482*	*225,850*
130. Insurance reserves	175,853	165,974
140. Revaluation reserves	764,255	871,387
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	5,490,450	5,056,865
180. Share premium reserve	2,191,743	2,187,580
190 Share capital	443,275	440,606
200. Treasury shares	(109,338)	(197,709)
210 Minority interest	87,900	82,733
220. Profit for the period	863,920	750,200
Total liabilities and net equity	**72,300,522**	**70,445,564**

Consolidated Profit and Loss Account

(€'000)

Item		30/6/18	30/6/17
10.	Interest and similar income	1,896,801	1,916,412
20.	Interest expense and similar charges	(530,760)	(638,884)
30.	**Net interest income**	**1,366,041**	**1,277,528**
40.	Fee and commission income	590,649	482,516
50.	Fee and commission expense	(134,315)	(104,589)
60.	**Net fee and commission income**	**456,334**	**377,927**
70.	Dividends and similar income	84,323	81,381
80.	Net trading income	38,662	34,245
90.	Net hedging income (expense)	2,857	15,782
100.	Gain (loss) on disposal/repurchase of:	105,057	156,410
	a) loans and advances	*(9,363)*	*(11,132)*
	b) AFS securities	*123,066*	*183,338*
	c) financial assets held to maturity	*(919)*	*2,090*
	d) financial liabilities	*(7,727)*	*(17,886)*
120.	**Total income**	**2,053,274**	**1,943,273**
130.	Adjustments for impairment to:	(212,134)	(293,673)
	a) loans and advances	*(209,231)*	*(285,823)*
	b) AFS securities	*(4,658)*	*(3,079)*
	c) financial assets held to maturity	*3,264*	*(2,864)*
	d) other financial assets	*(1,509)*	*(1,907)*
140.	**Net income from financial operation**	**1,841,140**	**1,649,600**
150.	Premiums earned (net)	57,867	52,324
160.	Other income (net) from insurance activities	(8,989)	(14,427)
170.	**Net profit from financial and insurance activities**	**1,890,018**	**1,687,497**
180.	Administrative expenses:	(1,172,200)	(1,218,004)
	a) personnel costs	*(557,824)*	*(531,947)*
	b) other administrative expenses	*(614,376)*	*(686,057)*
190.	Net transfers to provisions	(26,677)	(16,387)
200.	Net adjustments to tangible assets	(15,952)	(17,585)
210.	Net adjustments to intangible assets	(27,928)	(27,035)
220.	Other operating income (expense)	167,819	243,303
230.	**Operating costs**	**(1,074,938)**	**(1,035,708)**
240.	Gain (loss) on equity investments	280,291	263,452
270.	Gain (loss) on disposal of investments	475	(1,254)
280.	**Profit (loss) on ordinary activity before tax**	**1,095,846**	**913,987**
290.	Income tax for the year on ordinary activities	(228,120)	(171,738)
300.	**Profit (loss) on ordinary activities after tax**	**867,726**	**742,249**
310.	**Gain (loss) on disposal of investments after tax**	**—**	**—**
320.	**Net profit (loss) for the period**	**867,726**	**742,249**
330.	Net profit (loss) for the period attributabe to minorities	(3,806)	7,951
340.	**Net profit (loss) for the period attributable to Mediobanca**	**863,920**	**750,200**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		30/6/18	30/6/17
10.	Profit (loss) for the period	867,726	742,249
	Other income items net of tax without passing through profit and loss	**(1,085)**	**3,894**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	(351)	1,143
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	(734)	2,751
	Other income items net of tax passing through profit and loss	**(105,407)**	**(276,043)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	(2,752)	(2,697)
90.	Cash flow hedges	29,254	(26,458)
100.	AFS financial assets	(197,816)	(63,543)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	65,907	(183,345)
130.	**Total other income items, net of tax**	**(106,492)**	**(272,149)**
140.	**Comprehensive income (headings 10 + 130)**	**761,234**	**470,100**
150.	**Minority interests in consolidated comprehensive incomes**	**4,446**	**(6,495)**
160.	**Consolidated comprehensive income attributable to Mediobanca**	**756,788**	**476,595**

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/17	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/18	Net equity attributable to the group at 30/6/18	Net equity attributable to the minorities at 30/6/18
		Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 30/6/18			
					New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments				
Share capital:	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
a) ordinary shares	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,189,428	—	—	—	4,163 [2]	—	—	—	—	—	—	—	2,193,591	2,191,743	1,848
Reserves:	5,132,771	742,249	(320,226)	(6,308)	(769)	(272)	—	—	—	11,587	—	—	5,559,032	5,490,450	68,582
a) retained earnings	4,998,175	742,249	(320,226)	(6,935)	(769)	—	—	—	—	—	—	—	5,412,494	5,344,539	67,955
b) others	134,596	—	—	627	—	(272)	—	—	—	11,587	—	—	146,538	145,911	627
Valuation reserves	867,768	—	—	—	—	—	—	—	—	—	—	(106,492)	761,276	764,255	(2,979)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	88,099	272	—	—	—	—	—	—	(109,338)	(109,338)	—
Profit (loss) for the period	742,249	(742,249)	—	—	—	—	—	—	—	—	—	867,726	867,726	863,920	3,806
Total net equity	9,191,662	—	(320,226)	(6,308)	94,256	—	—	—	—	11,587	—	761,234	9,732,205	X	X
Net equity attributable to the group	9,108,929	—	(320,226)	(6,935)	94,162	—	—	—	—	11,587	—	756,788	X	9,644,305	X
Net equity attributable to minorities	82,733	—	—	627	94	—	—	—	—	—	—	4,446	X	X	87,900

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

[2] Includes the negative difference between the market price and the book value of treasury shares used for the acquisition of the RAM AI equity interest, equal to €18.8m.

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/17	Net equity attributable to the Group at 30/6/17	Net equity attributable to the minorities at 30/6/17
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 30/6/17			
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments				
Share capital:	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
a) ordinary shares	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,154,677	—	—	—	34,751	—	—	—	—	—	—	—	2,189,428	2,187,580	1,848
Reserves:	4,765,569	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	12,243	—	—	5,132,771	5,056,865	75,906
a) retained earnings	4,643,216	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	—	—	—	4,998,175	4,922,269	75,906
b) others	122,353	—	—	—	—	—	—	—	—	12,243	—	—	134,596	134,596	—
Valuation reserves	1,139,917	—	—	—	—	—	—	—	—	—	—	(272,149)	867,768	871,387	(3,619)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,982)	—	—	—	—	273	—	—	—	—	—	—	(197,709)	(197,709)	—
Profit (loss) for the period	607,616	(607,616)	—	—	—	—	—	—	—	—	—	742,249	742,249	750,200	(7,951)
Total net equity	8,921,847	—	(230,915)	(19,226)	37,613	—	—	—	—	12,243	—	470,100	9,191,662	X	X
Net equity attributable to the Group	8,832,630	—	(230,915)	(19,237)	37,613	—	—	—	—	12,243	—	476,595	X	9,108,929	X
Net equity attributable to minorities	89,217	—	—	11	—	—	—	—	—	—	—	(6,495)	X	X	82,733

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

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	30/6/18	**30/6/17**
A. Cash flow from operating activities		
1. Operating activities	**12,770**	**159,288**
- interest received	3,634,612	2,852,412
- interest paid	(2,526,513)	(1,820,289)
- dividends and similar income	77,882	64,358
- net fees and commission income	185,855	155,607
- cash payments to employees	(401,909)	(378,338)
- net premium income	76,483	67,288
- other premium from insurance activities	(149,360)	(145,388)
- other expenses paid	134,094	(1,145,141)
- other income received	(886,010)	647,130
- income taxes paid	(132,364)	(138,351)
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**5,259,240**	**(488,385)**
- financial assets held for trading	(267,303)	850,786
- financial assets recognized at fair value	—	—
- AFS securities	562,790	2,025,064
- due from customers	(390,114)	(256,411)
- due from banks: on demand	2,802,167	408,403
- due from banks: other	2,429,318	(3,413,549)
- other assets	122,382	(102,678)
3. Cash generated/absorbed by financial liabilities	**(4,890,687)**	**1,442,505**
- due to banks: on demand	(1,294,766)	1,014,101
- due to banks: other	(232,719)	1,568,389
- due to customers	852,372	743,138
- debt securities	(3,722,089)	(1,696,321)
- trading liabilities	(290,366)	(189,243)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(203,119)	2,441
Net cash flow (outflow) from operating activities	**381,323**	**1,113,408**
B. Investment activities		
1. Cash generated from	**332,878**	**382,614**
- disposals of shareholdings	—	2,258
- dividends received in respect of equity investments	177,506	162,171
- disposals/redemptions of financial assets held to maturity	128,126	214,682
- disposals of tangible assets	11,479	3,503
- disposals of intangible assets	1,138	—
- disposals of subsidiaries or business units	14,629	—
2. Cash absorbed by	**(511,783)**	**(128,841)**
- acquisitions of shareholdings	(149,682)	(26,950)
- acquisitions of held-to-maturity investments	(332,583)	(652,718)
- acquisitions of tangible assets	(9,149)	(21,683)
- acquisitions of intangible assets	(20,369)	(125,897)
- acquisitions of subsidiaries or business units	—	698,407
- Net cash flow (outflow) from investment/servicing of finance	**(178,905)**	**253,773**
C. Funding activities	**(294,641)**	**(193,301)**
- issuance/acquisition of treasury shares	24,835	37,614
- issuance/acquisitions of equity instruments	(20)	—
- dividends payout and other applications of funds	(319,456)	(230,915)
Net cash flow (outflow) from funding activities	**(294,641)**	**(193,301)**
Net cash flow (outflow) during period	**(92,223)**	**1,173,880**

Reconciliation of Movements in Cash Flow during the Period

(€'000)

	Amounts	
	30/6/18	30/6/17
Cash and cash equivalents: balance at start of period	1,330,224	156,342
Total cash flow (ouflow) during period	(92,223)	1,173,880
Cash and cash equivalents: exchange rate effect	—	2
Cash and cash equivalents: balance at end of period	1,238,001	1,330,224

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 June 2018 have as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 31 December 2016 have also been prepared on the basis of IAS34 on interim financial reporting, and the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (fourth amendment issued on 15 December 2015).

SECTION 2

General principles

These consolidated financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive profit and loss account;

– Statement of changes to net equity;

– Cash flow statement (direct method);

– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied immediately, which have integrated the current regulations on accounting principles and have been incorporated into the Group's accounting policies:

Approval regulation	**Group application date**	**Topic**
2017/1989, approved on 6 November 2017	1 July 2017	Changes to IAS12 – *Taxes on income*
2017/1990, approved on 6 November 2017	1 July 2017	Changes to IAS7 – *Cash flow statement*
2018/182 approved on 7 February 2017	1 July 2017	Changes to IFRS12 – *Disclosure of interest in other entities*

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied during the next period or later, which have integrated the current regulations on accounting principles and have been incorporated into the Group's accounting policies:

Approval regulation	**Group application date**	**Topic**
2017/1986 approved on 31 October 2017	1 July 2019	IFRS16 Adoption – *Leasing*
2016/1905 approved on 22 September 2016	1 July 2018	IFRS15 Adoption – *Revenue from contracts with customers;*
2017/1987 approved on 31 October 2017		Changes to IFRS15
2016/2067 approved on 22 November 2016	1 July 2018	IFRS9 Adoption – *Financial instruments*
2018/498 approved on 22 March 2018	1 July 2019	Changes to IFRS9 – *Financial instruments*
2018/182 approved on 7 February 2018	1 July 2018	Changes to IAS28 – *Investments in associates and joint ventures*
	1 July 2018	Changes to IFRS1 – *First time adoption of financial reporting*
2018/289 approved on February, 26, 2018	1 July 2018	Changes to IFRS2 – *Share based payment*
2018/400 approved on March, 14, 2018	1 July 2018	Changes to IAS40 – *Investment property*
2018/498 approved on 22 March 2018	1 July 2019	Changes to IFRS9 – *Financial instruments*
2018/519 approved on March, 28, 2018	1 July 2018	Adoption of IFRIC22 – *Foreign Currency Transactions and Advance Consideration*

IFRS9: Mediobanca Group Project

Regulatory scenario

In July 2014 the International Accounting Standards Board (IASB) issued the new IFRS9 "Financial Instruments", with the aim of introducing new regulations on the classification and measurement of financial instruments, the criteria and methods for calculating value adjustments, and the hedge accounting model. The ratification process was completed with the issue of Commission Regulation (EU) 2016/2067 of 22 November 2016, published in the Official Journal of the European Union, L 323, on 29 November 2016.

IFRS9 replaces IAS39 and applies from the starting date of the first financial year which commences on 1 January 2018 or thereafter. The Mediobanca Group, which ends its financial year on 30 June each year, will adopt the new standard as from 1 July 2018.

In accordance with the guidance of the European Securities and Markets Authority (ESMA), contained in the document entitled "European common enforcement priorities for 2017 financial statements" dated 27 October 2017, and pursuant to the requirements of IAS8 sections 30 and 31, this section provides disclosure on implementation of the new standard.

IFRS9, with regard to financial instruments, is structured into three different areas: "Classification and measurement", "Impairment" and "Hedge accounting". For each of these areas, we describe the results to emerge from the project environment, and provide an indication of the main qualitative impacts and an estimate of the quantitative impacts.

The most important changes involve the "Classification and measurement" and "Impairment" areas, whereas the changes introduced in on the issue of "Hedge accounting" are less significant. Details are as follows:

– On the first issue, the classification and method used to measure financial assets (apart from shares) will be subject to two tests: one on the business model, and the other on the contractual features of the cash flows involved (known as the "SPPI test", i.e. "Solely Payment of Principal and Interest"). Only those instruments which pass both tests can be recognized at amortized cost; otherwise, the assets will have to be recognized at fair value and the effects taken through the profit and loss account (this category therefore

becomes the residual portfolio). There is also an intermediate portfolio (Held to collect and sell), which, like the current Available for Sale portfolio, involves recognition at fair value against a matching entry in net equity ("Other Comprehensive Income").
Shares must always be recognized at fair value, with the possibility, for those not held for trading purposes, of the fair value effects being recognized in a net equity reserve (rather than through the profit and loss account); "recycling", however, is abolished (i.e. the effects of the disposals will no longer be taken through the profit and loss account).
No major changes will be made to the treatment of financial liabilities in terms of their classification and measurement. Indeed, the existing rules will remain in force apart from the accounting treatment of own credit risk: for financial liabilities recognized at fair value (or under the fair value option), the standard stipulates that the changes in fair value attributable to changes in own credit risk must be booked to net equity, unless such treatment creates or inflates an accounting asymmetry in the profit for the period, whereas the remaining amount of the changes in the fair value of the liabilities must be taken through profit and loss.

- On the issue of impairment, for instruments recognized at amortized cost and fair value against a matching entry in net equity (apart from equity instruments), the new standard marks the transition from an incurred to an expected loss calculation model; with the focus on the expected losses in value, provisioning has to be made in respect of the entire portfolio (including performing items) and on the basis of estimates which take into account macroeconomic factors. In particular, at the initial recognition stage (stage 1), the instrument must already reflect an expected loss over a twelve-month time horizon; if a significant increase in credit risk then occurs, the asset is classified in the under-performing portfolio (stage 2), which means incorporating an expected loss across the entire outstanding life of the asset; and finally, if further impairment occurs, the asset is classified as non-performing (stage 3), in which the final recovery value is estimated. The expected loss must be based on point-in-time data reflecting the internal credit models used.
- As for hedge accounting, the new model rewrites the rules for designating a hedge relationship and for checking its effectiveness, with the objective of aligning accounting representation with risk management activities, and improving the disclosure on risk management activities performed by the entity preparing the financial reporting.

Current project

An internal project was launched in 2015, led jointly by Risk Management and Group Financial Reporting, with the involvement of all the other areas affected (in particular Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury). The initiative was organized according to the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting). The testing phase of the new IFRS9 systems and processes began in January 2018, in which IAS39 and IFRS9 ran in parallel to allow the system of internal regulations (methodologies, processes and procedures) to be updated, and the IT systems to be checked.

In the course of 2017, the framework for implementation was the subject of a Thematic Review by the Single Supervisory Mechanism to assess the state of preparation for application of IFRS9, which resulted in certain limited "recommendations" that have already been addressed in an action plan shared with the supervisory authority.

The main results, in terms of impacts expected and decisions taken within the Mediobanca Group are set out below, divided according to the main project areas.

Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS9 has introduced new rules for financial assets based on the portfolio management model used and the contractual cash flow characteristics of the instruments concerned, as certified via the SPPI (Solely Payment of Principal and Interest) test.

The standard identifies two main macro models: Hold to collect and Hold to collect and sell, plus a residual business model (Other) which brings together all portfolios held for trading purposes which continue to be recognized at fair value with any changes to it taken through the profit and loss account.

For the purposes of classifying financial instruments, the business model analysis was performed by valuing the Group's portfolio of assets in the light of the strategy adopted by senior management, risk management for the portfolios concerned, remuneration mechanisms, reporting methods, and movements (past sales and future expectations). Such considerations are incorporated into the internal management policies, which reiterate the correlation between business model and accounting treatment, and introduce thresholds in terms of frequency and significance for movements in portfolios recognized at amortized cost.

The analysis showed the following results:

- The loan books – which under IAS39 were recognized at amortized cost as "Loans and Receivables" – have a management strategy which is consistent with a Hold to Collect business model;
- Debt securities held as part of the banking book which constitute "Financial assets held to maturity" under IAS39, are classified based on a Hold to Collect model;
- Debt securities held as part of the banking book which constitute "Financial assets available for sale" under IAS39 are classified almost entirely on the basis of a Hold to Collect and Sell business models; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
- Debt securities held as part of the trading book move to the "Other" business model, apart from certain limited cases in which portfolios have been reclassified from financial assets measured at fair value to Other Comprehensive Income to reflect changes in business model;
- As for equities, shares held for trading purposes also move to the "Other" business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and loss account (accounting category: "Fair Value to Other Comprehensive Income", or "FVOCI"). For funds, stock units held over the medium-/long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the "Other" business model.

It should be noted that although the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"), the Group has not decided to take up this option for assets but to use it only for a limited number of liability instruments, to eliminate or significantly reduce accounting asymmetries.

To complete the classification phase for financial instruments according to the new categories provided for by IFRS9, the business model analysis must be accompanied by analysis of the contractual cash flows (the "Solely Payment of Principal and Interest", or "SPPI", test).

The SPPI test is performed at the level of the individual financial instrument, product or sub-product, and is based on the contractual features of the asset being tested. To this end, the Group has drawn up a standardized process for performing the test, which involves analysing the loans via a specific tool developed internally (the "SPPI Tool") structured on the basis of decision-making trees, at the level of individual financial instrument or product based on their differing degrees of customization. If the instrument or product fails the test, the SPPI Tool will suggest recognizing the asset at fair value and taking the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"). The method for testing loans will be distinguished between retail and corporate (at the product level for retail loans, and analytically for each drawdown of corporate loans). For analysis of debt securities, an external info provider will be used; if the test results are unavailable for whatever reason, the instrument will be analysed by the SPPI Tool.

In addition to the above, specific analysis methodologies have been developed both for instruments which require a benchmark test for the modified time value of money, and to evaluate the credit risk of securitization tranches.

The analysis carried out on the portfolio of financial assets has shown that the measurement criteria for the new categories according to which the financial instruments will be classified are substantially in line with the IAS39 categories with only a few exceptions.

Impairment

Under IFRS9, all financial assets not measured at fair value and taken through the profit and loss account, i.e. debt securities and loans as well as off-balance-sheet exposures, are associated with Hold to Collect or Hold to Collect and Sell business models and must be subject to the new forward-looking impairment model. In practice, compared to the previous approach which was based on the "incurred loss", an "expected loss" approach will be adopted, with the loss estimated at twelve months or the end of the instrument's remaining life. For this reason the losses must be booked to reflect not only the objective loss of value recorded at the reporting date, but also the expected future value losses which have not yet occurred. In view of these factors, IFRS9 stipulates that financial instruments must be classified in three categories (or stages), reflecting increasing levels of impairment in credit standing.

In order to comply with the IFRS9 requirements, the Group has drawn up a stage allocation model for financial instruments, to ensure that performing exposures are correctly allocated to stage 1 or stage 2 if there has been a "Significant Increase in Credit Risk" ("SICR").

For impaired exposures, by contrast, the fact that our practice is aligned with the default accounting and regulatory definitions means the criteria according to which exposures are classified as "non-performing/impaired" will be the same as those for exposures to be classified within stage 3, albeit with certain very minor differences of valuation (cf. below).

The main methodological choices made on the issue of impairment are summarized below:

– Assessment of significant increase in credit risk: the assessment is based on both qualitative and quantitative criteria to identify whether or not a there has been a significant risk in the credit risk associated with the counterparty for each facility. The recognition of forbearance measures or the "30 days past due" criterion are considered as backstop indicators. As per the supervisory authority's expectations, only limited use will be made of the simplified approach, or "low credit risk exemption". The criteria defined for exposures to transition from stage 2 to stage 1 mirror those for the significant increase in credit risk (i.e. when the aspects which denote the significant deterioration cease to exist, the exposure returns to stage 1);

- Inclusion of forward-looking information in the model used to calculate the expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, to ensure a time horizon held to be reasonable is considered. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;
- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. Alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);
- Validation and back-testing: in connection with the models based on recording expected losses, a process has been finalized for validation and back-testing. The reference framework adopted means that the unit which develops the model must be independent of the unit which validates it, with a clear definition of the roles and responsibilities between them. Regular testing is also carried out to ensure that the assumptions on which the model is based continue to be valid, and that any new information which becomes available is factored in accordingly;
- Calculation of expected losses at twelve months and over life-time: the IFRS9 estimate of the PD, LGD and EAD indicators is based on the existing prudential models (e.g. internal models where present) and on specific models adapted with the necessary adjustments to incorporate the forward-looking information and the multi-period time horizon.

Hedge Accounting

As for the IFRS9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS39, the Group will opt in to the new criteria introduced for general hedging, and does not foresee any significant impact in doing so.

Effects of first-time adoption (FTA)

The changes introduced by IFRS9 in the areas of “Classification and measurement” and “Impairment” produce their effects at the first-time adoption stage on the amount and composition of Net equity.

With respect to “Classification and measurement”, the analysis carried out for the portfolio of financial assets has not revealed any significant impact.

The existing business model basically reflects the new IFRS 9 portfolios, as follows:

– Receivables and debt securities are recognized at amortized cost and restated according to the Hold to collect business model;
– Securities held for trading fall within the remit of the “Other” business model;
– Debt securities currently held as “Available For Sale” will be treated according to the Hold to Collect and Sell business model;
– Available for sale equities which the Group has elected to recognize at fair value against a matching reserve in net equity, with the existing Available For Sale reserve transferred to the OCI (Other Comprehensive Income) reserve.

In some cases, however, changes in the business models used to manage the financial instruments or contractual cash flows not in line with the SPPI notion have been detected, hence the transition from IAS39 to IFRS9 with reference to “Classification and Measurement” will entail reclassification as follows:

– Loans and receivables will be reclassified as FVPL in view of the fact that the instruments’ characteristics (subordination, equity convertible options, indirect exposure to equity) mean they would not pass the SPPI test;
– Available-for-sale debt securities will be reclassified as HTC to provide a better representation of the business model’s strategies, which will lead to the net equity reserve accumulated written back and the historical acquisition cost being recovered;
– Debt securities held as part of the banking book will be reclassified as FVPL, as a result of failing the SPPI test;

– Stock units held in investment funds classified as AFS have been reclassified as assets compulsorily recognized at fair value with effects taken through profit and loss and the current AFS reserve being transferred to the earnings reserve; this is consistent with the ale IFRS Interpretation Committee's recent statements that such financial assets should be treated as equities;
– AFS equities will be reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
– Held-for-trading financial assets will be reclassified as FVOCI following changes to the business model.

Adoption of the new classification rules for financial instruments should generate an almost null effect on net equity, representing the balance between changes in business model and instruments failing the SPPI test [1].

The most significant impact of the transition to IFRS9, however, derives from the changes in relation to "Impairment", which involves the value adjustments to financial assets having to be recalculated based on the expected loss method, and for non-performing loans, the use of forward-looking parameters to calculate the expected losses. Compared to the IAS39 provisioning, 66% of the overall increase in the expected losses will be attributable to the performing exposures (stage 1 and stage 2) and 34% to the non-performing exposures (stage 3).

The increase in the provisioning for performing exposures is approx. 96%, attributable to the portfolio classified as stage 2, and representing approx. 4% of the performing exposures.

The increase in adjustments for non-performing exposures chiefly involves property mortgages and financial leasing transactions.

This in turn leads to a change in the value of net equity of approx. €120m (approx. €80m net of the tax effect) with an overall impact of some 20 bps on the CET1 ratio.

The impacts recorded represent the best information that the Group had available at the date on which these consolidated financial statements were approved and hence are subject to possible changes as a result of completion

[1] The new category entails a change in the valuation models which impacts on both recognition value and net equity (cf. below).

of the FTA process for IFRS9, including following the scheduled validation and internal and external control activities. In any case, the impacts are relatively low compared to those of other Italian banks and in line with the leading EU banks, and reflect the good quality of the Group's credit portfolios.

In order to mitigate the impact of the new standards on the prudential ratios, Regulation (E) 2017/2395 of the European Parliament and of the Council as regards "Transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds", amending Regulation (EU) 575/2013 (the "CRR"), with the new Article 473-bis "Introduction of IFRS9", offers the possibility for banks to distribute the impact of the introduction of IFRS9 on own funds for a transitional period of five years, by including a decreasing amount of the impact in CET1. The Group will apply the static approach, to neutralize the effect of the higher provisioning for performing assets, starting from the first-time adoption of IFRS9 and for the next five years [2].

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS9 and IFRS1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

* * *

It should be noted that Assicurazioni Generali will continue to apply IAS39, exercising the deferral approach option as indicated in IFRS9 and regulated by IFRS4; as for the shareholding in Generali itself, in the Mediobanca Group consolidated financial statements, the valuation reserves for investments accounted for using the equity method will be determined according to IAS39.

[2] Year 1: 95%; year 2: 85%; year 3: 70%; year 4: 50%; year 5: 25%.

In accordance with this standard, in the Other Comprehensive Income statement these reserves will be reclassified as recycling or non-recycling without any adjustment, to be compliant with the principles adopted by the parent company Mediobanca S.p.A. (IFRS9) and provide the disclosure required by the international accounting standards.

IFRS15: Revenues from contracts with customers

The new accounting standard introduces a new model for the recognition of revenues deriving from contracts with customers. The new standard will replace the current requirements in IFRS for revenues recognition: IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective from 1 January 2018, and for the Mediobanca Group from 1 July 2018. The new IFRS provides for revenues to be recognized based on the following five steps:

– Identification of the contract;
– Identification of individual bonds;
– Determination of the transaction price;
– Allocation of the transaction price to the individual bonds, on a "market prices" basis ("stand-alone selling price");
– Recognition of the revenues allocated to the single performance obligation when it is settled, i.e. when the customer obtains control of the goods and services.

The implementation of the new standard was co-ordinated centrally by the Parent Company through a customized working group to extend the analysis to the whole Group involving the subsidiaries where necessary.

The analysis led to the identification of all types of contracts with customers and to the revenues being recognized in order to establish their compliance with the new standard's provisions. No significant impacts arose from the application of the new standard except for the contingent liability which covers early insurance premium inflows subject to writeoff in the event of early repayment.

* * *

The other standard that may impact the Mediobanca Group is the IFRS16 – Leasing, which will be applicable from 1 January 2019 (from 1 July 2019 for the Mediobanca Group). The standard will replace IAS17 currently in force for leasing contracts, as well as the IFRIC4, SIC15 and SIC27 interpretations.

The new standard mainly affects the lease accounting rules for the lessee, who must take account of the removal of the distinction between financial and operating leases. All contracts must be accounted for following the rules of the "old" financial leasing standard, i.e. by recording an asset/liability in the balance sheet and recognizing financial expenses through the profit and loss account.

For the lessor there will be no changes.

SECTION 3

Area and methods 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.

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

The merger of Banca Esperia S.p.A. into Mediobanca was completed during the twelve months under review; at the same time, the former Banca Esperia subsidiaries Duemme SGR and Duemme International Luxembourg have come under the parent company's direct control and have been renamed Mediobanca SGR and Mediobanca Management Company respectively. The other former Banca Esperia subsidiary, "Esperia Servizi Fiduciari" have been spun off to Spafid in September 2017 and incorporated in Spafid Spa with accounting effect starting from 1 July 2017.

On 28 February 2018, RAM Active Investments was acquired and put & call options entered into (exercisable from year 3 to year 10); Mediobanca S.p.A. now owns 89.3% of the company. RAM AI has its headquarters in Geneva and has 100% ownership of RAM Active Investments Luxembourg.

On 14 November 2017, Prominvestment's liquidation arrangement with creditors was approved under a decree issued by the Milan court. The requisite formalities have not all been completed during the past twelve months, but are at a very advanced stage. The liquidation procedure for Quarzo Leas S.r.l. has now been completed.

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

Name	Registered office	Type of relationship [1]	Shareholding		% voting rights [2]
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 Line-by-line					
1. MEDIOBANCA - Banca di Credito finanziario S.p.A.	Milan	1	—	—	—
2. PROMINVESTMENT S.P.A. - under liquidation and arrangement with creditors	Milan	1	A.1.1	100.0	100.0
3. SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4. SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.0	70.0
5. MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
6. COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Montecarlo	1	A.1.1	100.0	100.0
7. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99.92	99.92
8. SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Montecarlo	1	A.1.6	99.96	99.96
9. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.3	99.3
10. CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.1	100.0	100.0
11. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.12	1.0	1.0
12. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
13. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
14. MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.12	100.0	100.0
15. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
16. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
17. RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
18. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
19. MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
20. QUARZO S.R.L.	Milan	1	A.1.12	90.0	90.0
21. FUTURO S.P.A	Milan	1	A.1.12	100.0	100.0
22. QUARZO CQS S.R.L.	Milan	1	A.1.21	90.0	90.0
23. QUARZO MB S.R.L.	Milan	1	A.1.1	90.0	90.0
24. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.0	90.0
25. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.0	100.0
26. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.11	100.0	100.0
27. MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Instanbul	1	A.1.1	100.0	100.0
28. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 *	51.0
29. CAIRN CAPITAL LIMITED	London	1	A.1.28	100.0	100.0
30. CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.28	100.0	100.0
31. CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.28	100.0	100.0
32. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.28	100.0	100.0
33. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.28	100.0	100.0
34. AMPLUS FINANCE (non operating)	London	1	A.1.28	100.0	100.0
35. SPAFID FAMILY OFFICE SIM S.P.A.	Milan	1	A.1.3	100.0	100.0
36. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
37. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
38. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
39. RAM ACTIVE INVESTMENTS S.A.	Geneve	1	A.1.1	89.3 **	69.0
40. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.39	100.0	100.0

* Taking into account the put and call option exercisable as from the third anniversary of the execution date of the transaction.

** Taking into account the put and call options exercisable as from the third to the tenth anniversary of the execution date of the transaction.

Legend

1 Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.

2 Effective and potential voting rights in ordinary AGMs.

2. Considerations and significant assumptions used to determine consolidation area

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

- When the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;
- When the investor has exposure, or rights, to variable returns from its involvement with the investee;
- When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

Subsidiaries are consolidated on the line-by-line basis, which means that the carrying amount of the parent's investment and its share of the subsidiary's equity after minorities are eliminated against the addition of that company's assets and liabilities, income and expenses to the parent company's totals. Any surplus arising following allocation of asset and liability items to the subsidiary is recorded as goodwill. Intra-group balances, transactions, income and expenses are eliminated upon consolidation.

Investments in associates and joint arrangements are consolidated using the equity method. Associates are companies which are subject to dominant influence, a concept which is defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, etc.

The definition of joint arrangements used is that provided in IFRS11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

For equity-accounted companies, any differences in the carrying amount of the investment and the investee company's net equity are reflected in the book value of the investment. This value is also reduced if the investee company distributes dividends. The profit made or loss incurred by the investee company is recorded in the profit and loss account, as are any long-term reductions in value or reversals.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

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

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

5. Other information

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

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

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS28, par. 33-34), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date.

SECTION 4

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the period ended 30 June 2018.

During the past month of July, the liquidation process of both MB Advisory Turkey and Quarzo MB has been started.

On 3 August 2018, an agreement was reached between Group company Compass Banca S.p.A. and the Tinugraha Consortium for the acquisition of a 19.9% stake in Indonesian company BFI Finance. With this agreement, the Mediobanca Group has continued the capital reallocation process towards high-yield and high-growth specialized banking activities. The deal should be closed by year-end 2018, subject to clearance from the ECB.

SECTION 5

Other aspects

The consolidated financial statements and the financial statements of the parent company are audited by the auditing company PricewaterhouseCoopers S.p.A., pursuant to Italian Legislative Decree 39/10 and in execution of the resolution adopted by shareholders at the annual general meeting held on 27 October 2012, for the years from 2013 to 2021.

A.2 – Significant accounting policies

Financial assets held for trading

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

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value [3] 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. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the 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 [4], which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value 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. 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

[3] See Part A – Information on fair value, pp. 126-136, for further details.

[4] See Part A – Information on fair value, pp. 126-136, for further details.

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 30% 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 [5], 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.

[5] See Part A – Information on fair value, pp. 126-136, for further details.

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

IAS17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period [6].

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;

[6] As required by the amortized cost rules under IAS39.

- 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;
- 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, with the effects taken through the profit and loss account.

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

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, which are also equity-accounted;
- Other investments of negligible value, which are recognized 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. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

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, long-term computer software applications and other intangible assets (list of clients and development software) deriving from the Purchase Price Allocation process.

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.

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.

As permitted by IAS37, para. 92, no precise indication has been given of any potential liabilities.

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

Trading liabilities

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

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 and net interest.

Actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EU 475/12 [7].

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

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

[7] Until 30 June 2012 the Group accounted for these items directly as labour costs.

valuation criteria used in respect of the category they belong to (i.e. at cost, through the profit and loss account or on an equity basis).

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted on the basis of the average exchange rates for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

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.

Contributes to Deposits Guarantee Schemes and resolution funds are accounted for according to IFRIC21.

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

In accordance with IAS24, related parties are defined as:

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;

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

c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;

d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);

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

f) Pension funds for employees of the parent company or any other entity related to it;

g) Transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

A.3 – Information on transfers between portfolios of financial asset

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 30/6/18	Fair value at 30/6/18	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities (ABS) [1]	Financial assets held for trading	Due from customers	—	—	(1,868)	530	—	530
Debt securities (ABS) [1]	AFS securities	Due from customers	—	—	(98)	78	—	78
Debt securities [2]	AFS securities	Financial assets held to maturity	134,678	141,221	(4,968)	6,385	—	6,385
Total			134,678	141,221	(6,934)	6,993	—	6,993

[1] Made during FY 08/09.

[2] Made during FY 10/11.

A.3.2 Reclassified financial assets: effects on comprehensive profit and loss before transfer

(€'000)

Type of instrument	Transferred from	Transferred to	Profit and Loss plus/minus (pre-tax)		Balance-sheet plus/minus (pre-tax)	
			30/6/18	30/6/17	30/6/18	30/6/17
Debt securities (ABS)	Financial assests held for trading	Due from customers	—	23	—	—
Total			—	23	—	—

A.4 – Information on fair value

QUALITATIVE INFORMATION

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

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics;
– Discounted cash flow calculations;
– Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

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

For investment funds, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds, fair value is taken to be the net asset value (NAV) per stock unit published by the funds themselves. Some residual equities for which it is not possible to reliably determine fair value using the methods described above are stated at cost.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it [8].

In accordance with the provisions of IFRS13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority

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

(Level1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (Level3) is assigned to valuations deriving predominantly from unobservable inputs.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified.

– Level1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.
– Level3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

As a rule Mediobanca uses market prices (Level1) or models based on observable inputs (Level2). In cases where Level3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

– Credit/debt valuation adjustment;

– Other adjustments.

Credit/debt valuation adjustments (CVA/DVA)

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

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

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

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

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

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels or valuation parameters.

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. For taking into account this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating to the European corporate derivative market.

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

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis.

– Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level2 or Level3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level2 and Level3 positions.
– Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level3, with the exception of those for which a

bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level1.

- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level2, whereas those based on non-observable inputs are categorized as Level3.
- Equities: equities are categorized as Level1 when quoted prices are available on an active market considered to be liquid, and Level3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value.
- Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level3.

Assets and liabilities measured at fair value on a non-recurring basis

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally rather than directly observable on the market.

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level2, and in all other cases as Level3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks).

A.4.2 Measurement processes and sensibilities

As required by IFRS13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level3 instruments is provided below.

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

Input **non osservabile**	**Quantification of uncertainty inherent input**	**+/- delta vs MtM (€'000), 30/6/18**	**+/- delta vs MtM (€'000), 30/6/17**
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	620	624
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	325	50

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value * Assets 30/6/18 (€m)**	**Fair value * Liabilities 30/6/18 (€m)**	**Fair value * Assets 30/6/17 (€m)**	**Fair value * Liabilities 30/6/17 (€m)**
OTC equity plain vanilla options, OTC equity digital options, variance swap	Black-Scholes/ Black model	Implicit volatility [1]	1.46	(7.81)	1.25	(9.87)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation [2]	2.70	(4.84)	2.80	(0.34)
Synthetic CDOs	Gaussian copula model using factor with base correlation	Base correlation with bootstrap starting from quoted data on liquid index tranches [3]	—	—	0.14	(0.13)

* Values are shown net of reserves booked.

[1] Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

[2] Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

[3] The base correlation is the level of relation between the default events for the underlying instruments belonging to the principal credit indexes. The correlation is obtained from the quoted market prices of synthetic CDOs on the indexes, in particular from instruments hedging the various parts of the equity structure of these indexes.

A.4.3 Fair value ranking

Transfer among fair value ranking levels

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level1 to Level2 or vice versa mainly as a result of changes in the significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level2 to Level3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

During the twelve months under review, Mediobanca Group reclassified a UCITs instrument from Level2 to Level3 due to the absence of a recent NAV value. Prudentially the instrument has been written off with no impact on the profit and loss account, as it is linked to a certificate (Delta One structure, also transferred to Level3) which represents the structure and its performance perfectly.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis by fair value levels

(€'000)

	30/6/18			30/6/17		
	Level1	**Level2**	**Level3**	**Level1**	**Level2**	**Level3**
1. Financial assets held for trading	4,805,779	3,214,454	184,678	4,302,012	3,352,940	178,951
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	5,107,728	303,178	310,971	5,675,439	431,611	285,630
4. Hedge derivatives	—	225,814	—	—	462,300	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,913,507	3,743,446	495,649	9,977,451	4,246,851	464,581
1. Financial liabilities held for trading	(3,206,919)	(3,168,354)	(87,131)	(2,730,204)	(3,107,364)	(83,015)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(233,086)	—	—	(341,159)	—
Total	(3,206,919)	(3,401,440)	(87,131)	(2,730,204)	(3,448,523)	(83,015)

The Level3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, in an amount of €72.6m (30/6/17: €65.4m), plus €1.9m (€7.4m) in options linked to bonds issued and hedged on the market.

Net of these items, the Level3 assets decreased from €106.1m to €110.2m, including new deals worth €16.2m, disposals and redemptions totalling €5.9m, and other changes, including movements in fair value, amounting to minus €6.2m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds and increased to €311m (€285.6m), following purchases of €110.6m, sales totalling €82m, and other additions amounting to €3.2m (gains, valuations and transfers between levels).

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3 assets)

(€'000)

	FINANCIAL ASSETS			
	Held for trading [1]	**Recognized at fair value**	**AFS** [2]	**Hedges**
1. Opening balance	106,139	—	285,630	—
2. Increases	19,394	—	122,187	—
2.1 Purchases	16,232	—	110,628	—
2.2 Profits recognized in:	2,845	—	11,000	—
2.2.1 profit and loss	2,845	—	4,199	—
- of which, gains	*871*	—	—	—
2.2.2 net equity	—	—	6,801	—
2.3 Transfers from other levels	—	—	559	—
2.4 Other increases	317	—	—	—
3. Decreases	15,332	—	96,846	—
3.1 Disposals	2,237	—	82,078	—
3.2 Redemptions	3,667	—	—	—
3.3 Losses recognized in:	6,666	—	14,768	—
3.3.1 profit and loss	6,666	—	7,861	—
- of which, losses	*6,666*	—	*3,943*	—
3.3.2 net equity	—	—	6,907	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other decreases	2,762	—	—	—
4. Closing balance	110,201	—	310,971	—

[1] Includes market value of options covering those attached to bond (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m and €65.4m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments in unlisted companies valued on the basis of internal models.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level3 liabilities)

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	**Recognized at fair value**	**Hedges**
1. Opening balance	10,205	—	—
2. Increases	11,754	—	—
2.1 Issuance	9,643	—	—
2.2 Losses recognized in:	1,984	—	—
2.2.1 profit and loss	1,984	—	—
- of which, losses	*1,984*	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other increases	127	—	—
3. Decreases	9,308	—	—
3.1 Redemptions	2,650	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	6,658	—	—
3.3.1 profit and loss	6,658	—	—
- of which, gains	*6,658*	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	12,651	—	—

[1] Includes market value of options covering those attached to bond (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m and €65.4m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€'000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/18				30/6/17			
	Book value	Fair value			Book value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Financial assets held to maturity	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
2. Due from banks	7,552,958	—	5,934,247	1,637,891	7,959,932	—	6,696,414	1,269,332
3. Due from customers	40,977,889	—	8,334,617	33,696,913	38,763,124	—	8,824,394	32,102,043
4. Tangible assets held for investment purposes	77,388	—	—	154,516	79,328	—	—	158,300
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	51,203,982	2,586,499	14,296,950	35,489,320	49,202,587	2,433,680	15,571,741	33,529,675
1. Due to banks	12,263,459	—	12,263,459	—	12,689,595	—	12,689,595	—
2. Due to customers	21,320,043	—	21,317,138	—	20,365,999	—	20,383,215	—
3. Debt securities in issue	20,608,518	704,927	20,118,202	49,719	20,108,721	1,526,064	18,855,280	31,583
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	54,192,020	704,927	53,698,799	49,719	53,164,315	1,526,064	51,928,090	31,583

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

For Level3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

During the period from 1 July 2016 to 30 June 2017 this principle was applied by suspending the approx. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. This difference was generated from the use of an internal model to value the unlisted instrument which, under IAS39 paragraphs AG76 and AG76A, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The portion recognized in the profit and loss account during the period amounted to approx. €2.5m, while the portion that remains suspended amounts to approx. €8.4m.

Part B - Notes to consolidated balance sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/18	30/6/17
a) Cash	65,410	70,734
b) Demand deposits with Central Banks	1,172,591	1,259,490
Total	1,238,001	1,330,224

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

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition**

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3	Level1	Level2	Level3
A. Balance-sheet assets						
1. Debt securities	2,538,652	254,051	14,128	2,281,662	450,897	2,321
1.1 Structured securities	109	11,526	—	10,711	16,345	—
1.2 Others	2,538,543	242,525	14,128	2,270,951	434,552	2,321
2. Equity instruments [1]	1,616,416	—	81,402	1,453,540	—	88,071
3. Units in investment funds	101,499	—	10,504	93,736	133,017	11,691
4. Loans	24,966	—	—	9,960	59,639	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	24,966	—	—	9,960	59,639	—
Total A	4,281,533	254,051	106,034	3,838,898	643,553	102,083
B. Derivative instruments						
1. Financial derivatives	524,246	2,754,834	78,644	463,114	2,532,927	76,862
1.1 Trading	524,246	2,685,191	77,072 [2]	463,114	2,229,591	69,444 [2]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	69,643	1,572 [3]	—	303,336	7,418 [3]
2. Credit derivatives	—	205,569	—	—	176,460	6
2.1 Trading	—	205,569	—	—	176,460	6
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	524,246	2,960,403	78,644	463,114	2,709,387	76,868
Total (A+B)	4,805,779	3,214,454	184,678	4,302,012	3,352,940	178,951

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

[1] Equities as at 30/6/18 include shares committed in securities lending transactions totalling €982,223,000 (30/6/17: €737,408,000).

[2] Respectively €72,603,000 and €65,407,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[3] Includes the market value of options (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) matching those associated with bond issues recorded among financial instruments held for trading.

During the financial year under review, the Group has reclassified one of its financial instruments accounted for under "UCITS units" from fair value level 2 to level 3, due to the lack of a recent NAV reading. The instrument has been written off on prudential grounds but with no impact taken through profit and loss as the instrument is linked to a certificate (a Delta One structure, which too has been reclassified as level 3) which replicates both the structure itself and its performance perfectly.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	**30/6/18**	**30/6/17**
A. FINANCIAL ASSETS (NON-DERIVATIVES)		
1. Debt securities	2,806,831	2,734,880
a) Governments and Central Banks	2,333,021	1,977,075
b) Other public-sector entities	20,680	15,160
c) Banks	120,732	330,239
d) Other issuers	332,398	412,406
2. Equity instruments	1,697,818	1,541,611
a) Banks	118,343	81,293
b) Other issuers:	1,579,475	1,460,318
- Insurance companies	16,939	54,142
- Financial companies	16,942	55,014
- Non-financial companies	1,545,594	1,351,162
- Other	—	—
3. Units in investment funds	112,003	238,444
4. Loans	24,966	69,599
a) Goverments and Central Banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	59,639
d) Other issuers	24,966	9,960
Total A	4,641,618	4,584,534
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,400,466	2,077,748
- Fair Value	2,400,466	2,077,748
b) Customers	1,162,827	1,171,621
- Fair Value	1,162,827	1,171,621
Total B	3,563,293	3,249,369
Total (A+B)	8,204,911	7,833,903

SECTION 4

Heading 40: Available for sale (AFS) securities

*4.1 AFS securities: composition**

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3 [1]	Level1	Level2	Level3 [1]
1. Debt securities	4,646,431	303,178	—	5,222,852	383,630	70
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,646,431	303,178	—	5,222,852	383,630	70
2. Equity instruments	240,994	—	24,704	400,572	—	33,745
2.1 Designated at fair value	240,994	—	24,704	400,572	—	33,745
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds	220,303	—	286,267	52,015	47,981	251,815
4. Loans	—	—	—	—	—	—
Total	5,107,728	303,178	310,971	5,675,439	431,611	285,630

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – “Accounting Policies”.

[1] Includes shares in non-listed companies based on internal rating models.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/18	30/6/17
1. Debt securities	4,949,609	5,606,552
a) Governments and Central Banks	3,157,194	3,641,240
b) Other public-sector entities	386,845	214,203
c) Banks	861,526	1,005,114
d) Other entities	544,044	745,995
2. Equity instruments	265,698	434,317
a) Banks	471	2,423
b) Other issuers:	265,227	431,894
- Insurance companies	—	—
- Financial companies	26,080	22,873
- Non-financial companies	236,280	404,369
- Other	2,867	4,652
3. Units in investment funds (including Private Equity funds)	506,570	351,811
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	5,721,877	6,392,680

4.3 AFS securities: assets subject to specific hedging

Items/Values	30/6/18	30/6/17
1. Financial assets subject to fair value micro hedging	1,899,326	2,255,207
a) Interest rate risk	1,899,326	2,255,207
b) Currency rsk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Financial assets subject to cash flow micro hedging	—	240,019
a) Interest rate risk	—	—
b) Currency rsk	—	—
c) Other	—	240,019
Total	1,899,326	2,495,226

SECTION 5

Heading 50: Financial assets held to maturity

*5.1 Financial assets held to maturity: composition**

	30/6/18				30/6/17			
	Book Value	Fair value			Book Value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Debt securities	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
- structured	—	—	—	—	—	—	—	—
- other	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
2. Loans	—	—	—	—	—	—	—	—

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

5.2 Financial assets held to maturity: by borrower/issuer

Type of transaction/Values	30/6/18	30/6/17
1. Debt securqqqities	2,595,747	2,400,203
a) Government and Central Banks	1,839,373	1,747,751
b) Other public-sector entities	—	—
c) Banks	176,968	256,405
d) Other issuers	579,406	396,047
2. Loans	—	—
a) Government and Central Banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	2,595,747	2,400,203
Total Fair Value	2,614,585	2,484,613

SECTION 6

Heading 60 - Due from banks

*6.1 Due from banks: composition**

Type of transactions/Values	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Loans to Central Banks	212,418	—	212,421	—	208,806	—	208,809	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	212,418	X	X	X	208,806	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	7,340,540	—	5,721,826	1,637,891	7,751,125	—	6,487,605	1,269,332
1. Loans	7,340,540	—	5,721,826	1,637,891	7,751,125	—	6,487,605	1,269,332
1.1 Current accounts and demand deposits	849,094	X	X	X	1,276,888	X	X	X
1.2 Time deposits	25	X	X	X	51,223	X	X	X
1.3 Other loans	6,491,421	X	X	X	6,423,014	X	X	X
- Repos	4,902,337	X	X	X	5,315,656	X	X	X
- Finance leases	3,636	X	X	X	4,703	X	X	X
- Other	1,585,448	X	X	X	1,102,655	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	—	X	X	X	—	X	X	X
Total	7,552,958	—	5,934,247	1,637,891	7,959,931	—	6,696,414	1,269,332

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – “Accounting Policies”.

6.2 Due from banks: subject to specific hedging

	30/6/18	30/6/17
1. Receivables subject to specific hedging of fair value	629	1,921
a) Interest rate risk	629	1,921
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Receivables subject to specific hedging of cash flows	—	—
a) Interest rate	—	—
b) Exchange rate	—	—
c) Expected transactions	—	—
d) Other hedged operations	—	—
Total	629	1,921

*6.3 Financial leasing **

	30/6/18				
	Non performing exposures	Minmum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount unguaranteed
Up to 3 months	—	243	38	281	—
Between 3 months and 1 year	—	639	99	738	2
Between 1 year and 5 years	—	1,990	208	2,198	—
Over 5 years	—	768	89	857	18
Unspecified	—	—	—	—	—
Total	—	3,640	434	4,074	20

* The table, based on the "Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers" published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

Heading 70: Due from customers

*7.1 Due from customers: composition**

Type of transaction/Value	30/6/18						30/6/17					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Non performing		Level1	Level2	Level3	Performing	Non performing		Level1	Level2	Level3
		Purchased	Other					Purchased	Other			
Loans	39,648,585	287,927	842,061	—	8,300,289	33,532,861	37,336,867	134,768	940,536	—	8,748,122	31,825,394
1. Current accounts	1,250,480	137,715	345	X	X	X	1,101,170	—	3,095	X	X	X
2. Repos	446,410	—	—	X	X	X	677,543	—	—	X	X	X
3. Mortgages	20,904,933	—	498,750	X	X	X	19,286,249	—	558,796	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,595,332	123,658	156,048	X	X	X	9,158,017	118,129	159,801	X	X	X
5. Financial leases	1,970,491	22,638	138,321	X	X	X	2,098,886	16,639	167,023	X	X	X
6. Factoring	1,830,548	—	10,194	X	X	X	1,481,940	—	14,385	X	X	X
7. Other loans	3,650,391	3,916	38,403	X	X	X	3,533,062	—	37,436	X	X	X
Debt securities	199,316	—	—	—	34,328	164,052	350,953	—	—	—	76,272	276,649
8. Structured securities	—	—	—	X	X	X	—	—	—	X	X	X
9. Other debt securities	199,316	—	—	X	X	X	350,953	—	—	X	X	X
Total	39,847,901	287,927	842,061	—	8,334,617	33,696,913	37,687,820	134,768	940,536	—	8,824,394	32,102,043

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/18			30/6/17		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by:	199,300	—	—	350,954	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	199,300	—	—	350,954	—	—
- Non-financial companies	38,536	—	—	74,064	—	—
- Financial companies	127,945	—	—	276,890	—	—
- Insurance companies	32,819	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	39,648,601	287,927	842,061	37,336,866	134,768	940,536
a) Governments	90,027	—	—	154,762	—	—
b) Other public-sector entities	175,342	—	14,140	14,152	—	13,421
c) Other entities	39,383,232	287,927	827,921	37,167,952	134,768	927,114
- Non-financial companies	12,482,850	53,541	474,224	12,480,296	21,823	528,739
- Financial companies	3,798,935	4,209	14,909	3,554,535	179	26,370
- Insurance companies	667,657	—	1	978,121	—	1
- Other	22,433,790	230,177	338,787	20,155,000	112,766	372,005
Total	39,847,901	287,927	842,061	37,687,820	134,768	940,536

7.3 Due from customers: assets subject to specific hedging

	30/6/18	30/6/17
1. Loans and receivables subject to micro-hedging of fair value	2,488,406	2,240,767
a) Interest rate risk	2,488,406	2,240,767
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risk	—	—
2. Loans and receivables subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Expected transaction	—	—
d) Other hedged activities	—	—
Total	2,488,406	2,240,767

*7.4 Financial leasing **

	30/6/18				
	Non performing exposures	Minimum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount unguaranteed
Up to 3 months	17,747	114,194	15,736	168,389	8,289
Between 3 months and 1 year	1,531	288,811	41,202	331,544	13,566
Between 1 year and 5 years	119,043	960,098	124,362	1,203,503	107,231
Over 5 years	—	597,543	63,554	661,097	173,645
Unspecified	—	—	—	—	—
Total	138,321	1,960,646	244,854	2,364,533	302,731

* The table, based on the "Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers" published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal Value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	225,814	—	9,590,262	—	462,300	—	7,803,389
1) Fair value	—	225,814	—	9,590,262	—	462,300	—	7,803,389
2) Cash flow	—	—	—	—	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	225,814	—	9,590,262	—	462,300	—	7,803,389

8.2 Hedging derivatives: by portfolio hedged and hedge type (book value)

Transaction/ Type of hedging	Fair Value						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	249	—	—	X	—	X	—	X	X
3. Held-to-maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	249	—	—	—	—	—	—	—	—
1. Financial liabilities	225,565	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	225,565	—	—	X	—	—	—	—	X
1. Estimated transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under signficant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	13.0	13.0
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.4	25.4
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	2	Mediobanca S.p.A.	22.1	22.1

Legend:
1 Joint control.
2 Subject to significant influence.
3 Exclusively controlled and not consolidated.

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

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

Company name	Book value	Fair Value *	Dividends received **
A. Entities under signficant influence			
1. Assicurazioni Generali S.p.A.	3,171,418	2,912,993	172,306
2. Istituto Europeo di Oncologia S.r.l.	39,373	n.a.	—
3. Burgo Group S.p.A.	—	n.a.	—
4. Others	48	n.a.	—
Total	3,210,839	—	—

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

As at 30 June 2018, the book value carried under the "Equity investments" heading totalled €3,210.8m.

The equity investments subject to significant influence are valued using the equity method, and the calculation of their value includes treasury shares owned, dividends collected, and any Mediobanca shares owned by the investee companies.

Impairment testing of equity investments

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

For investments in associates and jointly-controlled enterprises, the process of recording impairment charges involves checking whether there are indicators of impairment and then proceeding to write the investment down if appropriate. Indicators of impairment may be subdivided into two main categories:

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

Where there are indicators of impairment, the recoverable value is calculated from the higher between fair value (net of sales costs) and net present value, and if the recoverable value is lower than the book value, impairment charges are recorded.

IAS28, paragraph 41A states that:

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

– To calculate net present value (as governed by IAS28 paragraph 42) one or other of the following methodologies may be used:
  – The discounted value of the cash flows generated by the investee company, deriving from the cash flows generated by the investments owned by the company and proceeds deriving from the sale of those investments (unlevered discounted cash flow); or alternatively
  – The discounted value of the cash flows assumed to derive from the dividends receivable and the eventual sale of the investment.

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

It should be noted that prudential factors have been used to value the equity investments, in the estimate of cash flows and the discount rates.

* * *

Accounting data for the investee companies accounted for using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2017.

10.3 Significant investments: accounting data (€m)

Company name	Entities under significant influence
	Assicurazioni Generali S.p.A.
Cash and cash-convertible assets	X
Financial assets	482,909
Non-financial assets	47,323
Financial liabilities	52,810
Non-financial liabilities	458,092
Total revenues	89,204
Interest margin	X
Adjustments and reversals on tangible and intangible assets	X
Profit/(Loss) on ordinary activities before tax	3,686
Profit/(Loss) on ordinary activities after tax	2,513
Profit/(Loss) on held-for-sale assets after tax	—
Profir/(Loss) for the period (1)	2,295
Other profit/(loss) components after tax (2)	(189)
Total profit/(loss) for the period (3) = (1) + (2)	2,106

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

(€'000)

Company name	Aggregate net equity	Pro rata net equity	Differences arising upon consolidation [1]	Consolidated book value [2]
Companies under significant influence				
Assicurazioni Generali S.p.A.	24,403,363	3,168,312	3,105	3,171,418

[1] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €23.9m; pro rata €3.1m).
[2] The book value of the Assicurazioni Generali investment also reflects the dividend received in May 2018 (€172.3m).

As at 30 June 2018, the market value of the Assicurazioni Generali investment was €2,912.9m, i.e. lower than the book value of €3,171.4m. As required by IAS28, then, and in accordance with the internal policy, an impairment test was carried out which involved establishing the investment's net present value, bearing in mind inter alia the following issues:

– Mediobanca has historically been the leading shareholder of the Assicurazioni Generali group with a share of 13% of the ordinary share capital;
– The book value of the investment is aligned with the Assicurazioni Generali group's net asset value (pro rata) and does therefore does not factor in any goodwill.

The excess capital version of the dividend discount model was used to determine the net present value. For purpose of the analysis, leading financial analysts' estimates for the 2018-20 period have been used, along with a cost of capital and growth rate considered to be consistent with the macroeconomic scenario prevailing as at 30 June 2018.

The flows used are also consistent with the 2018 targets disclosed by the company and confirmed in the presentation of the 2017 results. A new business plan should be unveiled in November 2018. A sensitivity analysis has also been carried out on the results obtained to reflect changes in the valuation parameters.

The impairment testing process has confirmed that the recoverable value of the investment is higher than its book value; hence under the terms of IAS28 paragraph 41A, the investment has passed the impairment test.

This assessment is confirmed by the financial analysts' target prices (€16.8 per share) which on average are higher than the book value recorded.

10.4 Non-significant investments: accounting data

(€m)

Company name	**B. Entities under significant influence**	
	Istituto Europeo di Oncologia S.r.l.	**Burgo Group S.p.A.**
Book value of equity interests	39	—
Total assets	265	1,642
Total liabilities	150	1,342
Total revenues	333	2,008
Profit/(Loss) on ordinary activities after tax	6	9
Profit/(Loss) for held-for-sale assets after tax	—	—
Profit/(Loss) for the period (1)	6	9
Other profit/(loss) components after tax (2)	—	(2)
Total profit/(loss) (3)=(1)+(2)	6	7

For details on the nature of the relationship, please see Section 10.1.

10.5 Equity investments: movements during the period

	30/6/18	**30/6/17**
A. Opening balance	3,036,541	3,193,345
B. Increases	346,604	51,671
B.1 Purchases	—	38,995
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	346,604	12,676
C. Decreases	172,306	208,475
C.1 Sales		95,179
C.2 Adjustments		—
C.3 Other changes	172,306	113,296
D. Closing balance	3,210,839	3,036,541
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost

Assets/Values	30/6/18	30/6/17
1. Assets owned by the Group	210,421	226,228
a) land	84,883	84,883
b) buildings	100,044	103,836
c) furniture	10,630	10,105
d) electronic equipment	10,440	11,293
e) other assets	4,424	16,111
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	210,421	226,228

On 1 January 2018, the Mediobanca Group outsourced its IT infrastructure services previously performed for the most part by Group company Mediobanca Innovation Services to IBM Italia, driving a reduction in other assets owned by the Group.

12.2 Properties held for investment purposes stated at cost

Assets/Values	30/6/18				30/6/17			
	Book Value	Fair value			Book Value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Assets owned by the Group	77,388	—	—	154,516	79,328	—	—	158,300
a) land	30,224	—	—	85,092	30,224	—	—	85,205
b) buildings	47,164	—	—	69,424	49,104	—	—	73,095
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	77,388	—	—	154,516	79,328	—	—	158,300

12.5 Core properties: movements during the period

	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	84,883	144,441	43,239	32,020	73,384	377,967
A.1 Total net reduction value	—	(40,605)	(33,134)	(20,727)	(57,272)	(151,738)
A.2 Net opening balance	84,883	103,836	10,105	11,293	16,111	226,228
B. Increases	—	464	3,753	2,031	3,820	10,068
B.1 Purchases	—	—	3,739	1,973	3,366	9,078
B.2 Capitalized expenditures on improvements	—	460	—	—	—	460
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	2	2
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	4	14	58	453	529
C. Decreases	—	4,256	3,228	2,884	15,508	25,876
C.1 Sales	—	—	155	337	10,987	11,479
C.2 Depreciations	—	4,256	2,936	2,228	4,521	13,941
C.3 Impairment losses allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.4 Negative changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	3	2	—	5
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	134	317	—	451
D. Net closing balance	84,883	100,044	10,630	10,440	4,424	210,421
D.1 Total net write-downs	—	(43,509)	(48,694)	(31,832)	(48,724)	(172,759)
D.2 Final gross balance	84,883	143,553	59,324	42,272	53,148	383,180
E. Carried at cost	—	—	—	—	—	—

12.6 Properties held for investment purposes: movements during the period

	Total	
	Land	**Building**
A. Opening balance	30,224	49,104
B. Increases	—	71
B.1 Purchases	—	—
B.2 Capitalized expenditures on improvements	—	71
B.3 Increases in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange difference	—	—
B.6 Transfers from properties used in the business	—	—
B.7 Other changes	—	—
C. Reductions	—	2,011
C.1 Disposals	—	—
C.2 Depreciations	—	2,011
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C.5 Negative exchange differences	—	—
C.6 Transfers to:	—	—
a) properties used in the business	—	—
b) non-current assets classified as held-for-sale	—	—
C.7 Other changes	—	—
D. Closing balance	30,224	47,164
E. Measured at fair value	85,092	69,424

These consist of the following properties:

Properties	**SQU. m.**	**Book value (€'000)**	**Book value per SQU.m. (€'000)**
Rome	8,228	25,163	3.1
Lecce	21,024	18,816	0.9
Verona *	30,502	9,909	0.3
Bologna *	9,571	6,818	0.7
Brescia	3,848	2,003	0.5
Pavia	2,250	1,230	0.5
Other *	83,666	13,449	0.2
Total	159,089	77,388	

* Figures include both warehouses and buildings used as offices.

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets: composition

Assets/Values	30/6/18		30/6/17	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	649,781	X	483,557
A.1.1 Attributable to the Group	X	649,781	X	483,557
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	74,593	15,490	68,651	—
A.2.1 Assets valued at cost	58,140	15,490	47,002	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	58,140	15,490	47,002	—
A.2.2 Assets valued at fair value	16,453	—	21,649	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets [1]	16,453	—	21,649	—
Total	74,593	665,271	68,651	483,557

[1] This heading refers to the client list acquired in conjunction with the Barclays Italy business unit.

As a result of the purchase price allocation process for the Banca Esperia merger (acquired in April 2017 and subsequently merged into Mediobanca S.p.A. with effect from 1 December 2017) and the former Crédit Agricole business unit acquired by CMB, two new client lists have been booked to the accounts for a combined value of €11.1m, along with the Mediobanca Private Banking brand for Italy, booked at €15.5m and with an indefinite life.

13.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other intangible assets		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	483,557	—	—	207,292	—	690,849
A.1 Total net reduction in value	—	—	—	(138,641)	—	(138,641)
A.2 Net opening balance	483,557	—	—	68,651	—	552,208
B. Increases	172,848	—	—	35,009	15,490	223,347
B.1 Purchases [1]	172,848	—	—	34,990	15,490	223,328
B.2 Increases in intangible assets generated internally	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Increases in fair value allocated to:	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other changes	—	—	—	19	—	19
C. Decreases	6,624	—	—	29,067	—	35,691
C.1 Disposals	—	—	—	1,138	—	1,138
C.2 Write-downs	—	—	—	27,928	—	27,928
- Amortization	X	—	—	27,928	—	27,928
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Decrease in fair value allocated to	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to non-current assets held-for-sale	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Other changes	6,624	—	—	1	—	6,625
D. Net closing balance	649,781	—	—	74,593	15,490	739,864
D.1 Total net reduction in value	—	—	—	(153,420)	—	(153,420)
E. Gross Closing balance	649,781	—	—	228,013	15,490	893,284
F. Carried at cost	—	—	—	—	—	—

[1] The heading “Purchases of intangible assets with time-limited life” includes €6.6m in customer relationships emerging from the purchase price allocation process in connection with the former Crédit Agricole acquisition by CMB, and €4.5m from the former Banca Esperia client list.

Information on intangible assets and goodwill

Intangible assets also include the effects of the acquisitions made by the Group in recent years.

During the first half of the financial year under review, the purchase price allocation process (PPA) was completed for the acquisitions of Banca Esperia by Mediobanca and of the former Crédit Agricole business unit by Compagnie Monégasque de Banque made in the twelve months.

As required by IFRS3, the buyer must recognize the assets and liabilities acquired (including intangible assets and contingent liabilities not recorded in the acquired entities' accounts) in its own financial statements by performing a purchase price allocation process.

With reference to the Banca Esperia PPA process, it should be noted that no contingent liabilities emerged, but the following items were identified and have been estimated accordingly:

– Negative fair value adjustments of €11.2m to receivables (either impaired or closely monitored) and to fund stock units held as part of the AFS portfolio;
– A client list recognized as an intangible asset at a value of €4.5m (asset management and administration, direct funding and loans);
– A brand recognized at €15.5m reflecting the strength and reach of the Banca Esperia brand consolidated further as a result of the merger and subsequent renaming as Mediobanca Private Banking; a solid brand guaranteeing enhanced control over AUM and dampening revenue volatility, reducing the loss rate for private bankers and so rendering customer relations more stable and persistent over time. The brand's significant useful life is tantamount to being indefinite, and the value assigned to the brand has been calculated based on the assumption that it increases visibility, thus helping to increase the retention rate for bankers and clients compared to an unbranded entity, thus stabilizing revenue flows over time. The merger of Banca Esperia into Mediobanca, from an ongoing concern perspective, has resulted in the Mediobanca Private Banking division being established, which enjoys higher recognition and visibility than the Esperia brand due to the presence of history and name of Mediobanca. In other words, the private banking

brand has been replaced by a stronger one benefiting from its association with the Mediobanca brand. The data for FY 2017-18 in terms of inflows/ outflows and average AUM per banker show that the results achieved are in line with these assumptions.

The other assets and liabilities are booked at their fair value, either because their book value is negative based on this criterion or because they are short-term items.

Net equity this increases from €176.6m to €178.7m, which, compared with an acquisition cost of €233.9m, generates goodwill of €55.2m reflecting the value which the acquisition is expected to create the achievement of synergies (by the buyer). The overall goodwill is split between the various cash-generating units involved in the transaction, i.e. fiduciary activities (transferred to Spafid), the Private Banking division, and Mid Cap Corporate activities.

The purchase price allocation process for the former Crédit Agricole business unit acquired by Compagnie Monégasque de Banque resulted in intangible assets being identified with a defined useful life in an amount of €6.6m, exclusively in respect of a client with a ten-year useful life.

In February 2018, acquisition was also completed of a 69% stake in RAM AI, a leading European systematic fund manager offering a wide range of alternative funds to institutional and professional investors with systematic management, both equity (RAM Systematic Funds) and discretionary fixed-income (RAM Tactical Funds). The deal was structured to allow the founder partners to retain a significant interest in the company, and the Reyl group, a historical shareholder and investor in RAM AI, also retains a 7.5%. The acquisition cost was CHF 164.8m, or €143.4m.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%.

A preliminary calculation of the goodwill arising in connection with the transaction as at 30 June 2018 came to CHF 204.8m, or €177m based on current exchange rates bearing in mind that the liability in respect of the put-and-call option has been valued at CHF 46.8m (or €40.5m); the exchange rate effect has resulted in a negative net equity reserve being recorded, of €0.9m.

According to IFRS3 the purchase price allocation process must be completed within twelve months of the acquisition date.

Table 1: Other intangible assets acquired through extraordinary transactions

Type	**Deal**	**30/6/18**	**30/6/17**
Customer relationship		30,495	25,884
	IFID	*308*	*408*
	Spafid	*588*	*699*
	ISPS	*2,915*	*3,129*
	Barclays	*16,454*	*21,648*
	Banca Esperia	*3,606*	—
	CMB	*6,624*	—
Brand		16,422	983
	ISPS	*933*	*983*
	MB Private Banking	*15,489*	—
Commercial agreements	Linea	—	1,370
Acquired software	Spafid Connect	5,033	5,077
Total		**51,950**	**33,314**

Table 2: Goodwill

Deal	**30/6/18**	**30/6/17**
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	3,831	3,831
Spafid- Fiduciaria	3,080	—
Cairn Capital	41,905	42,225
Banca Esperia	52,103	59,061
CMB-ramo *ex* Crédit Agricole	—	6,624
RAM	177,046	—
Total	**649,781**	**483,557**

For all the transactions referred to above, an overview of the main effects of the PPA process are set out below (table 3), with an indication of how the residual goodwill has been allocated between the individual cash-generating units (CGUs) (table 4).

Table 3: Summary of PPA effects on goodwill

	Linea	IFID	Spafid Connect	Cairn	ISPS	Esperia	RAM [1]
Acquisition date	27/6/2008	1/8/2014	18/6/2015	31/12/2015	28/2/2017	6/4/2017	28/2/2018
Price paid	406.938	3.600	5.124	28.046	10.360	233.920	143.381
of which: ancillary charges	*2,000*	*200*	—	—	—	—	—
Liabilities	—	—	—	23,669	—	—	40,494
Adjustment for exchange rate effect	—	—	—	—	—	—	(903)
Intangible assets, defined life	(44,200)	(700)	(3,250)	—	(4,319)	(4,508)	—
no. of years amortization	*8*	*7*	*10*	—	—	*5*	—
Brands	(6,300)	—	—	—	—	(15,489)	—
Fair value adjustments	—	—	—	—	—	11,232	—
Balance of other assets (liabilities)	(2,659)	420	(466)	(9,490)	(2,210)	(176,559)	(5,926)
Tax effects	12,155	220	934	—	—	6,613	—
Goodwill	**365,934**	**3,540**	**2,342**	**42,225**	**3,831**	**55,209**	**177,046**

[1] PPA still in progress.

Table 4: Overview of cash-generating units

CGU	Deal	30/6/18	30/6/17
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	—
Corporate services	Spafid Connect	2,342	2,342
Information services	ISPS	3,831	3,831
Cairn Capital		41,905	42,225
CMB	*ex* CA operations	—	6,624 [1]
Private banking	*ex* Esperia	29,453	59,061
Mid corporate	*ex* Esperia	22,650	—
RAM		177,046	—
Total goodwill		**649,781**	**483,557**

[1] As at 30 June 2017, the PPA process in respect of the acquisition of the other 50% of Banca Esperia not already owned by Mediobanca was still in progress, and the goodwill had not yet between split between the various CGUs; the PPA process for CMB's acquisition of Crédit Agricole was also still ongoing, but the goodwill arising from which has been allocated in full to a single list of clients.

The Linea acquisition (€407m) generated goodwill of €365.9m, which is now the only amount still recorded in the books following the writeoff of the brands and the useful life of the intangible assets now having ended. The goodwill is split between three different CGUs: consumer credit, credit cards and salary-backed finance.

The IFID acquisition (€3.6m) generated goodwill of €3.5m and intangible assets with time-limited life for a total of €0.7m (€0.3m outstanding at the reporting date). The deal has been allocated to the "Fiduciary Services" CGU.

The Spafid Connect acquisition (€5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m (amount outstanding at the reporting date: €2.4m). The deal has been allocated to the "Corporate Services" CGU.

The deal to acquire the Barclays' Italian business unit required Barclays to pay badwill of €240m, generating, in application of the purchase price allocation process, intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years (amount outstanding at 30 June 2018: €16.5m).

The Cairn Capital acquisition (£23m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed and has been valued is at the current exchange rate (€41.9m at the reporting date). Cairn Capital Group has been treated as a single CGU.

The acquisition of the ISPS business unit (€10.4m) generated goodwill of €3.8m and intangible assets with time-limited life for an overall value of €4.3m and an average useful life of fifteen years (€3.9m outstanding at the reporting date). The unit acquired has been allocated to the "Information Services" CGU.

Information on impairment testing

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

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

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

The Group has adopted a policy, the most recent update of which was submitted to the approval of the Board of Directors in July 2016, governing the impairment testing process which incorporates the guidance issued jointly by the Bank of Italy, Consob, IVASS (document no. 4 dated 3 March 2010) and the *Organismo Italiano di Valutazione* (discussion paper no. 1/2012), as well as the recommendations made by Consob in its communication no. 3907 issued on 19 January 2015.

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

The cash flows have been projected over a time horizon of three-four years and reflect the assumptions on which the Group's strategic plan is based, as well as the most recent market scenarios.

To estimate the cost of capital, certain parameters common to all CGUs have been used, namely:

– The risk-free rate, identified as the 12-month average on ten-year BTPs in order to ensure the Italy country risk is factored in;
– The market risk premium, which reflects the average risk premium commonly accepted by valuation practice for Italy country risk, taking into consideration a variety of sources, including research carried out by companies and leading academics, with the contribution of various

university professors in order to estimate the long-term payout ratio and the spread of returns on equities and the spot levels of government securities;

– The growth rate (g), to calculate the terminal value, using the so-called "perpetuity" methodology, established taking into account the inflation rate expected over the long term.

Table 5: Cost of equity parameters common to all CGUs [1]

	30/6/18	30/6/17
Risk-free rate	2.05%	1.82%
Risk premium	6.40%	6.40%
Estimated growth rate	1.50%	1.50%

[1] For the Cairn Capital group the parameters used were as follows: 1.37% (1.08%); 5.50% (unchanged) and 2% (unchanged).

However, all the individual CGUs show a different cost of equity, based on the difference in the systemic risk indicator (Beta) considered over a two-year time horizon based on market peers for each individual activity. The different costs of capital based on the Beta used are shown in the table below.

Table 6: Beta 2y e cost of equity per CGU

CGU	Beta 2Y 2018	Ke 2018	Ke 2017
Consumer credit	0.79	7.09%	7.12%
Credit cards	0.79	7.09%	7.12%
Salary-backed finance	0.79	7.09%	7.12%
Fiduciary services	1.06	8.81%	8.56%
Corporate services to issuers	1.06	8.81%	9.02%
Private banking	1.18	9.59%	
Mid corporate	1.18	9.59%	
Cairn Capital	1.09	7.34%	7.63%

All segments passed the impairment test, as the net present value was higher than the book value. A sensitivity analysis exercise was also performed, to ascertain the results in various scenarios, such as 0.25% increase or decrease in the cost of equity and/or a 0.50% increase or decrease in the growth rate, and again, all results were positive.

* * *

The value of the Mediobanca Private Banking brand has been tested to confirm there are no indicators of impairment, using the royalty relief method which is based on discounting the royalty flows allocated to the Private Banking brand at a discount rate reflecting the risk of the flows themselves and corresponding to a cost of equity estimated at 9.59%. The testing has not shown the need for any adjustments.

SECTION 14

Asset heading 140 and Liability heading 80: Tax assets and liabilities

14.1 Advance tax assets: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	614,153	700,672
Balancing to the Net Equity	20,560	14,687
Total	634,713	715,359

14.2 Deferred tax liabilities: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	284,242	290,368
Balancing to the Net Equity	55,346	79,878
Total	339,588	370,246

14.3 Changes in advance tax during the period

	30/6/18	30/6/17
1. Opening balance	700,672	728,782
2. Increases	51,140	41,108
2.1 Deferred tax assets of the year	50,518	28,417
a) Relating to previous years	39,447	2,589
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	11,071	25,828
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	622	12,691
3. Decreases	137,659	69,218
3.1 Deferred tax assets derecognised during the year	95,353	59,422
a) Reversals of temporary differences	92,789	59,164
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	2,564	258
3.2 Reduction in tax rates	—	173
3.3 Other decreases	42,306	9,623
a) Conversion into tax credit under L. 214/2011	—	99
b) Other	42,306	9,524
4. Final amount	614,153	700,672

*14.3.1 Changes in advance tax during the period (pursuant to Italian Law 214/11)**

	30/6/18	30/6/17
1. Opening balance	609,074	647,526
2. Increases	71	3,415
3. Decreases	60,760	41,867
3.1 Reversals of temporary differences	57,536	40,243
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	3,224	1,624
4. Final amount	548,385	609,074

* Mediobanca has elected to retain its right to take advantage of the possibility of converting DTAs into tax credits provided for by Italian decree law 59/16 on 29 April 2016, as amended by Italian decree law 237/16. The exercise of this option is effective for all companies included in the tax consolidation. Such companies are not required to make the annual 1.5% payment as the tax paid by the consolidating entity exceeds the increase in the DTAs at the reporting date since 30 June 2008.

14.4 Changes in deferred tax during the period

	30/6/18	30/6/17
1. Opening balance	290,368	279,641
2. Increases	8,217	20,704
2.1 Deferred tax liabilities of the year	4,392	18,810
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	4,392	18,810
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3,825	1,894
3. Decreases	14,343	9,977
3.1 Deferred tax liabilities derecognised during the year	12,849	6,637
a) Reversals of temporary differences	9,910	310
b) Due to change in accounting policies	—	—
c) Other	2,939	6,327
3.2 Reductions in tax rates	—	35
3.3 Other decreases	1,494	3,305
4. Final amount	284,242	290,368

14.5 Changes in advance tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	14,687	22,545
2. Increases	16,281	28,039
2.1 Deferred tax assets of the year	16,175	25,091
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	16,175	25,091
2.2 New taxes or increases in tax rates	1	—
2.3 Other increases	105	2,948
3. Decreases	10,408	35,897
3.1 Deferred tax assets derecognised during the year	10,174	34,618
a) Reversals of temporary differences	9,344	31,221
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	830	3,397
3.2 Reduction in tax rates	—	1,261
3.3 Other decreases	234	18
4. Final amount	20,560	14,687

[1] Taxes on cash flow hedges and AFS securities valuations.

14.6 Changes in deferred tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	79,878	85,433
2. Increases	254,221	313,559
2.1 Deferred tax liabilities of the year	254,220	310,367
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	254,220	310,367
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1	3,192
3. Decreases	278,753	319,114
3.1 Deferred tax liabilities derecognised in the year	278,753	317,724
a) Reversals of temporary differences	277,861	316,824
b) Due to change in accounting policies	—	—
c) Other	892	900
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	1,390
4. Final amount	55,346	79,878

[1] Taxes on cash flow hedges and AFS securities valuations.

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	30/6/18	30/6/17
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	26,765	15,370
3. Trade receivables or invoices to be issued	175,290	209,129
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	213,004	205,527
5. Other items	312,575	130,812
- bills for collection	138,305	30,246
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	20,845	23,827
- advance payments on deposit commissions	3,178	3,205
- other items in transit [1]	119,170	40,225
- amounts due from staff	348	369
- sundry other items	28,880	30,286
- improvements on third parties' assets	1,849	2,654
Total	728,329	561,533

[1] This includes items in transit attributable chiefly to the effects relating to the SDD portfolio subject to collection which were credited before the respective value date had accrued and to receivables used in securitizations which have been temporarily suspended prior to reallocation with the deposit bank.

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	30/6/18	30/6/17
1. Deposits from Central Banks	4,384,592	5,898,813
2. Deposits from banks	7,878,867	6,790,782
2.1 Other current accounts and demand deposits	495,301	484,662
2.2 Time deposits	—	13,172
2.3 Loans	7,242,932	6,118,109
2.3.1 Repos	3,821,874	2,797,931
2.3.2 Other	3,421,058	3,320,178
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	140,634	174,839
Total	12,263,459	12,689,595
Fair Value - Level1	—	—
Fair Value - Level2	*12,263,459*	*12,689,595*
Fair Value - Level3	—	—
Total Fair Value	12,263,459	12,689,595

1.4 Due to banks: items subject to specific hedges

	30/6/18	30/6/17
1. Liability items subject to micro-hedging of fair value:	733,462	1,115,469
a) Interest rate risk	733,462	1,115,469
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows;	1,525,000	1,525,000
a) Interest rate risk	1,525,000	1,525,000
b) Currency risk	—	—
c) Other	—	—
Total	2,258,462	2,640,469

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	30/6/18	30/6/17
1. Current accounts and demand deposits	14,573,523	13,976,774
2. Time deposits including saving deposits with maturity	4,966,008	4,591,746
3. Loans	1,646,122	1,660,672
3.1 Repos	806,937	577,708
3.2 Other	839,185	1,082,964
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other liabilities	134,390	136,807
Total	21,320,043	20,365,999
Fair Value - Level1	—	—
Fair Value - Level2	*21,317,138*	*20,383,215*
Fair Value - Level3	—	—
Total Fair Value	21,317,138	20,383,215

2.4 Due to customers: items subject to specific hedges

	30/6/18	30/6/17
1. Liability items subject to micro-hedging of fair value:	—	129,724
a) Interest rate risk	—	129,724
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows:	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	—	129,724

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/ Values	30/6/18				30/6/17			
	Book Value	Fair Value *			Book Value	Fair Value *		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Debt certificates including bonds								
1. Bonds	19,187,164	704,927	18,746,567	—	19,345,948	1,526,064	18,124,091	—
1.1 structured	5,089,072	—	5,212,649	—	6,366,798	—	6,600,518	—
1.2 other	14,098,092	704,927	13,533,918	—	12,979,150	1,526,064	11,523,573	—
2. Other structured securities	1,421,354	—	1,371,635	49,719	762,773	—	731,189	31,583
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,421,354	—	1,371,635	49,719	762,773	—	731,189	31,583
Total	20,608,518	704,927	20,118,202	49,719	20,108,721	1,526,064	18,855,280	31,583

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2018 would show a gain of €260.3m (€216.4m).

Debt securities in issue declined from €19,345,948,000 to €19,187,164,000, on new issuance of €4bn, redemptions and buybacks of €4.1bn (generating losses of €9.9m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €3.2m.

3.2 Breakdown of heading 30 "Debt securities in issue": subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,470,249,000:

Issue	30/6/18		
	ISIN code	Nominal value	Book value
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Not included in calculation of regulatory capital)	XS0270002669	21,739	24,620
MB Subordinato Mar 29	XS1579416741	50,000	50,476
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	665,668
MB OPERA 3.75 2026	IT0005188351	299,960	290,392
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	396,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	507,355
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,242	535,025
Total subordinated securities		2,376,325	2,470,249

3.3 Debt securities in issue: items subject to specific hedges

	30/6/18	30/6/17
1. Securities subject to micro-hedging of fair value:	12,591,476	12,440,986
a) Interest rate risk	12,591,476	12,440,986
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	4,986,064	4,622,065
a) Interest rate risk	4,986,064	4,622,065
b) Currency risk	—	—
c) Other	—	—
Total	17,577,540	17,063,051

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/ Values	30/6/18					30/6/17				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level1	Level2	Level3			Level1	Level2	Level3	
A. Financial liabilities										
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210	1,456,852	1,710,400	182	—	1,710,582
2. Deposits from customers	213,819	246,452	—	—	246,452	445,006	522,452	55	—	522,507
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total A	2,295,648	2,645,662	—	—	2,645,662	1,901,858	2,232,852	237	—	2,233,089
B. Derivative instruments										
1. Financial derivatives	—	561,257	1,936,667	87,131	X	—	497,352	2,679,520	83,015	X
1.1 Trading	X	561,257	1,849,508	83,713 [1]	X	X	497,352	2,362,770	74,114 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	87,159	3,418 [2]	X	X	—	316,750	8,901 [2]	X
2. Credit derivatives	—	—	1,231,687	—	X	—	—	427,607	—	X
2.1 Trading	X	—	1,231,687	—	X	X	—	427,607	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total B	X	561,257	3,168,354	87,131	X	X	497,352	3,107,127	83,015	X
Total (A + B)	X	3,206,919	3,168,354	87,131	X	X	2,730,204	3,107,364	83,015	X

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

[1] Respectively €72,603,000 and €65,407,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€1.9m at 30/6/18 and €7.4m at 30/6/17) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of hedge/ranking

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	233,086	—	9,135,810	—	341,159	—	10,189,130
1) Fair value	—	227,445	—	9,095,810	—	298,764	—	9,259,111
2) Cash flow	—	5,641	—	40,000	—	42,395	—	930,019
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	233,086	—	9,135,810	—	341,159	—	10,189,130

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/ Type of hedging	Fair Value						Cash flow		Non-Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	52,303	—	—	—	—	X	—	X	X
2. Loans and advances	48,430	—	—	X	—	X	—	X	X
3. Held to maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	100,733	—	—	—	—	—	—	—	—
1. Financial liabilities	126,712	—	—	X	—	X	5,641	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	126,712	—	—		—	—	5,641	—	—
1. Expected transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80 – Deferred liabilities

Please see asset section 14.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/18	30/6/17
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	15,404	14,089
3. Working capital payables and invoices pending receipt	308,165	409,300
4. Amounts due to revenue authorities	67,468	63,924
5. Amounts due to staff	194,054	178,861
6. Other items:	175,284	180,086
- bills for collection	25,895	25,583
- coupons and dividends pending collection	2,326	2,289
- available sums payable to third parties	41,927	24,506
- premiums, grants and other items in respect of lending transactions	24,493	31,767
- credit notes to be issued	—	—
- other [1]	80,643	95,941
7. Adjustments upon consolidation	—	—
Total	760,375	846,260

[1] Includes the liability in respect of the potential outlay to acquire the other 49% of Cairn Capital and 20.3% of RAM AI under the terms of the put-and-call agreements entered into.

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	30/6/18	30/6/17
A. Opening balance	29,779	28,975
B. Increases	10,038	15,064
B.1 Provision of the year	8,622	10,658
B.2 Other increases	1,416	4,406
C. Reductions	12,307	14,260
C.1 Severance payments	4,914	2,502
C.2 Other decreases [1]	7,393	11,758
D. Closing balance	27,510	29,779
Total	27,510	29,779

[1] Includes €4,287,000 in transfers to external, defined contribution pension schemes (30/6/17: €6,764,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/18	30/6/17
1. Provision to retirement payments and similar	—	—
2. Other provisions	185,482	225,850
2.1 Staff expenses	12,421	5,611
2.2 Other [1]	173,061	220,239
Total	185,482	225,850

[1] The item "Other provisions: Other" includes €63.8m to cover the restructuring of CheBanca! following the Barclays acquisition and €4.1m to cover the Banca Esperia restructuring.

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

As at 30 June 2018, the heading "Other provisions" totalled €185.5m , and includes €12.4m in staff-related costs (including incentives to leave the company already agreed, €3.8m in respect of the Mediobanca staff reorganization, €6.7m for Compass and €1.9m for MBCredit Solutions), plus €173.1m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca (€94m), CheBanca! (€59m deriving chiefly from the Barclays acquisition), SelmaBipiemme (€9.4m) and Compagnie Monégasque de Banque (€4.6m).

The most significant litigation still pending against the Mediobanca Group consists of the two requests for damages made respectively by:

– Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with thirteen other banks. The liability with which the banks are charged is non-contractual, and consists of alleged participation in the former FMPS directors' contractual liability for damages caused to FMPS with the execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, and the next hearing has been set for 27 September 2018 to discuss whether or not authorization is needed from the Italian ministry for the economy and finance for FMPS to initiate proceedings against its former directors and the other preliminary enquiries, including the preliminary exemption for arbitration at the London Court of International Arbitration (LCIA) in Paris.

– Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-bis of the Italian bankruptcy law which included unbalanced guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. The first hearing has been set for 30 October 2018.

With reference to the disputes outstanding with the Italian revenue authorities as at 2018, it should be noted that two new cases arouse in the course of the year in connection with the alleged failure of CheBanca! to pay registration tax on the deed of purchase for its acquisition of Barclays' Italian operations in 2016, involving higher tax worth a notified amount of €11.1m, as follows:

– The first dispute (involving an amount of €3.9m) arose as a result of notice of payment of the tax, in which the Italian tax authority had recalculated the value of the business unit sold for €1 as €131m. The company successfully challenged the notice at the Milan province tax commission, although notification of its success was received only after the financial year had ended. The terms for the Italian tax authority to submit an appeal are still pending;
– The second dispute (involving an amount of €7.2m) arose as a result of notice of payment of the tax, in which the Italian tax authority stated that the clause providing for the €240m adjustment payable to CheBanca! was a deed with separate capital content versus the actual deed of disposal, and alleging that the company had failed to pay registration tax on the adjustment deed. The company challenged the notice at the Milan province tax commission, and the date for the hearing is still to be set.

Further disputes have also arisen regarding the wrong application of VAT in inter-company accounts between the former Banca Esperia and Mediobanca SGR, involving higher tax worth a notified amount of €79,000. In practice there are a total of three such disputes, all at different stages of ruling process, and involving higher tax worth a notified amount of €178,000;

A total of twenty-one disputes were thus outstanding as at 30 June 2018. In addition to the two cases described above, the others were as follows:

– Nine claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €16.6m, €14.9m of which by way of VAT and €1.7m of direct or minor taxation; as mentioned previously, the cases refer chiefly to property leasing and brands (€11.3m). All nine refer to cases in which the company has been successful at both stages of the ruling process but in respect of which appeals have been submitted by the Italian tax authority and are still pending at the Court of Cassation;
– One claim regarding the failure by the former Banca Esperia to report a money transfer outside Italy as part of the tax monitoring communications, for which fines of €5.9m were handed down. The company was found guilty at both ruling stages and an appeal has been submitted to the Court of Cassation;
– One claim, regarding the failure by Mediobanca to apply withholding tax in granting a medium-/long-term loan to a non-Italian counterparty, involving higher tax worth a notified amount of €375,000. The Bank was successful at the second stage of the ruling process but the appeal submitted by the Italian tax authority is still pending at the Court of Cassation;
– One claim regarding the failure by SelmaBipiemme to pay registration tax on an injunction, involving higher tax worth a notified amount of €97,000;
– One claim regarding the alleged failure to pay IRES tax (as part of the tax consolidation process) on an economic growth subsidy received by CheBanca!, involving higher tax worth a notified amount of €87,000;
– Three claims at varying stages of the ruling process regarding the wrong application of VAT in inter-company accounts between the former Banca Esperia and Duemme SGR (now Mediobanca SGR) involving higher tax worth a notified amount of €178,000;

– Three claims regarding the alleged misuse of VAT credits by real estate funds operated by Duemme SGR (now Mediobanca SGR), later sold, involving higher tax worth a notified amount of around €1m. The company was found guilty at the first ruling stage but has adhered to the settlement of litigation pending provided for under Article 11 of Italian Decree Law 50/97.

Mediobanca believes that the provisions are adequate to cover any charges due in connection with all the cases that have been brought against the Bank itself and the other Group companies (for which no other significant litigation is pending) and any other contingent liabilities, of which, as permitted by IAS37, paragraph 92, no precise indication has been given.

12.2 Provisions for risks and charges: movements during the period

Items	Charges relating to staff *	Other provisions	Total
A. Opening balance	5,611	220,239	225,850
B. Increases	13,065	31,458	44,523
B.1 Provision for the year	8,660	30,304	38,964
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	4,405	1,154	5,569
C. Decreases	6,255	78,637	84,892
C.1 Use during the year [1]	6,255	55,217	61,472
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	23,420	23,420
D. Closing balance	12,421	173,061	185,482

* Includes sums set aside in respect of staff exit incentivizations.

[1] This item includes withdrawals totalling €26.6m to cover restructuring charges at CheBanca! in connection with the Barclays acquisition.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	30/6/18	30/6/17
A. Non-life business:	—	175,853	175,853	165,974
A.1 Provision for unearned premiums	—	165,752	165,752	150,806
A.2 Provision for outstanding claims	—	10,101	10,101	15,168
A.3 Other provisions	—	—	—	—
B. Life business	—	—	—	—
B.1 Mathematical provisions	—	—	—	—
B.2 Provisions for amounts payable	—	—	—	—
B.3 Other insurance provisions	—	—	—	—
C. Insurance provisions when investments risk is borne by the insured party	—	—	—	—
C.1 Provision for policies where the performance is connected to investment funds and market indices	—	—	—	—
C.2 Provision for pension funds	—	—	—	—
D. Total insurance provisions	—	175,853	175,853	165,974

13.2 Technical reserves: movements during the year

	30/6/18	30/6/17
A. Non-life business		
Balance at start of period	165,974	147,861
Combinations involving group companies	—	—
Changes to reserves (+/-)	9,879	18,113
Other additions	—	—
Balance at end of period	175,853	165,974
B. Life business and other reserves		
Balance at start of period	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	175,853	165,974

SECTION 15

Headings 140, 160, 170, 180, 190, 200 and 220: Net equity

15.1 "Capital" and "treasury shares": composition

For the composition of the Group's capital, please see part F of the notes to the accounts.

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

Item/type	Ordinary
A. Shares in issue at the beginning of the period	881,212,658
- entirely unrestricted	881,212,658
- with restrictions	—
A.1 Treasury shares (-)	(15,758,511)
A.2 Shares in issue: balance at the beginning of the period	865,454,147
B. Increases	12,381,460
B.1 New share issuance as a result of:	5,337,782
- rights issues	—
- business combinations	—
- bonds conversion	—
- exercise of warrants	—
- others	—
- bonus issues	5,337,782
- to staff members	5,337,782
- to Board members	—
- others	—
B.2 Treasury share disposals	7,043,678
B.3 Other increases	—
C. Decreases	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other decreases	—
D. Shares in issue: balance at end of period	877,835,607
D.1 Add: treasury shares	8,714,833
D.2 Shares in issue at end of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—

15.3 Share capital: other information

The reduction in treasury shares is due to the use of 7,021,953 ordinary Mediobanca shares delivered by way of partial consideration for the RAM Active Investments acquisition in February 2018. A total of 21,725 treasury shares were also awarded to staff in the course of the financial year under review, in connection with the performance share scheme; as at 30 June 2018 there are no other treasury shares tied to awards of any kind.

15.4 Profit reserves: other information

Item	30/6/18	30/6/17
Legal reserve	88,124	87,102
Statutory reserve	1,284,471	1,288,162
Treasury shares	109,338	197,709
Others	4,008,517	3,483,892
Total	5,490,450	5,056,865

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Heading 210: Net equity attributable to minorities: composition

Company name	30/6/18	30/6/17
1. SelmaBipiemme S.p.A.	86,603	82,722
2. RAM Active Investments	1,290	—
3. Other minors	7	11
Total	87,900	82,733

Other information

1. Guarantees and commitments

Operations	30/6/18	30/6/17
1) Financial guarantees given to	295,211	890,885
a) Banks	17,256	198,636
b) Customers	277,955	692,249
2) Commercial guarantees given to	68,942	32,532
a) Banks	5	392
b) Customers	68,937	32,140
3) Irrevocable commitments to disburse funds	10,619,616	6,948,659
a) Banks	398,799	144,384
i) usage certain	398,709	136,496
ii) usage uncertain	90	7,888
b) Customers	10,220,817	6,804,275
i) usage certain	9,086,995	6,369,612
ii) usage uncertain	1,133,822	434,663
4) Commitments underlying credit derivatives protection sales [1]	19,893,957	11,782,148
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	4,081,688	3,468,325
Total	34,959,414	23,122,549

[1] Includes transactions fully matched by hedge buys (€9,075,742,000 and €4,997,186,000 respectively).

2. Assets pledged as collateral for own liabilities and commitments

Portfolio	30/6/18	30/6/17
1. Financial instruments held for trading	3,089,233	2,465,649
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	1,333,617	2,182,786
4. Financial instruments held to maturity	823,976	1,053,482
5. Loans and receivables with banks	335,086	422,844
6. Loans and receivables with customers	8,992,820	12,867,975
7. Property, plant and equipment	—	—

5. Assets managed and traded on behalf of customers

Type of service	30/6/18	30/6/17
1. Orders execution on behalf of customers	33,181,962	29,743,503
a) purchases	16,781,417	14,901,757
1. settled	16,633,525	14,756,642
2. unsettled	147,892	145,115
b) sales	16,400,545	14,841,746
1. settled	16,252,653	14,696,631
2. unsettled	147,892	145,115
2. Portfolio management	29,967,839	15,668,947
a) Individual	13,010,988	6,010,445
b) Collective	16,956,851	9,658,502
3. Custody and administration of securities	51,095,550	50,162,636
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	8,894,582	9,682,059
1. securities issued by companies included in area of consolidation	194,759	297,405
2. other securities	8,699,823	9,384,654
b) Third-party securities held in deposits (excluding segregating accounts): other	15,604,059	13,947,083
1. securities issued by companies included in area of consolidation	34	151,496
2. other securities	15,604,025	13,795,587
c) securities of third deposited to third	18,026,801	16,453,997
d) property securities deposited to third	8,570,108	10,079,497
4. Other operations	1,934,851	572,029

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

Instrument type	Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet value of financial assets (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	3,135,135	—	3,135,135	2,360,839	355,597	418,699	465,076
2. Repos	5,348,747	—	5,348,747	5,348,747	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,483,882	—	8,483,882	7,709,586	355,597	418,699	X
Total 30/6/17	8,946,241	—	8,946,241	8,144,127	337,038	X	465,076

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

Instrument type	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet value of financial liabilities (c=a-b)	Related amount not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral pledged (e)		
1. Derivatives	3,077,978	49,050	3,028,928	2,360,839	450,886	217,203	378,365
2. Repos	4,628,811	—	4,628,811	4,628,811	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	7,706,789	49,050	7,657,739	6,989,650	450,886	217,203	X
Total 30/6/17	6,387,397	38,687	6,348,710	5,520,449	449,896	X	378,365

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Financial assets hedl for trading - Cash instruments	13,442	1,840	—	15,282	38,899
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	64,338	—	—	64,338	84,451
4. Held to maturity investments	41,844	—	—	41,844	44,656
5. Loans and receivables with banks	—	27,873	1	27,874	25,112
6. Loans and receivables with customers	7,100	1,623,211	—	1,630,311	1,578,093
7. Hedging derivatives	X	X	97,999	97,999	134,371
8. Other assets	X	X	19,154	19,154	10,830
Total	126,724	1,652,924	117,153	1,896,801	1,916,412

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to 12,759,000.

1.2 Interest and similar income: differences arising on hedging transactions

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Positive differentials related to hedging operations	1,533,193	332,915
B. Negative differentials related to hedging operations	(1,435,194)	(198,544)
C. Net differentials (A-B)	97,999	134,371

1.3 Interest and similar income: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest income from currency assets	170,929	215,149
Interest income from leasing	85,985	61,144
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	256,914	276,293

1.4 Interest expense and similar charges: breakdown

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Deposits from central banks	(714)	X	—	(714)	(1,773)
2. Deposits from banks	(21,160)	X	—	(21,160)	(19,554)
3. Deposits from customers	(60,318)	X	—	(60,318)	(96,525)
4. Debt securities in issue	X	(444,459)	—	(444,459)	(513,917)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(4,109)	(4,109)	(7,115)
8. Hedging derivatives	X	X	—	—	—
Total	(82,192)	(444,459)	(4,109)	(530,760)	(638,884)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €4.4m.

1.6 Interest expense and similar charges: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest expense on liabilities held in foreign currency	(71,992)	(71,369)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(71,992)	(71,369)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Total	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees given	2,076	306
b) credit derivatives	—	—
c) management, brokerage and consultancy incomes:	353,706	294,997
1. securities trading	12,993	13,435
2. currency trading	—	90
3. portfolio management	100,565	43,306
3.1 individual	32,377	20,189
3.2 collective	68,188	23,117
4. custody and administration of securities	9,879	13,440
5. custodian bank	7,458	7,458
6. placement of securities	102,897	113,652
7. reception and transmission of orders	15,047	13,598
8. advisory services	8,976	8,229
8.1 related to investments	8,976	8,229
8.2 related to financial structure	—	—
9. distribution of third parties services	95,891	81,789
9.1 portfolio management	32,188	24,126
9.1.1 individual	31,887	24,126
9.1.2 collective	301	—
9.2 insurance products	59,761	53,287
9.3 other products	3,942	4,376
d) collection and payment services	21,238	20,315
e) securitization servicing	61	—
f) factoring services	5,786	4,115
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	5,042	5,113
j) other services	202,740	157,670
Total	590,649	482,516

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €65.5m.

Figures for the year ending in June 2018 include also €19.9m deriving from the consolidation of RAM AI (only for the last four months), linked to asset management of funds on a collective basis.

2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees received	—	(13)
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(24,845)	(14,074)
1. trading in financial instruments	(8,544)	(7,303)
2. currency trading	—	—
3. portfolio management	(9,839)	(2,197)
3.1 own portfolio	(345)	(94)
3.2 third parties portfolio	(9,494)	(2,103)
4. custody and administration securities	(3,577)	(3,111)
5. financial instruments placement	(2,885)	(1,463)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(13,027)	(10,846)
e) other services	(96,443)	(79,656)
Total	(134,315)	(104,589)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €10m.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	12 mths ended 30/6/18		12 mths ended 30/6/17	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	61,455	729	63,602	777
b) Available for sale financial assets	3,029	19,110	14,086	2,916
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	64,484	19,839	77,688	3,693

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	122,466	245,073	(269,943)	(277,837)	(180,241)
1.1 Debt securities	85,791	44,259	(91,056)	(37,673)	1,321
1.2 Equity	33,626	197,586	(149,419)	(212,377)	(130,584)
1.3 Units in investment funds	3,039	1,749	(29,159)	(27,742)	(52,113)
1.4 Loans	10	1,479	(309)	(45)	1,135
1.5 Other	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	(13,393)
4. Derivatives	2,442,420	1,734,552	(2,351,672)	(1,642,277)	232,295
4.1 Financial derivatives	2,152,903	1,248,678	(1,383,426)	(1,179,506)	887,921
- on debt securities and interest rates [1]	1,460,648	249,921	(803,251)	(227,678)	679,640
- on equity securities and shares' indexes	692,255	960,111	(578,628)	(951,828)	121,910
- on currencies and gold	X	X	X	X	49,273
- other	—	38,646	(1,547)	—	37,098
4.2 Credit derivatives	289,517	485,874	(968,246)	(462,771)	(655,626)
Total	2,564,886	1,979,625	(2,621,615)	(1,920,114)	38,662

[1] Of which minus €1,811,000 in positive margins on interest rate derivatives (30/6/17: €1,927,000).

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Incomes from:		
A.1 Fair value hedging instruments	289,223	171,976
A.2 Hedged asset items (in fair value hedge relationships)	51,784	22,995
A.3 Hedged liability items (in fair value hedge relationship)	269,236	473,221
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	5
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	610,243	668,197
B. Losses on:		
B.1 Fair value hedging instruments	(479,797)	(480,864)
B.2 Hedged asset items (in fair value hedge relationships)	(63,163)	(62,531)
B.3 Hedged liability items (in fair value hedge relationship)	(64,425)	(109,019)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(1)	(1)
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(607,386)	(652,415)
C. Net profit from hedging activities (A-B)	2,857	15,782

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: breakdown

Items/Income	12 mths ended 30/6/18			12 mths ended 2016/17		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	5,502	(7,350)	(1,848)	—	(469)	(469)
2. Loans and receivables with customers	11,502	(19,017)	(7,515)	1,681	(12,344)	(10,663)
3. Financial assets available for sale	133,371	(10,305)	123,066	203,826	(20,488)	183,338
3.1 Debt securities	34,836	(10,189)	24,647	27,981	(20,452)	7,529
3.2 Equity instruments	96,205	—	96,205	175,083	(21)	175,062
3.3 Units in investment funds	2,330	(116)	2,214	762	(15)	747
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)	3,522	(1,432)	2,090
Total assets	150,837	(38,053)	112,784	209,029	(34,733)	174,296
Financial liabilities						
1. Deposits with banks	2,183	—	2,183	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(9,910)	(9,910)	—	(17,886)	(17,886)
Total liabilities	2,183	(9,910)	(7,727)	—	(17,886)	(17,886)

Losses on debt securities (available-for-sale and held-to-maturity securities) relate almost entirely to the exchange-rate valuation of foreign-currency bonds (€11.6m, €10.2m of which for AFS securities).

SECTION 8

Heading 130: Adjustments for impairment

8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(12)	—	—	—	771	759	(477)
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(27,810)	—	X	—	41,808 [1]	X	X	13,998	2,383
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(23,657)	(281,000)	(226,697)	3,914	125,326	—	177,462	(224,652)	(286,546)
- Debt receivables	—	—	(2)	—	—	—	666	664	(1,183)
C. Total	(51,467)	(281,000)	(226,711)	3,914	167,134	—	178,899	(209,231)	(285,823)

[1] Writebacks to non-performing items acquired include amounts collected in excess of the individual positions' book items.

Legend
A = interest
B = other amounts recovered.

8.2 Net value adjustments for impairment to AFS securities: breakdown

Transactions/Income	Adjustments		Reversals of impairment losses		12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Specific			
	Write - offs	Other	A	B		
A. Debt securities [1]	—	(713)	—	—	(713)	—
B. Equity instruments [2]	—	(2,165)	X	X	(2,165)	(3,026)
C. Units in investment funds	—	(1,780)	X	—	(1,780)	(53)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(4,658)	—	—	(4,658)	(3,079)

[1] It relates to the write-off of ABS securities, underwritten in respect of the operation involving Cassa di Risparmio di Cesena.
[2] Related to the operation involving Cassa di Risparmio di Cesena.

Legend
A = interest
B = other amounts recovered

8.3 Net value adjustments for impairment to financial assets held to maturity: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Debt securities	—	—	—	—	—	—	3,264	3,264	(2,864)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	—	—	—	—	3,264	3,264	(2,864)

Legend

A = interest

B = other amounts recovered

8.4 Net value adjustments for impairment to other financial transactions: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees given	—	(73)	(3)	—	—	—	259	183	(215)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(336)	(6,076)	—	1,796	—	3,174	(1,442)	3,489
D. Other transactions	(720)	(286)	—	—	756	—	—	(250)	(5,181)
E. Total	(720)	(695)	(6,079)	—	2,552	—	3,433	(1,509)	(1,907)

Legend

A = interest

B = other amounts recovered.

SECTION 9

Heading 150: Net premium

9.1 Net premium income: breakdown

Premium for insurance	Direct business	Indirect business	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums written (+)	—	72,812	72,812	69,709
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(14,945)	(14,945)	(17,385)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	57,867	57,867	52,324
C. Total net premiums	—	57,867	57,867	52,324

SECTION 10

Heading 160: Other net income (expense) from insurance operations

10.1 Other net income (expense) from insurance operations: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year [1]	(3,028)	(7,753)
3. Other income and expense (net) from insurance business	(5,961)	(6,674)
Total	(8,989)	(14,427)

[1] The item "Claims paid pertaining to the year" includes write-backs of €6.4m, accounted during the first half of the fiscal year and related to the evaluation reserve of risks on claims estimated but not yet incurred.

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

Changes for claims	12 mths ended 30/6/18	12 mths ended 30/6/17
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(8,094)	(7,026)
C.1 Gross annual amount	(8,094)	(7,026)
C.2 Amount attributable to reinsurers	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	5,066	(727)
E.1 Gross annual amount	5,066	(727)
E.2 Amount attributable to reinsurers	—	—
Total non-life business claims	(3,028)	(7,753)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Employees	(538,753)	(512,385)
a) wages and salaries	(390,024)	(360,464)
b) social security contributions	(86,670)	(82,350)
c) Severance pay (only for Italian legal entities)	(1,901)	(1,892)
d) social security costs	—	—
e) allocation to employees severance pay provision	(11,368)	(10,438)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(15,517)	(14,257)
- defined contribution	(15,517)	(14,257)
- defined benefits	—	—
h) expenses resulting from share-based payments	(10,980)	(12,081)
i) other employees' benefits	(22,293)	(30,903)
2) Other staff	(5,192)	(4,773)
3) Directors and Statutory Auditors	(8,047)	(8,282)
4) Early retirement costs	(5,832)	(6,507)
Total	(557,824)	(531,947)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €37.4m.

11.2 Average number of staff by category

	12 mths ended 30/6/18	12 mths ended 30/6/17
Employees:		
a) Senior executives	395	330
b) Executives	1,818	1,608
c) Other employees	2,482	2,433
Other staff	231	205
Total	4,925	4,576

11.5 Other administrative expenses: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(65,384)	(91,525)
– loan recovery activity	(62,695)	(52,623)
– marketing and communications	(47,683)	(51,390)
– property	(52,618)	(54,616)
– EDP	(107,616)	(79,926)
– info-provider	(37,627)	(34,633)
– bank charges, collection and payment fees	(19,747)	(17,455)
– operating expenses	(65,647)	(79,389)
– other staff expenses	(24,422)	(21,977)
– other costs [1]	(61,366)	(131,500)
– indirect and other taxes	(69,571)	(71,023)
Total other administrative expenses	(614,376)	(686,057)

[1] Includes €46,300,000 (30/6/17: €88,000,000) transfer to various resolution funds.

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €20.8m.

SECTION 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net transfers to provisions for risks and charges - legal expenses	(1,111)	(300)
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments [1]	(25,566)	(16,087)
Total transfers to provisions for risks and charges	(26,677)	(16,387)

[1] Includes the effect of discounting such items.

SECTION 13

Heading 200: Net adjustments to tangible assets

13.1 Net adjustments to tangible assets: breakdown

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, equipment and investment properties				
A.1 Owned	(15,952)	—	—	(15,952)
- For operational use	(13,941)	—	—	(13,941)
- For investment	(2,011)	—	—	(2,011)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(15,952)	—	—	(15,952)

SECTION 14

Heading 210: Net adjustments to intangible assets

14.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(27,928)	—	—	(27,928)
- Software	(4,247)	—	—	(4,247)
- Other	(23,681)	—	—	(23,681)
A.2 Acquired through finance lease	—	—	—	—
Total	(27,928)	—	—	(27,928)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expense: breakdown

Income-based components/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Leasing activity	(11,490)	(14,861)
b) Sundry costs and expenses [1]	(9,823)	(149,324)
Total	(21,313)	(164,185)

[1] For the ending on 30 June 2017, the item includes €141,690,000 in relation to the purchase price allocation process for the Barclays business unit.

15.2 Other operating income: breakdown

Income-based components/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Amounts recovered from customers	79,674	60,883
b) Leasing activity	10,296	11,363
c) Other income [1]	99,162	335,242
Total	189,132	407,488

[1] For the ending on 30 June 2017, the item includes €240,000,000 in badwill collected as part of the Barclays' acquisition.

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Joint venture		
A. Incomes	—	238
1. Revaluation	—	238
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	238
2) Companies subject to significant influence		
A. Incomes	280,291	263,636
1. Revaluation	280,291	263,636
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	(422)
1. Writedowns	—	—
2. Impairment losses	—	(422)
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	280,291	263,214
Total	280,291	263,452

SECTION 19

Heading 270: Net gains (losses) upon disposal of investments

19.1 Net gains (losses) upon disposal of investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	475	(1,254)
- Gains on disposal	487	1
- Losses on disposal	(12)	(1,255)
Net result	475	(1,254)

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: breakdown

Income components/Sectors	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Current tax expense (-)	(150,497)	(132,899)
2. Changes of current tax expense of previous years (+/-) [1]	2,782	765
3. Reduction in current tax expense for the period (+)	—	—
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	—	—
4. Changes of deferred tax assets (+-)	(86,902)	(28,488)
5. Changes of deferred tax liabilities (+/-)	6,497	(11,116)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(228,120)	(171,738)

[1] The item "Changes of current tax expense of previous years" mainly refers to CheBanca!, whose variation derives from: the different tax treatment for items arising from the PPA process (following an explanation provided by the Italian revenue authority); elimination of the one-off increase; and the tax wedge being defined correctly.

20.2 Reconciliation between theoretical and effective tax burden

Income/Value	**12 mths ended 30/6/18**	
	Amounts %	**Absolute value**
Total profit or loss before tax from current operations	100.00%	1,095,846
Theoretical tax rate	27.50%	301,358
Dividends (-)	-3.97%	(43,498)
Gains on disposals of equity investments (PEX) (-)	-2.14%	(23,502)
Gains on equity-accounted investments (-)	-6.94%	(76,033)
Changes in deferred tax for previous years (-)	-0.09%	(1,026)
Other taxes (non-Italian companies) (+/-)	-0.01%	(64)
Non-taxable income 10% IRAP (-)	-0.05%	(501)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.02%	(233)
Non-deductible interest expense 4% (+)	—	—
Benefit from tax consolidation (-)	0.00%	(1)
Impairment (+/–)	0.01%	104
Extraordinary items (IRES surtax)	-0.07%	(797)
Other differences (+/-)	2.98%	32,693
TOTAL IRES	17.20%	188,499
IRAP	3.62%	39,621
TOTAL HEADING [1]	20.82%	228,120

[1] Compared with a tax rate of 18.63% last year.

SECTION 22

Heading 330: Net profit (loss) attributable to minorities

22.1 Breakdown of Heading 330, "Net profit (loss) for the year attributable to minorities"

Company name	**12 mths ended 30/6/18**	**12 mths ended 30/6/17**
1. SelmaBipiemme S.p.A.	3,237	(7,935)
2. RAM Active Investments	579	—
3. Others	(10)	(16)
Total	3,806	(7,951)

SECTION 24

Earnings per share

24.1Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net profit	863,920	750,200
Avg. no. of shares in issue	859,633,153	854,445,929
Avg. no. if potentially diluted shares	5,738,709	9,508,213
Avg. no. of diluted shares	865,371,862	863,954,142
Earnings per share	1.0	0.88
Earnings per share, diluted	1.0	0.87

Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect
10.	**Net profit (loss)**	**X**	**X**	**867,726**
	Other income items not passing through P&L			
20.	Property, plant and equipment	—	—	—
30.	Intangible assets	—	—	—
40.	Defined benefits plans	(457)	106	(351)
50.	Non-current assets classified as held for sale	—	—	—
60.	Valuation reserves from equity-accounted investments:	(734)	—	(734)
	Other income items passing through P&L			
70.	**Hedges of non-Italian investments:**	**—**	**—**	**—**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
80.	**Exchange differences:**	**(2,752)**	**—**	**(2,752)**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	(2,752)	—	(2,752)
90.	**Cash flow hedges:**	**31,302**	**(2,048)**	**29,254**
	a) changes in fair value:	31,302	(2,048)	29,254
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
100.	**AFS securities:**	**(234,876)**	**37,060**	**(197,816)**
	a) changes in fair value:	(74,250)	17,268	(56,982)
	b) reclassifications through profit or loss account	(160,626)	19,792	(140,834)
	- due to impairment	—	—	—
	- gain/losses on disposals	(160,626)	19,792	(140,834)
	c) other variations	—	—	—
110.	**Non-current assets classified as held for sale:**	**—**	**—**	**—**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
120.	**Valuation reserves from equity-accounted investments:**	**65,907**	**—**	**65,907**
130.	**Total other comprehensive income**	**(141,610)**	**35,118**	**(106,492)**
140.	**Comprehensive income after tax (10 + 130)**	**X**	**X**	**761,234**
150.	Consolidated comprehensive income attributable to minorities	X	X	4,446
160.	**Consolidated comprehensive income attributable to parent company**	**X**	**X**	**756,788**

Part E - Information on risks and related hedging policies

SECTION 1

Banking Group Risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Description of risk governance organization

The Mediobanca Group has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guaranteeing that all forms of operations are consistent with their own propensity to risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction.

The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems.

The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; and the Private Investments Committee, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF, monitoring risks and ascertaining that the various limits established for the various business lines are complied with.

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca (the Group Risk Management unit), which also performs specific activities for the Mediobanca S.p.A. scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's direction, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in strategic planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and is responsible for carrying out second-level controls; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator; iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; v) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and itself is responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Group's Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

Establishment of risk appetite and process for managing relevant risks

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits.

Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

Credit risk

With reference to the authorization process to use AIRB models to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books.

An integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013), the Group has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme").

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks (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, CheBanca! for mortgage lending, and MBFacta for instalment factoring). The validation process for the AIRB models to be adopted for mortgage lending by CheBanca! is currently in progress.

In accordance with Bank of Italy circular 272/08, seventh update, Mediobanca has adopted the new definitions of non-performing credit exposures, now subdivided into three separate categories: non-performing, probable default and past due, plus the category of exposures subject to various kinds of tolerance measures, known as "forborne" exposures, applied to any asset (i.e. performing or non-performing).

In particular, forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties").

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of the accumulation, actual or potential (in the latter case if the concessions are not granted) of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Corporate lending (Mediobanca)

The Group'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. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower's credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval to the Lending & Underwriting Committee or to the Executive Committee, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

The Credit Risk Management unit carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

Any deterioration in the risk profile of either the loan or the borrower's rating are brought swiftly to the attention of the management and the aforementioned committees.

In terms of monitoring the performance of individual credit exposures, Mediobanca adopts an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (green, amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watchlist also includes all forborne positions, which are therefore subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Leasing

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.

Applications for smaller amounts are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty's legal status (type of company).

The activities of analysis, disbursement, monitoring and credit risk control are significantly supported by the company's information system; and the assets being leased are also subject to a technical assessment.

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

Provisions for non-performing accounts are tested analytically to establish the relative estimated loss against the value of the security provided taken from the results of valuations updated regularly and revised downwards on a prudential basis, and/or any other form of real guarantees issued. Other performing accounts are measured individually on a collective basis according to internal PD ratings and LGD parameters distinguished by product type (vehicle leasing, core goods – including yachts – and property). Accounts which are classified as forborne (performing and non-performing) and entered in the watchlist are subject to regular monitoring by the relevant company units.

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. Under the system of powers for approval assigned by the company's Board of Directors, for increasing combinations of amount and expected loss, approval is required from by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards of Directors.

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

Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. The PD class is assigned on the basis of the acquisition data and subsequent repayment data (including forbearance measures, if any), and the model is fine-tuned based on the default rates observed in each rating class in the last three years. The LGD parameters are based on data for amounts recovered and written off in the last five years. To calculate the provisions for the performing portfolio, losses defined as "incurred but not reported" are quantified by using loss confirmation period of twelve months which is increased to two years for forborne accounts and positions in arrears.

Factoring (MBFACTA)

Factoring includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by borrower whose account has been sold, who in virtually all cases is a retail customer).

For traditional factoring, the internal units appraise the solvency of the sellers and the original borrowers via individual analysis using methodologies similar to those adopted for corporate lending, whereas for non-recourse factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, changes and margins.

Provisioning for instalment-based factoring is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last fifteen months, beyond which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

NPL business (MBCredit Solutions)

MBCredit Solutions operates on the NPLs market, acquiring non-performing loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies. The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

The purchase price for the non-performing loans is arrived at by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections in terms of the amounts recovered, expenses and margins anticipated. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value due to the future cash flows being overestimated, the flows are recalculated and adjustments charged based on the difference between the scheduled value at the valuation date (amortized cost) and the discounted value of the cash flows expected, which are calculated by applying the original effective interest rate. The estimated cash flows take account of the expected collection times, the assumed realizable value of any guarantees, and the costs which it is considered will have to be incurred in order to recover the credit exposure.

Private banking (Mediobanca and CMB)

Private banking operations include granting loans as a complementary activity in serving high net worth and institutional clients, with the aim of providing them with wealth management and asset management services. Exposure to credit risk versus clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally guaranteed, i.e. backed by endorsements or real guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the size of the loan, guarantees and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing is made on an individual basis, and takes into account the value of the real guarantees provided. Any provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.

Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert. A new valuation is generally requested for properties established as security for positions which have become non-performing.

Accounts, both regular and irregular, are monitored through a reporting system which allows system operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter risk positions, to ensure that the necessary corrective action can be taken versus the credit policies.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes in solvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyer. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) or cases with persistent irregularities or interest suspended at the legal rate are designated as probable default accounts, and generally become non-performing once the ineffectiveness of the recovery actions has been certified.

Exposures for which concessions have been granted are defined as forborne exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which the Bank grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly.

Provisioning is determined analytically for non-performing items and collectively for probable default, other overdue and performing accounts. For the analytical provisions for the non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. For the performing accounts in the Italian loan book, the Bank uses risk parameters (PD and LGD), which are estimated via the internal rating model, to determine the collective risk provisions.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Impaired and performing accounts: amounts, value adjustments, trends, segmentation by performance and geography

A.1.1 Credit exposures by portfolio and credit quality (book value)

Asset portfolio/quality	Bad loans *	Unlikely to pay	Overdue exposures (NPLs)	Overdue exposures (performing) [1]	Other performing exposures	Total
1. AFS securities	—	—	—	—	4,770,807	4,770,807
2. Financial assets held to maturity	—	—	—	—	2,595,747	2,595,747
3. Due from banks	—	—	—	28	7,488,601	7,488,629
4. Due from customers	423,290	644,559	62,139	351,375	39,484,168	40,965,531
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/18	423,290	644,559	62,139	351,403	54,339,323	55,820,714
Total 30/6/17	291,596	727,685	56,033	465,898	52,978,439	54,519,651

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €21.5m, of which €117.1m is attributable to CheBanca! mortgage loans (0.29% of the performing loans in this segment), €83.5m to consumer credit (0.21%), and €43.9m to leasing (0.11%). The item also includes net exposures being renegotiated under the terms of collective agreements in Consumer Banking (€19.6m) and in mortgage loans granted by CheBanca! (€21.5m).

* Includes the NPLs held by MBCredit Solutions (see p. 218 below).

*A.1.2 Credit exposures by portfolio/credit quality (gross/net values)**

Asset portfolio/quality	Non-performing loans *			Performing loans			Total net exposure
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. AFS securities	—	—	—	4,770,807	—	4,770,807	4,770,807
2. Financial assets held to maturity	—	—	—	2,602,239	(6,492)	2,595,747	2,595,747
3. Due from banks	—	—	—	7,490,297	(1,668)	7,488,629	7,488,629
4. Due from customers	2,231,047	(1,101,059)	1,129,988	40,253,437	(417,893)	39,835,543	40,965,531
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/18	2,231,047	(1,101,059)	1,129,988	55,116,780	(426,053)	54,690,726	55,820,714
Total 30/6/17	2,207,014	(1,131,700)	1,075,314	53,866,758	(422,421)	53,444,337	54,519,651

* Includes the NPLs held by MBCredit Solutions (see p. 218 below).

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	7,881	6,387,209
2. Hedge derivatives	—	—	225,814
Total 30/6/18	—	7,881	6,613,023
Total 30/6/17	—	9,268	6,291,890

Information on sovereign debt exposures

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

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(129,249)	(129,249)
Italy	—	—	—	—	X	X	165,202	165,202
Spain	—	—	—	—	X	X	219,896	219,896
Germany	—	—	—	—	X	X	(75,564)	(75,564)
France	—	—	—	—	X	X	(223,950)	(223,950)
Others	—	—	—	—	X	X	(214,833)	(214,833)
2. AFS securities	—	—	—	—	3,543,504	—	3,543,504	3,543,504
Italy	—	—	—	—	1,612,855	—	1,612,855	1,612,855
Germany	—	—	—	—	1,081,683	—	1,081,683	1,081,683
United States	—	—	—	—	468,407	—	468,407	468,407
France	—	—	—	—	218,626	—	218,626	218,626
Spain	—	—	—	—	161,933	—	161,933	161,933
3. Financial assets held to maturity	—	—	—	—	1,871,380	—	1,871,380	1,871,380
Italy	—	—	—	—	1,132,125	—	1,132,125	1,132,125
France	—	—	—	—	353,013	—	353,013	353,013
Spain	—	—	—	—	202,626	—	202,626	202,626
Germany	—	—	—	—	151,006	—	151,006	151,006
Others	—	—	—	—	32,610	—	32,610	32,610
Total 30/6/18	—	—	—	—	5,414,884	—	5,285,635	5,285,635

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €6.7m.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	157,933	165,202	2.64	2,696,552	2,744,980	2,735,130	2.69
Germany	(74,500)	(75,564)	2.21	1,175,000	1,232,689	1,234,185	4.01
Spain *	203,220	219,896	25.05	360,000	364,559	367,056	3.51
United States	—	—	—	467,490	468,407	468,407	1.94
France	(199,440)	(223,950)	2.71	565,400	571,639	574,882	2.75
Others	(212,827)	(214,833)	—	39,467	32,610	41,966	—
Total 30/6/18	(125,614)	(129,249)		5,303,909	5,414,884	5,421,626	

* The figure does not include forward sales with a notional amount of €220m.

[1] Does not include sales of €518m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €4m; or sales of €136.8m on the *BPT* future (Italy) with a negative fair value of €3.0m. Net hedge buys of €637m have also not been included (€608m of which on France country risk and €28m on Italy country risk).

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.5m.

A.1.3 Banking Group - Cash and off-balance-sheet exposures to banks: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans *	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	28	X	—	28
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	8,507,849	X	(1,842)	8,506,007
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	8,507,877	—	(1,842)	8,506,035
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	45,261,808	X	—	45,261,808
Total B	—	—	—	—	45,261,808	—	—	45,261,808
Total (A+B)	—	—	—	—	53,769,685	—	(1,842)	53,767,843

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

A.1.6 Banking Group - Cash and off-balance-sheet exposures to customers: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans *	38,291	499	10,357	763,191	X	(389,048)	X	423,290
- of which: forborne exposures	*10,429*	*220*	*2,873*	*82,122*	*X*	*(79,264)*	*X*	*16,380*
b) Unlikely to pay	813,376	59,762	184,707	194,718	X	(608,004)	X	644,559
- of which: forborne exposures	*759,467*	*31,725*	*64,500*	*114,380*	*X*	*(444,436)*	*X*	*525,636*
c) Overdue exposures (NPLs)	29,624	105,550	13,933	17,039	X	(104,007)	X	62,139
- of which: forborne exposures	*7,210*	*28,810*	*104*	*105*	*X*	*(27,409)*	*X*	*8,820*
d) Overdue exposures (performing)	X	X	X	X	429,991	X	(78,616)	351,375
- of which: forborne exposures	*X*	*X*	*X*	*X*	*65,709*	*X*	*(22,173)*	*43,536*
e) Other exposures (performing)	X	X	X	X	49,010,708	X	(345,595)	48,665,113
- of which: forborne exposures	*X*	*X*	*X*	*X*	*704,418*	*X*	*(44,618)*	*659,800*
Total A	881,291	165,811	208,997	974,948	49,440,699	(1,101,059)	(424,211)	50,146,476
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	12,266	—	—	—	X	(2,402)	X	9,864
b) Performing	X	X	X	X	31,788,473	X	(13,002)	31,775,471
Total B	12,266	—	—	—	31,788,473	(2,402)	(13,002)	31,785,335
Total (A+B)	893,557	165,811	208,997	974,948	81,229,172	(1,103,461)	(437,213)	81,931,811

* Includes the NPLs held by MBCredit Solutions (see below).

The non-performing items include €287.9m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans with a nominal value of €4.3bn. Of these items, €11.1m (with a nominal book value of €609.5m) involve assets acquired from other Group companies, mostly those involved in consumer credit activities.

A.1.7 Banking Group - Cash exposures to customers: trends in gross impaired positions

Descriptions/categories	Bad loans *	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at beginning of the period	661,673	1,394,037	151,304
- of which: exposures sold but not derecognized	*23,640*	*93,584*	*48,959*
B. Additions	369,566	564,325	482,873
B.1 transferred from performing exposures	2,109	152,593	417,161
B.2 transferred from other categories of non-performing exposure	164,138	335,644	49,119
B.3 other additions	203,319	76,088	16,593
C. Reductions	218,901	705,799	468,031
C.1 transferred to performing exposures	3,949	100,207	52,086
C.2 writeoffs	120,067	138,945	4,025
C.3 collections	71,774	172,061	59,090
C.4 amounts realized on disposals	7,084	40,788	63
C.5 losses incurred on disposals	688	16,690	1,257
C.6 transferred to other categories of non-performing exposure	2,530	198,426	347,945
C.7 other reductions	12,809	38,682	3,565
D. Gross exposure at end of period	812,338	1,252,563	166,146
- of which: exposures sold but not derecognized	*48,122*	*148,994*	*62,744*

* Includes the NPLs held by MBCredit Solutions (see p. 218 below).

The heading "Other additions" primarily includes the portfolios of assets acquired by MBCredit Solutions.

A.1.7bis Banking Group - On-balance sheet credit exposures with customers: gross changes by credit quality in forborne exposures

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at beginning of the period	1,194,263	707,498
- of which: exposures sold but not derecognized	*36,646*	*84,315*
B. Additions	318,201	497,511
B.1 transferred from performing exposures for which no concessions have been made	17,737	382,954
B.2 transferred from performing exposures for which concessions have been made	111,302	X
B.3 transferred from non-performing exposures for which concessions have been made	X	57,189
B.4 other additions	189,162	57,368
C. Reductions	410,519	434,882
C.1 transferred to performing exposures for which no concessions have been made	X	170,406
C.2 transferred to performing exposures for which concessions have been made	57,189	X
C.3 transferred to non-performing exposures for which concessions have been made	X	111,302
C.4 writeoffs	88,840	173
C.5 collections	135,639	142,475
C.6 amounts realized on disposals	14,683	—
C.7 losses incurred on disposals	4,481	67
C.8 other reductions	109,687	10,459
D. Gross exposure at end of period	1,101,945	770,127
- of which: exposures sold but not derecognized	*78,620*	*112,951*

A.1.8 Banking Group - Cash exposures to non-performing customers: trends in collective value adjustments

Descriptions/categories	Bad loans *		Unlikely to pay		Overdue exposures (NPLs)	
	Total	**Of which: forborne**	**Total**	**Of which: forborne**	**Total**	**Of which: forborne**
A. Overall adjustments at start of period	370,076	69,124	666,352	500,089	95,272	26,695
- of which: exposures sold but not derecognized	*22,447*	*2,774*	*65,996*	*15,672*	*37,359*	*8,240*
B. Additions	177,544	42,905	297,219	118,704	171,433	65,856
B.1 value adjustments	85,392	9,683	150,426	49,221	77,941	14,977
B.2 losses incurred on disposals	689	61	15,271	2,586	1,257	415
B.3 transferred from other categories of non-performing exposure	70,444	23,644	86,578	29,580	20,929	5,748
B.4 other additions	21,019	9,517	44,944	37,317	71,306	44,716
C. Reductions	158,572	32,765	355,567	174,357	162,698	65,142
C.1 amounts reversed following changes in valuation	9,076	3,540	38,228	19,710	6,087	1,560
C.2 amounts reversed following collections	13,493	3,081	55,917	42,945	2,611	1,516
C.3 gains realized on disposals	3,940	1,300	2,180	455	17	—
C.4 writeoffs	120,067	20,671	138,945	62,502	4,025	1,988
C.5 transferred to other categories of non-performing exposure	993	557	81,454	31,995	95,504	30,019
C.6 other reductions	11,003	3,616	38,843	16,750	54,454	30,059
D. Overall adjustments at end of period	389,048	79,264	608,004	444,436	104,007	27,409
- of which: exposures sold but not derecognized	*45,559*	*9,150*	*101,752*	*32,326*	*46,316*	*13,385*

* Includes the NPLs held by MBCredit Solutions (see p. 218 below).

As at 30 June 2018 non-performing loans net of forborne exposures amounted to €551.1m, with a coverage ratio of 50%, while performing loans qualifying as forborne amounted to €703m with a coverage ratio of 9%. Overall the non-performing forborne positions represent 1.34% of the total customer loan book, and the performing forborne exposures 1.72%.

A.2 Classification of credit exposures by internal and external ratings

A.2.1 Banking Group - Cash and off-balance-sheet exposures by external rating category

Exposures	External rating classes						Without rating	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. Cash credit exposures	3,275,406	4,223,585	9,332,444	1,869,244	637,566	6,090	39,308,176	58,652,511
B. Derivative contracts	1,603,343	34,503,354	8,946,559	822,073	2,251,715	168,537	16,789,086	65,084,667
B.1 Financial derivative contracts	1,603,343	25,145,046	3,618,875	822,073	2,251,715	168,537	14,841,882	48,451,471
B.2 Credit derivatives [1]	—	9,358,308	5,327,684	—	—	—	1,947,204	16,633,196
C. Guarantees given	—	—	27,594	30,954	2,856	—	737,381	798,785
D. Other commitments to disburse funds	859,688	94,983	4,203,651	840,327	99,574	—	4,078,494	10,176,717
E. Others	—	—	—	—	—	—	986,974	986,974
Total	5,738,437	38,821,922	22,510,248	3,562,598	2,991,711	174,627	61,900,111	135,699,654

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

A.2.2 Banking Group - Cash and off-balance-sheet exposures by internal rating categories

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	3,120,766	6,095,811	17,916,877	15,457,894	6,550,851	721,796	1,129,988	7,658,528	58,652,511
B. Derivative contracts	3,203,270	33,000,392	14,926,848	3,859,501	3,628,135	—	—	6,466,521	65,084,667
B.1 Financial derivative contracts	2,858,476	24,012,878	9,507,264	3,859,501	3,628,135	—	—	4,585,217	48,451,471
B.2 Credit derivatives	344,794	8,987,514	5,419,584	—	—	—	—	1,881,304	16,633,196
C. Guarantees given	—	—	100,548	581,972	15,262	—	203	100,800	798,785
D. Other commitments to disburse funds	935,835	162,698	6,014,855	2,206,542	337,036	2,459	9,180	508,112	10,176,717
E. Others	2,153	115,028	323,316	364,533	174,124	5,549	188	2,083	986,974
Total	7,262,024	39,373,929	39,282,444	22,470,442	10,705,408	729,804	1,139,559	14,736,044	135,699,654

Mediobanca uses the models developed internally in the process of managing credit risk to assign counterparties ratings.

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

The companies within the Group which use the internal ratings and contribute to the various rating classes indicated apart from Mediobanca S.p.A. are: SelmaBipiemme, Compass/Futuro, CheBanca! and MBFACTA.

A.3 Distribution of secured exposures by type of security

A.3.1 Banking Group - Secured cash exposures to banks

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature loans				
		Property, Mortgages	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	683,776	—	1,158	244,992	2,479	—	—	—	—	—	640	—	—	—	249,269
1.1 totally secured	224,254	—	1,158	219,978	2,479	—	—	—	—	—	640	—	—	—	224,255
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	459,522	—	—	25,014	—	—	—	—	—	—	—	—	—	—	25,014
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Banking Group - Secured cash exposures to customers

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature loans				
		Property, Mortgages	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	20,839,645	9,022,769	1,312,362	5,019,590	1,611,001	—	—	—	—	—	38,694	205,541	1,907	945,954	18,157,818
1.1 totally secured	14,781,294	8,604,840	1,312,362	2,539,855	1,310,857	—	—	—	—	—	38,694	53,899	1,907	918,879	14,781,293
- of which impaired	*374,811*	*211,331*	*125,809*	*389*	*17,163*	—	—	—	—	—	—	—	—	*20,119*	*374,811*
1.2 partially secured	6,058,351	417,929	—	2,479,735	300,144	—	—	—	—	—	—	151,642	—	27,075	3,376,525
- of which impaired	*260,249*	*8,634*	—	*6,948*	*24,818*	—	—	—	—	—	—	—	—	*107*	*40,507*
2. Secured off-balance sheet credit exposures	1,577,547	68,023	—	237,707	123,098	—	—	—	—	—	—	—	—	923,682	1,352,510
2.1 totally secured	1,336,323	63,894	—	233,794	122,536	—	—	—	—	—	—	—	—	916,099	1,336,323
- of which impaired	*4,591*	*221*	—	—	—	—	—	—	—	—	—	—	—	*4,370*	*4,591*
2.2 partially secured	241,224	4,129	—	3,913	562	—	—	—	—	—	—	—	—	7,583	16,187
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Exposures distribution and concentration

B.1 Banking Group - Cash and off-balance-sheet exposures to customers by sector (book value)

	Governments			Other public entities			Financial companies			Insurances			Non-financial companies			Other parties		
	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments
A. Cash exposures																		
A.1 Bad loans	—	—	X	—	—	X	289	(2,037)	X	—	—	X	88,023	(35,569)	X	334,978	(351,442)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*11,445*	*(10,559)*	*X*	*4,935*	*(68,705)*	*X*
A.2 Unlikely to pay	—	—	X	12,640	(2,854)	X	18,693	(7,455)	X	—	—	X	427,763	(339,529)	X	185,463	(258,166)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	*14,075*	*(5,043)*	*X*	—	—	*X*	*405,635*	*(322,716)*	*X*	*105,924*	*(115,229)*	*X*
A.3 Past due exposures	—	—	X	1,500	(42)	X	139	(83)	X	—	(2)	X	11,976	(2,681)	X	48,524	(101,199)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*93*	*(118)*	*X*	*8,722*	*(27,291)*	*X*
A.4 Performing exposures	7,246,968	X	(2,845)	758,721	X	(179)	4,515,144	X	(12,224)	853,836	X	(1,561)	13,223,367	X	(41,232)	22,418,452	X	(366,170)
- of which forborne exposures	—	*X*	—	—	*X*	—	*214,705*	*X*	*(5,332)*	—	*X*	—	*73,559*	*X*	*(2,085)*	*255,487*	*X*	*(59,335)*
Total A	7,246,968	—	(2,845)	772,861	(2,896)	(179)	4,534,265	(9,575)	(12,224)	853,836	(2)	(1,561)	13,751,129	(377,779)	(41,232)	22,987,417	(710,807)	(366,170)
B. Off-balance-sheet exposures																		
B.1 Bad loans	—	—	X	—	—	X	—	—	X	—	—	X	87	—	X	6	—	X
B.2 Unlikely to pay	—	—	X	—	—	X	5,000	819	X	—	—	X	4,293	(3,200)	X	326	(20)	X
B.3 Past due exposures	—	—	X	—	—	X	—	—	X	—	—	X	102	—	X	50	(1)	X
B.4 Performing exposures	1,844,556	X	—	3,895	X	—	14,591,981	X	(2,377)	717,391	X	—	13,069,475	X	(7,549)	1,548,173	X	(3,076)
Total B	1,844,556	—	—	3,895	—	—	14,596,981	819	(2,377)	717,391	—	—	13,073,957	(3,200)	(7,549)	1,548,555	(21)	(3,076)
Total (A+B) 30/6/18	9,091,524	—	(2,845)	776,756	(2,896)	(179)	19,131,246	(8,756)	(14,601)	1,571,227	(2)	(1,561)	26,825,086	(380,979)	(48,781)	24,535,972	(710,828)	(369,246)
Total (A+B) 30/6/17	8,184,323	—	(3,179)	417,820	(2,264)	(38)	12,172,799	(20,040)	(17,978)	2,051,359	(1)	(2,446)	24,875,336	(450,547)	(60,351)	21,495,231	(662,591)	(343,016)

B.2 Banking Group - Cash and off-balance-sheet exposures to customers by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	413,738	(377,088)	9,236	(11,859)	300	(101)	15	—	1	—
A.2 Unlikely to pay	639,195	(603,559)	4,915	(4,210)	256	(135)	193	(100)	—	—
A.3 Past due exposures	56,908	(103,743)	2,191	(19)	3,025	(244)	—	(1)	15	—
A.4 Performing exposures	35,885,093	(396,631)	10,985,293	(20,539)	1,825,541	(6,714)	55,685	(190)	264,876	(137)
Total A	36,994,934	(1,481,021)	11,001,635	(36,627)	1,829,122	(7,194)	55,893	(291)	264,892	(137)
B. Off-balance-sheet exposures										
B.1 Bad loans	93	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	9,619	(2,401)	—	—	—	—	—	—	—	—
B.3 Past due exposures	152	(1)	—	—	—	—	—	—	—	—
B.4 Performing exposures	10,563,886	(7,186)	19,518,631	(5,096)	1,297,324	(176)	153,915	(464)	241,715	(80)
Total B	10,573,750	(9,588)	19,518,631	(5,096)	1,297,324	(176)	153,915	(464)	241,715	(80)
Total (A+B) 30/6/18	47,568,684	(1,490,609)	30,520,266	(41,723)	3,126,446	(7,370)	209,808	(755)	506,607	(217)
Total (A+B) 30/6/17	44,859,953	(1,459,994)	22,439,164	(97,359)	1,589,649	(3,911)	36,967	(189)	271,135	(998)

B.3 Banking Group - Cash and off-balance-sheet exposures to banks by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Past due exposures	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2,508,976	(610)	5,940,528	(1,213)	50,281	(19)	6,017	—	233	—
Total A	2,508,976	(610)	5,940,528	(1,213)	50,281	(19)	6,017	—	233	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
B.3 Past due exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	9,217,180	—	36,044,112	—	516	—	—	—	—	—
Total B	9,217,180	—	36,044,112	—	516	—	—	—	—	—
Total (A+B) 30/6/18	11,726,156	(610)	41,984,640	(1,213)	50,797	(19)	6,017	—	131	—
Total (A+B) 30/6/17	11,094,435	(3,035)	28,288,379	(1,049)	109,291	(13)	1,755	—	3,143	(2)

B.4a Credit risk indicators

	30/6/18	30/6/17
a) Gross bad loans/total loans	1.67%	1.42%
b) NPLs/cash exposures	4.0%	4.05%
c) Net bad loans/regulatory capital [1]	4.94%	3.28%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions.

B.4b Large risks

	30/6/18	30/6/17
a) Book value	10,964,196	10,647,251
b) Weighted value	7,773,030	7,421,973
c) No. of exposures	7	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients (unchanged from last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11bn (€7.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2017 (which were €10.6bn and €7.4bn respectively). In detail the seven exposures are to two industrial groups, one insurance company and four banking groups.

C. Securitizations and asset disposals

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €181.8m (approx. 90% of which as part of the banking book), lower than the €314.3m reported last year, following disposals and redemptions totalling €300m only in part offset by new investments amounting to €161.7m. The portfolio remains concentrated in senior class securities (approx. 95%); also featured is a single mezzanine issue (carried at €6.9m) and a junior security (at €3.2m).

The balance of trading securities totalled €21m (€2.3m), and consists of two issues, including one mezzanine CLO; during the twelve months under review, securities worth a total of some €60m were disposed of, generating gains of €1.1m.

The banking book reflects a value of €160.8m (€312m) and regards three deals: FINO (originated by Unicredit), the securitization of receivables from Banca Intesa group NPLs, in which Mediobanca acted as arranger with a retention share of 5% of the assets (including the junior note), and a third deal with non-performing loans in respect of Spanish mortgages as the underlying instrument.

In addition to direct exposures, Mediobanca invested €25.8m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Italian Recovery Fund [1], so far drawn as to €28.5m.

[1] A closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four deals (Valentine, Berenice, Cube and Este).

QUANTITATIVE INFORMATION

C.2 Banking Group - exposures deriving from main customer securitizations by asset type/ exposure

Type of securitized assets/ Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Italy NPLs	138,908	(52)	—	—	3,166	—
B. Spain NPLs (residential mortgages and real estates)	32,819	—	—	—	—	—
C. Other receivables	—	—	6,911	(73)	—	—
Total 30/6/18	171,727	(52)	6,911	(73)	3,166	—
Total 30/6/17	284,916	59	24,796	442	4,586	26

C.3 Banking Group - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 5 - Quarzo S.r.l.	Milan	Accounting	2,037,840	—	174,411	1,694,000	—	517,000
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,063,428	—	250,167	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,397,261	—	109,280	1,215,000	—	290,900
Quarzo CQS S.r.l. (2015)	Milan	Accounting	240,000	—	56,000	181,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	622,000	—	23,000	576,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	310,000	—	—	310,000	—	—

C.4 Securitization SPVs not consolidated

As at 30 June 2018 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

C.5 Banking Group: servicing - collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets (30/06/18)		Receivables collected during the year		Percentage share of securities repaid (30/06/18)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS	11,539	926,200	9,267	244,552	—	79.50	—	—	—	—
Compass	Quarzo Srl	245,914	6,624,297	18,775	4,105,107	—	—	—	—	—	—

Quarzo MB S.r.l. (Mediobanca)

This SPV was incorporated in June 2016 and is not operative.

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, subscribed for directly by Group companies with the aim of broadening the sources of funding by taking advantage of the possibility to refinance the senior bonds with the European Central Bank. The deals were all completed in previous years, and under the terms of the securitizations Compass Banca may cede further portfolios of receivables on a revolving basis for a period of up to 42 months, following which the repayment phase can commence:

– The first securitization, completed on 22 July 2015 with the issue of €1,694m in senior notes and €506m in junior notes against performing receivables in a total amount of €2,200m; in the twelve months ended 30 June 2018, receivables worth a further €1,118m were ceded;

– The second, completed on 25 February 2016 with the issue of €2.64bn in senior notes and €660m in junior notes against performing receivables in a total amount of €3,300m; in the twelve months receivables worth a further €1,763m were ceded;

– The third, completed on 15 February 2017 with the issue of €1.215bn in senior notes and €285m in junior notes against performing receivables in a total amount of €1,500m; in the twelve months receivables worth a further €661m were ceded.

Quarzo CQS S.r.l. (Futuro)

In April 2015 the first Quarzo CQS 2015 securitization was completed with Futuro receivables as the underlying instrument through SPV Quarzo CQS S.r.l. Under the terms of the securitization, performing receivables were ceded in a single, non-revolving tranche in an amount of €820m, against which senior notes of €738m were issued and listed on the Dublin stock market, plus €82m in junior notes subscribed to by the same company. The majority of the senior notes have been sold on the market, with a €200m share having been subscribed to by the Mediobanca Treasury department.

As at 30 June 2018 there were senior notes in issue worth €180.6m (including accruals). The share held by Mediobanca S.p.A. totalled €49.1m (including accruals). The share of the junior notes held by the originator was unchanged at €82m.

In March 2018 the second securitization was completed through the sale of performing receivables in a single, non-revolving tranche worth €650m, against which senior notes were issued in an amount of €598m, listed on the Dublin stock market, and junior notes subscribed to by the same company in an amount of €52m. The senior notes have all been sold on the market.

As at 30 June 2018, senior notes worth €575.9m were in issue (including accruals). The share of the junior notes held by the originator totalled €52m.

MB Funding Lux S.A.

This vehicle company was set up by Mediobanca S.p.A. in 2016, with the purpose of:

– Broadening the sources of funding by taking advantage of the possibility to refinance bonds on the interbank market through repos (or other money market transactions); and
– Employ any surplus liquidity present within the Group over the medium/long term.

Currently there are three Euro deals outstanding, all subscribed for entirely by Group companies and guaranteed by Mediobanca as part of the €5bn Medium Term Notes Programme:

– Secured issue in an amount of €200m, with a duration of 5 years and maturing on 25 June 2022 and guaranteed by a pool of corporate loans originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);
– Secured issue in an amount of €100m, with a duration of 7 years and maturing on 20 December 2024, and guaranteed by a pool of corporate loans

originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);

– Unsecured issue in an amount of €10m, with a duration of 5 years and maturing on 20 June 2023.

Accounts between the originator and the SPV during the year under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	255.0	0.7	1.8	42.4
Quarzo S.r.l.	3,542.0	4,124.0	13.0	47.2	459.1
MB Funding Lux	344.4	83.1	—	—	1.1

D. Disclosure on structured entities

In accordance with the provisions of IFRS12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing close restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (o similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

D.1 Consolidated structured entities

The four securitization SPVs are included in the Group's area of consolidation, as described in Part A – Section 3 of the Notes to the Accounts pursuant to Italian law 130/99: Quarzo S.r.l., Quarzo Lease S.r.l. (in liquidation), Quarzo CQS S.r.l. and Quarzo MB S.r.l. (90%-owned by Mediobanca S.p.A., with the other 10% owned by SPV Holding), plus MB Funding Lux S.A., a company incorporated under Luxembourg law (and 100%-owned by Mediobanca S.p.A.).

D.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs (stated in Part B, Assets, tables 2.1 – Financial assets held for trading: composition and 4.1 – AFS securities) in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Cairn Capital and RAM Active Investments) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

D.2.1. Structured entities consolidated for regulatory purposes

As at 30 June 2018 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

D.2.2. Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are mainly carried out through vehicle companies, in particular as follows:

UCITS

As part of its asset management business, CheBanca! follows the sale, exclusive to its clients, of five different segments of its Yellow Funds SICAV, an authorized company incorporated under Luxembourg law. Of the five segments, one involves debt securities, one equities, and the other three target volatility funds of funds. The SICAV is managed by fund management company Mediobanca Management Company (owned directly by Mediobanca), whereas the three funds of funds are managed by BlackRock and the other two funds are managed by Mediobanca SGR (also owned directly by Mediobanca). As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments which were still outstanding at 30 June 2018; these total 86,341, and have a NAV of approx. €8.3m; commissions of €0.2m were collected during the twelve months under review.

Compagnie Monégasque de Banque has sold to its clients the four fund segments operated by CMB Global Lux, a company authorized under Luxembourg law, two of which are bond funds (CMB Global Lux Expansion and CMB Global Lux Corporate) and two equity funds (CMB Global Lux High Yield Equity and CMB Global Lux Emerging Markets). The SICAV itself is managed directly by Compagnie Monégasque de Banque, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestione and by CACEIS Luxembourg respectively. As at 30 June 2018 the bond segment CMB Global Lux Expansion (€4.9m) and the equity segment CMB Global Lux High Yield Equity (€3.6m) were still featured in the portfolio. Commissions from management of the funds subscribed to totalled €2.4m.

During the fourth quarter the acquisition of RAM Active Investments SA was completed. RAM is one of the leading European systematic fund managers, offering a wide range of alternative funds (systematic equity management and discretionary fixed-income management). Mediobanca S.p.A., as a part of a broader seed capital agreement, has subscribed to a total NAV of €171.4m in five funds promoted by the company, in particular two tactical funds – RAM Convertibles Europe (€17.2m) and RAM Asia Bond Total Return (€16.8m) – and three systematic funds – RAM Systematic I/O (€42.8m), RAM Global Shareholder Yield Equities (€59.6m) and RAM Global Multi-Asset (€35m).

As part of its alternative funds activity, Cairn Capital Ltd manages seven funds which it has launched: a balanced absolute return fund (Cairn Special Opportunities Credit Fund), a subordinated bond fund (Cairn Subordinated Financials Fund II), two multi-asset funds (Cairn S Multi Asset Credit Fund and Cairn Strata Credit Fund), the Cairn European Loan Fund credit fund, and the recently incorporated Cairn Strata Secured Finance Fund and Cairn Pathfinder Fund I. Cairn itself has subscribed to Cairn Special Opportunities Credit Fund, Cairn Strata Credit Fund and the Cairn Loan Investment SPE for a total amount of €2m, plus Mediobanca's share of the seed capital amounting to €131.3m invested in Cairn European Loan Fund (€51.4m), Cairn Strata Secured Fund (€50.2m) and the SPE Cairn Loan Investments LLP (€29.6m).

Mediobanca SGR sells philanthropic funds to its clients. These are funds which ensure that the charitable institution receives a recurring flow of income over time at low risk (balanced bond funds) and daily liquidity (Mediobanca Social Impact), open-end investment funds (Mediobanca Diversified Income, Mediobanca Global Financial, Mediobanca HY Credit Portfolio 2022, Mediobanca Mid & Small Cap Italy, Mediobanca Defensive Portfolio, Mediobanca Global Multi Asset and Mediobanca Long Short Sector Rotation), funds for which investment is concentrated in contingent convertible capital bonds and UCITS (Mediobanca CoCo Credit Fund), closed-end investment funds aimed at financing companies through investments in minibonds (Mediobanca Fondo per le imprese 1 and 2). Mediobanca Management Company sells medium-/long-term return funds to its clients. These are funds which feature investments in equities, convertible bonds and derivatives (Mediobanca Alkimis Absolute, Alkimis Special Values and C-Quadrat Efficient). Direct investments in these funds total €29.7m.

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates, mean that the ability to impact on returns stipulated by IFRS10 as a precondition for establishing control, does not apply in this case; hence Mediobanca does not have direct control.

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depend largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence such activity does not constitute acting as sponsor.

The lending transactions, recorded under asset heading 70 – Due from customers: composition, in which the Group is the sole lender involve an amount of €471.4m, plus €55.2m in notes held as available for sale.

QUANTITATIVE INFORMATION

Accounted for under asset heading	Balance-sheet item/SPE type	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
AFS financial assets	Yellow Fund Sicav	8,309	—	—	8,309	8,309	—
AFS financial assets	CMB Global Lux	8,483	—	—	8,483	8,483	—
AFS financial assets	CMG Funds	42	—	—	42	42	—
AFS financial assets	Cairn Strata Secured	50,226	—	—	50,226	50,226	—
AFS financial assets	Cairn European Loan Fund	51,427	—	—	51,427	51,427	—
AFS financial assets	Cairn Loan Investments	30,473	—	—	30,473	30,473	—
AFS financial assets	RAM - Systematic I/O	42,809	—	—	42,809	42,809	—
AFS financial assets	RAM - Convertibles Europe	17,176	—	—	17,176	17,176	—
AFS financial assets	RAM - Asia Bond Total Return	16,781	—	—	16,781	16,781	—
AFS financial assets	RAM - Global Shareholder Yield Equities	59,590	—	—	59,590	59,590	—
AFS financial assets	RAM - Global Multi-Asset	35,005	—	—	35,005	35,005	—
HFT financial assets	Mediobanca Funds	16,926	—	—	16,926	16,926	—
AFS financial assets	Mediobanca Funds	12,762	—	—	12,762	12,762	—
AFS financial assets	Other funds	1,139	—	—	1,139	1,139	—
Loans and receivables	Asset Backed	471,395	—	—	471,395	471,395	—
AFS financial assets	Asset Backed	55,175	—	—	55,175	55,175	—

D.3 Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, inter alia financed by debt, with a medium-term time horizon).

As at 30 June 2018, the Group's exposure to this type of transaction amounted to €4,529.8m[2] – virtually unchanged from the €4,519.2m reported last year – and accounting for just under 30% of the corporate loan book. Of this total, 40.6% relates to domestic transactions, six deals with non-EU clients (worth approx. €669m), and the rest within the confines of the EU itself. There were repayments totalling €1,527m during the twelve months (with seventeen deals being closed), against investments of €1,538m (including twenty-five new deals).

[2] Plus off-balance-sheet exposures (commitments and derivatives) totalling €1,120m (30/6/17: €847m).

E. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Banking Group - Financial assets sold but not derecognized: book value and full value **

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	
							30/6/18	30/6/17
A. Balance sheet assets	2,714,110	—	753,675	329,349	—	1,702,774	5,499,908	4,249,470
1. Debt securities	2,030,562	—	753,675	329,349	—	—	3,113,586	2,645,407
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,702,774	1,702,774	1,314,222
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/18	2,714,110	—	753,675	329,349	—	1,702,774	5,499,908	X
of which: impaired	—	—	—	—	—	*66,233*	*66,233*	*X*
Total 30/6/17	1,840,174	—	699,906	395,168	—	1,314,222	X	4,249,470
of which: impaired	—	—	—	—	—	*40,382*	*X*	*40,382*

* Includes only sold financial assets which are still fully recognized.

E.2 Banking Group - Financial liabilities in respect of financial assets sold but not derecognized: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	165,258	—	402,912	305,531	—	—	873,701
a) Related to fully recognized assets	165,258	—	402,912	305,531	—	—	873,701
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	2,458,703	—	332,540	21,358	—	118,357	2,930,958
a) Related to fully recognized assets	2,458,703	—	332,540	21,358	—	118,357	2,930,958
b) Related to partially recognized assets	—	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	705,935	705,935
a) Related to fully recognized assets	—	—	—	—	—	705,935	705,935
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/18	2,623,961	—	735,452	326,889	—	824,292	4,510,594
Total 30/6/17	2,077,764	—	698,939	399,078	—	484,394	3,660,175

E.3 Banking Group - Disposals with liabilities referring exclusively to assets sold: fair value[1]

Instruments/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments (fair value)	Due from banks (fair value)	Due from customers (fair value)	Total	
							30/6/18	30/6/17
A. Cash assets	2,714,110	—	753,675	329,349	—	1,197,842	4,994,976	4,317,379
1. Debt securities	2,030,562	—	753,675	329,349	—	—	3,113,586	2,652,658
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,197,842	1,197,842	1,374,880
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	2,714,110	—	753,675	329,349	—	1,197,842	4,994,976	4,317,379
C. Associated liabilities	2,623,961	—	735,452	326,889	—	823,284	X	X
1. Due from customers	165,258	—	402,912	305,531	—	—	X	X
2. Due from banks	2,458,703	—	332,540	21,358	—	118,357	X	X
3. Debt securities in issue	—	—	—	—	—	704,927	X	X
Total liabilities	2,623,961	—	735,452	326,889	—	823,284	4,509,586	4,368,477
Net value 30/6/18	90,149	—	18,223	2,460	—	374,558	485,390	X
Net value 30/6/17	(242,262)	—	3,710	1,281	—	186,173	X	(51,098)

[1] The table includes collateralized liability transactions: repos, securities lending and other secured financing transactions.

E.4 Banking Group - covered bond issues

The Group has a programme of covered bond issuance in progress, secured by residential mortgages and involving an amount of up to €5bn. The programme, implemented in accordance with the provisions of Italian law 130/99, has a ten-year duration (falling due in December 2021), and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;

– CheBanca!, as the seller (including on a revolving basis) and servicer on the transaction;

– Mediobanca Covered Bond S.r.l., incorporated pursuant to Article 7-bis of Italian law 130/99, as the non-recourse recipient of the assets and guarantor of the covered bonds.

Four deals are outstanding under the current programme as at 30 June 2018, involving a total notional amount of €3bn, against €5,192.3m in receivables sold. All the issues are addressed to institutional investors rated "AA" by Fitch, and involve:

– €750m issued in October 2013 at a fixed rate of 3.625% and expiring in October 2023;

– €750m issued in June 2014 at a fixed rate of 1.125% and expiring in June 2019;

– €750m issued in November and December 2015 at a fixed rate of 1.375% and expiring in November 2025.

– €750m issued in November at a fixed rate of 1.25% and expiring in November 2029.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to financial risks on the trading book (faced entirely within the Group by Mediobanca S.p.A., since on 1 January 2018, CMB wound up its trading book versus the parent company as part of the project to centralize Group treasury operations) is measured on a daily basis by calculating the following main indicators:

– Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;

– Value-at-risk calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out daily and monthly on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme but historically accurate changes in market variables.

In addition to these metrics, other complementary but more specific risk indicators are also used in order to capture other risks on trading positions which are not fully measured by VaR and sensitivity analysis more effectively. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

With reference to market risks, the value-at-risk on the trading ranged from a low of €1.1m (in October 2017) and a high of approx. €7.1m (June 2018). The average reading for the twelve months was €2.3m, down on the average figure for last year (€3m). The VaR for the trading book stood at around €3.5m at the start of the year, before falling gradually due to the sale of certain directional positions, reaching its lowest values at the start of October, then rising again with the increase in market volatility and settling from end-November 2017 to early June 2018 at around €2m. The indicator then climbed again to reach a high of €7.1m, due solely to the addition of an equity position which was subsequently reduced by a significant amount before the reporting date. Indeed, the point-in-time figure observed at end-June 2018 had returned to €2.8m.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €4.5m to €3m, due to the widespread reduction in the trading positions.

The results of the daily back-testing based on calculations of theoretical profits and losses, show three events where the notional losses were in excess of the VaR. Two occurred in May 2018, in conjunction with the Italian market crisis, and the other in the month of June (in connection with the single equity position referred to above which was then sold).

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors (€ '000)	**12 mths to 30/6/18**				**12 mths to 30/6/17**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	2,046	248	2,046	559	916
Credit	1,928	317	1,928	784	1,201
Share prices	1,307	807	6,297	1,986	2,006
Exchange rates	733	64	771	320	581
Inflation	45	25	495	161	649
Volatility	691	401	1,395	626	1,394
*Diversification effect **	*(3,901)*	—	—	*(2,105)*	*(3,703)*
Total	2,848	1,129	7,109	2,330	3,044
Expected Shortfall	***4,065***	***1,771***	***8,049***	***3,080***	***4,504***

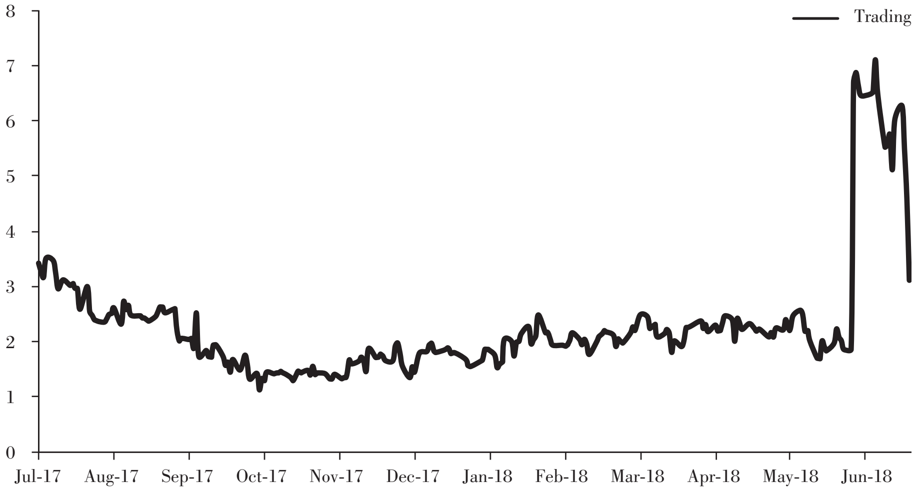
* Due to mismatch between risk factors.

Apart from the overall VaR limit for the trading and General Management books, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks like last year reflect long delta and short vega positions, albeit with a higher exposure to equity markets than last year. The exposure to interest rates ranged from minus €152,000 to €534,000, with an average reading which again was low, at around €30,000 (30/6/17: €36,000). The exchange rate trend reflected an exposure which was higher on average than last year in terms of highs and lows, but with average readings which were in any case low.

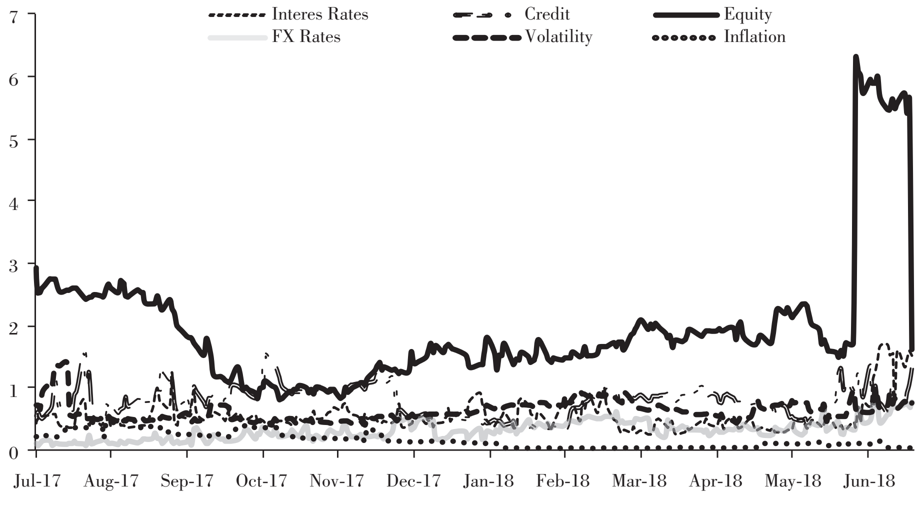
Table 2: Overview of trends in main sensitivities for trading book

Risk factors (€ '000)	**12 mths to 30/6/18**			
	30/6	**Min**	**Max**	**Avg.**
Equity delta (+1%)	741,318	589,715	2,619,223	1,166,546
Equity vega (+1%)	174,068	(856,632)	905,314	(131,505)
Interest rate delta (+1bp)	422,435	(151,749)	533,791	30,265
Inflation delta (+1bp)	4,145	(23,965)	42,125	10,118
Exchange rate delta (+1%)	(1,073,090)	(1,239,569)	1,732,332	295,358
Credit delta (+1bp)	524,814	65,847	565,985	253,825

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	331	49,281	918,609	56,504	1,221,495	404,254	156,689	—
1.1 Debt securities	—	49,281	918,609	56,504	1,221,495	404,254	156,689	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	—	49,281	918,609	56,504	1,221,495	404,254	156,689	—
1.2 Other assets	331	—	—	—	—	—	—	—
2. Cash liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
3. Financial derivatives	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	265,000	—	—	—	—	—
+ short positions	—	—	265,000	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	699,545	250,000	300,000	—	104,380	—	—
+ short positions	—	699,545	250,000	300,000	—	104,380	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	18,855,483	29,253,794	874,686	5,730,839	2,013,135	1,518,252	—
+ short positions	—	18,855,483	29,253,794	874,686	5,730,839	2,013,135	1,518,252	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	26,760,948	16,489,453	3,514,099	24,156,155	9,876,445	4,592,514	—
+ short positions	—	23,946,171	20,262,109	2,730,592	23,209,305	10,081,255	5,160,182	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	1,466,238	—	81,402
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	9,343
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	9,343
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	100,166	—	831
- harmonized	69,085	—	—
- non-harmonized open	—	—	831
- non-harmonized closed	31,081	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	1,566,404	—	91,576

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities; over 96% of the next exposure regards other European countries.

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

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

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

All the scenarios present a floor set by the Basel Committee guidelines (BCBS) at minus 1.5% on the demand maturity with linear progression up to 0% at the 30 year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from current account deposits for retail clients, which have been treated on the basis of behavioural models, and Compass consumer credit items (which reflect the possibility of early repayment).

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the Group's banking book positions at 30 June 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would reduce by some €3m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the shock which produces the worst change occurs if the interest rate curve steepens as a result of the short-term rates falling and the long-term rates increasing ("steepener"). The reduction in net interest income in this case would be €32m, which is chiefly due to the decreases attributable to CheBanca! (€30m) and Compass (€32m), against an increase of (€23m for Mediobanca.

The data described above are summarized in the table below:

Data at 30/6/18	Banking Book					
	Maximum level scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Net interest income sensitivity	Parallel Down	(3)	15	(7)	(7)	(4)
Discounted value of cash flows senstivity	Steepener	(32)	23	(30)	(32)	7

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate si on the banking book, which are respectively 12% (net interest income sensitivity/ estimated Group net interest income) and 6.5% (economic value sensitivity/ regulatory capital).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months) [3].

[3] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

B. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

C. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Group uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Mediobanca S.p.A. also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of cash assets and liabilities

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	5,112,581	20,850,950	6,052,400	3,000,830	13,828,644	3,376,296	1,601,134	22,490
1.1 Debt securities	—	553,968	458,854	707,672	3,719,632	1,060,175	3,287	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	553,968	458,854	707,672	3,719,632	1,060,175	3,287	—
1.2 Loans to banks	3,427,152	1,891,098	1,119,986	177,691	496,448	4,064	389,740	1,242
1.3 Loans to customers	1,685,429	18,405,884	4,473,560	2,115,467	9,612,564	2,312,057	1,208,107	21,248
– current accounts	155,998	238,926	—	—	—	—	—	—
– other loans	1,529,431	18,166,958	4,473,560	2,115,467	9,612,564	2,312,057	1,208,107	21,248
– with early repayment option	110,089	6,590,972	888,507	1,638,471	7,910,861	2,105,693	1,188,971	—
– others	1,419,342	11,575,986	3,585,053	476,996	1,701,703	206,364	19,136	21,248
2. Cash liabilities	16,893,991	14,454,770	3,894,328	5,280,247	10,185,316	2,152,554	1,187,886	494
2.1 Due to customers	14,648,100	3,476,799	2,159,574	1,000,914	6,674	39	—	494
– current accounts	12,019,038	313,628	—	—	—	—	—	—
– other amounts due	2,629,062	3,163,171	2,159,574	1,000,914	6,674	39	—	494
– with early repayment option	—	—	—	—	—	—	—	—
– others	2,629,062	3,163,171	2,159,574	1,000,914	6,674	39	—	494
2.2 Due to banks	1,968,374	3,687,566	946,240	177,253	5,041,053	104	391,850	—
– current accounts	495,111	56	—	—	—	—	—	—
– other amounts due	1,473,263	3,687,510	946,240	177,253	5,041,053	104	391,850	
2.3 Debt securities	277,517	7,290,405	788,514	4,102,080	5,137,589	2,152,411	796,036	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	277,517	7,290,405	788,514	4,102,080	5,137,589	2,152,411	796,036	
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions								
+ short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	100,000	130,000	—	—
+ short positions	—	—	—	—	100,000	130,000	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions		12,409,173	1,832,500	540,238	5,538,544	2,968,788	860,649	—
+ short positions		11,446,614	1,215,000	1,055,000	7,462,843	1,922,935	1,047,500	—
4. Other OTC trades	—	—	—	—	—	—	—	—
+ long positions	3,161	2,915,121	636,864	392,332	8,457,808	310,737	57,688	87
+ short positions	1,788,634	953,390	655,413	417,541	8,742,322	40,388	176,110	—

2. Banking book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	240,994	—	26,219
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	32,150	—	131,885
- harmonized open	32,150	—	—
- non-harmonized open	—	—	—
- closed	—	—	126,025
- reserved	—	—	—
- speculative	—	—	5,860
B.2 Other EU states	188,196	—	149,506
- harmonized	8,309	—	—
- non-harmonized open	8,526	—	—
- non-harmonized closed	171,361	—	149,506
B.3 Non-EU states	—	—	3,318
- open	—	—	—
- closed	—	—	3,318
Total	461,340	—	310,928

[1] Of which 39% Italian and 61% other EU countries.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 242 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

During the twelve months, the exchange rate effect of the CHF 165m investment acquired in RAM was hedged in accordance with the accounting standards in force on net investment of foreign operation, in order to neutralize volatility in the net equity reserve due to exchange rate differences arising on consolidation compared to the historical rate used for first-time recognition of the investment and the related goodwill.

In particular, the hedge was made through the issue of a bond in Swiss francs used as a hedge instrument for which the changes in value due to the exchange rate effect are suspended in a net equity reserve, to offset the impact of consolidating the company and the goodwill. The reserve will remain suspended in net equity until such a time as the investment is sold.

QUANTITATIVE INFORMATION

1. Assets, liabilities and derivatives by currency

Line items	Currency					
	US dollars	Pounds sterling	Japanese yen	Canadian dollars	Swiss francs	Other
A. Financial assets	3,510,881	2,388,408	42,364	8,998	252,245	142,349
A.1 Debt securities	622,070	617,283	—	—	1,447	—
A.2 Equities	119,258	441,292	—	—	2,426	—
A.3 Loans and advances to banks	1,159,850	805,026	41,511	2,021	147,410	18,551
A.4 Loans and advances to customers	1,609,679	523,673	853	6,977	100,680	123,749
A.5 Other financial assets	24	1,134	—	—	282	49
B. Other assets	78,871	228	—	—	3	7
C. Financial liabilities	(4,016,667)	(1,908,156)	(35,154)	(33,495)	(188,924)	(49,063)
C.1 Due to banks	(1,075,546)	(1,059,726)	(30,459)	(420)	(4,414)	(3,689)
C.2 Due to customers	(1,059,759)	(123,691)	(4,695)	(33,075)	(55,468)	(44,933)
C.3 Debt securities	(1,881,291)	(724,570)	—	—	(129,042)	(441)
C.4 Other financial liabilities	(71)	(169)	—	—	—	—
D. Other liabilities	(133)	(80)	—	—	(2)	(9)
E. Financial derivative products	407,686	(447,271)	(7,804)	25,908	(66,430)	(6,782)
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	407,686	(447,271)	(7,804)	25,908	(66,430)	(6,782)
+ Long positions	3,890,885	469,555	67,010	47,005	260,443	186,555
+ Short positionsw	(3,483,199)	(916,826)	(74,814)	(21,097)	(326,873)	(193,337)
Total assets	7,480,637	2,858,191	109,374	56,003	512,691	328,911
Total liabilities	(7,499,999)	(2,825,062)	(109,968)	(54,592)	(515,799)	(242,409)
Difference (+/-)	(19,362)	33,129	(594)	1,411	(3,108)	86,502

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, directional positions taken on exchange rates at the aggregate initially remained in line with those last year but with more pronounced volatility, generating a higher VaR for the same levels. The positions were then gradually increased from the end of March onwards. The VaR for the forex component at the aggregate level therefore showed an average reading of above €11m, up around 50% on the average reading recorded one year previously. As mentioned previously, the VaR reading was impacted by the increased volatility for this asset class throughout the year as a whole, plus the increase in the positions. The point-in-time reading for VaR as at 30 June 2018 was €13.2m.

1.2.4 DERIVATIVE FINANCIAL INSTRUMNTS

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: reporting-date notional values

Underlying assets/Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	88,266,541	41,323,280	89,599,408	31,570,511
a) Options	9,259,836	40,445,401	—	30,721,864
b) Swap	76,216,325	—	86,903,408	—
c) Forward	654,380	—	—	—
d) Futures	—	877,879	—	848,647
e) Others	2,136,000	—	2,696,000	—
2. Equity instruments and stock indexes	17,670,798	14,505,823	14,537,682	11,250,774
a) Options	16,625,425	14,108,938	13,586,813	11,011,994
b) Swap	928,224	—	833,720	—
c) Forward	117,149	—	117,149	—
d) Futures	—	396,885	—	238,780
e) Others	—	—	—	—
3. Gold and currencies	15,664,893	—	8,843,295	—
a) Options	6,669,954	—	277,521	—
b) Swap	3,702,656	—	3,578,982	—
c) Forward	5,292,283	—	4,986,792	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	121,602,232	55,829,103	112,980,385	42,821,285

A.2 Banking book: average and reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets/Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	24,379,892	—	17,147,090	—
a) Options	130,000	—	—	—
b) Swap	24,149,892	—	17,007,090	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	140,000	—
2. Equity instruments and stock indexes	—	—	240,048	—
a) Options	—	—	29	—
b) Swap	—	—	—	—
c) Forward	—	—	240,019	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	24,379,892	—	17,387,138	—

A.2.2 Other derivatives

Uunderlying assets/Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	1,196,939	—	1,172,835	—
a) Options	—	—	—	—
b) Swap	1,196,939	—	1,132,835	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40,000	—
2. Equity instruments and stock indexes	1,435,116	—	1,825,557	—
a) Options	1,419,844	—	1,825,557	—
b) Swap	—	—	—	—
c) Forward	15,272	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,632,055	—	2,998,392	—

A.3 Financial derivatives: gross positive fair value, by product

Portfolios/Type of derivatives	Positive fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio	2,723,795	520,282	2,291,303	462,562
a) Options	464,713	518,256	311,962	455,566
b) Interest rate swaps	1,973,377	—	1,645,465	—
c) Cross currency swap	194,614	—	197,256	—
d) Equity swaps	26,405	—	30,542	—
e) Forward	64,686	—	106,078	—
f) Futures	—	2,026	—	6,996
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	260,958	—	461,972	—
a) Options	4,134	—	—	—
b) Interest rate swaps	256,824	—	461,972	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	78,285	—	319,041	—
a) Options	71,215	—	122,862	—
b) Interest rate swaps	7,070	—	8,286	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	187,893	—
Total	3,063,038	520,282	3,072,316	462,562

A.4 Financial derivatives: gross negative fair value, by product

Portfolios/Type of derivatives	Negative fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio	(1,900,692)	(560,550)	(2,332,027)	(496,834)
a) Options	(447,724)	(543,781)	(313,647)	(492,721)
b) Interest rate swaps	(1,169,165)	—	(1,563,214)	—
c) Cross currency swap	(130,261)	—	(209,128)	—
d) Equity swaps	(1,489)	—	(21,032)	—
e) Forward	(152,053)	—	(225,006)	—
f) Futures	—	(16,769)	—	(4,113)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(266,079)	—	(313,183)	—
a) Options	(1,897)	—	(2,452)	—
b) Interest rate swaps	(264,182)	—	(275,160)	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	(35,571)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(90,577)	—	(325,650)	—
a) Options	(90,577)	—	(325,650)	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2,257,348)	(560,550)	(2,970,860)	(496,834)

A.5 OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contract not included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	400,000	300,000	—	179,204	—
- positive fair value	—	—	—	—	—	172	—
- negative fair value	—	—	—	(66)	—	—	—
- future exposure	—	—	—	—	—	896	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	150,463	—	29
- positive fair value	—	—	—	—	76	—	—
- negative fair value	—	—	—	—	(72)	—	(1)
- future exposure	—	—	—	—	13,506	—	—
3. Gold and currencies							
- notional amount	—	—	3,883	2,946	—	102,934	—
- positive fair value	—	—	—	—	—	8,502	—
- negative fair value	—	—	(13)	(35)	—	—	—
- future exposure	—	—	31	—	—	7,720	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives: regulatory trading book - notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	**Governments and central banks**	**Other public-sector entities**	**Banks**	**Financial companies**	**Insurance companies**	**Non-financial companies**	**Other entities**
1. Debt securities and interest rate indexes							
- notional amount	—	—	29,072,614	50,643,205	736,534	7,234,983	—
- positive fair value	—	—	1,620,614	228,801	77,333	210,469	—
- negative fair value	—	—	(921,447)	(403,871)	(41,181)	(30,143)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	9,527,386	4,921,733	1,486,885	1,584,303	—
- positive fair value	—	—	107,398	74,806	2,928	115,093	—
- negative fair value	—	—	(225,512)	(60,663)	(6,333)	(7,500)	—
3. Gold and currencies							
- notional amount	—	—	10,080,521	2,787,435	284,039	2,403,134	—
- positive fair value	—	—	107,176	79,216	7,056	84,156	—
- negative fair value	—	—	(114,448)	(14,410)	(931)	(74,069)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives: banking book - notional value, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	45,850	—	—	—	—
- positive fair value	—	—	1,030	—	—	—	—
- negative fair value	—	—	(5,641)	—	—	—	—
- future exposure	—	—	333	—	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives: banking book - notional value, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	7,777,656	16,206,386	—	350,000	—
- positive fair value	—	—	176,107	83,821	—	—	—
- negative fair value	—	—	(179,827)	(57,172)	—	(23,438)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.9 OTC financial derivatives by outstanding life: notional values

Underlying/residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book	35,317,267	61,285,075	30,648,890	127,251,232
A.1 Financial derivative contracts on debt securities and interest rates	15,051,546	49,456,790	29,407,205	93,915,541
A.2 Financial derivative contracts on equity securities and stock indexes	7,557,966	9,900,493	212,339	17,670,798
A.3 Financial derivative contracts on exchange rates and gold	12,707,755	1,927,792	1,029,346	15,664,893
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	2,653,015	14,109,346	4,600,586	21,362,947
B.1 Financial derivative contracts on debt securities and interest rates	2,615,319	12,711,926	4,600,586	19,927,831
B.2 Financial derivative contracts on equity securities and stock indexes	37,696	1,397,420	—	1,435,116
B.3 Financial derivative contracts on exchange rates and gold	—	—	—	—
B.4 Financial derivative contracts on other values	—	—	—	—
Total 30/6/18	37,970,282	75,394,421	35,249,476	148,614,179
Total 30/6/17	30,562,807	73,664,499	29,138,610	133,365,916

B. CREDIT DERIVATIVES

B.1 Credit derivatives: average and reporting-date notional values

Type of transaction	Regulatory trading portfolio		Banking book	
	with a single counterparty	with more than one counterparty (basket)	with a single counterparty	with more than one counterparty (basket)
1. Protection buyer's contracts				
a) Credit default products	1,045,584	9,985,535	837,181	428,890
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	1,045,584	9,985,535	837,181	428,890
Total 30/6/17	1,718,403	6,407,880	350,980	12,906
2. Protection seller's contracts				
a) Credit default products	2,083,457	9,685,235	2,020,445	6,104,821
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	2,083,457	9,685,235	2,020,445	6,104,821
Total 30/6/17	1,402,802	5,816,219	28,849	4,529,278

B.2 OTC credit derivatives: gross positive fair value, by product

Portfolio/Type of derivatives	Positive fair value	
	30/6/18	30/6/17
A. Regulatory trading book	183,313	161,621
a) Credit default products	183,313	161,621
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	22,256	14,840
a) Credit default products	22,256	14,840
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	205,569	176,461

B.3 OTC credit derivatives: gross negative fair value, by product

Portfolio/Type of derivatives	Negative fair value	
	30/6/18	**30/6/17**
A. Regulatory trading book	(1,224,966)	(543,791)
a) Credit default products [1]	(1,224,966)	(543,791)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(6,721)	(16,805)
a) Credit default products	(6,721)	(16,805)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(1,231,687)	(560,596)

[1] Of which certificates in an amount of €288,997,000 and €352,793,000 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	500,000	12,251	—	—	—
- positive fair value	—	—	16,934	3,400	—	—	—
- negative fair value [1]	—	—	(288,997)	—	—	—	—
- future exposure	—	—	25,000	613	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

[1] Including certificates amounting to €288,997,000.

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty - contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	4,824,039	5,494,829	200,000	—	—
- positive fair value	—	—	791	100	2,779	—	—
- negative fair value	—	—	(804,857)	(129,176)	—	—	—
2. Protection sale							
- notional amount	—	—	6,338,405	5,430,286	—	—	—
- positive fair value	—	—	41,655	117,654	—	—	—
- negative fair value	—	—	(1,701)	(235)	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

B.6 Credit derivatives by outstanding duration: notional values

Underlying / Residual	Up to 1 year	From 1 year up to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	1,400,201	10,374,146	11,025,464	22,799,811
A.1 Credit derivatives with "qualified" "reference obligation"	193,845	894,244	1,214,445	2,302,534
A.2 Credit derivatives with "not qualified" "reference obligation"	1,206,356	9,479,902	9,811,019	20,497,277
B. Banking portfolio	271,746	4,070,595	5,048,996	9,391,337
B.1 Credit derivatives with "qualified" "reference obligation"	85,190	2,056,836	2,722,534	4,864,560
B.2 Credit derivatives with "not qualified" "reference obligation"	186,556	2,013,759	2,326,462	4,526,777
Total 30/6/18	1,671,947	14,444,741	16,074,460	32,191,148
Total 30/6/17	3,866,656	10,044,489	6,356,172	20,267,317

C. CREDIT AND FINANCIAL DERIVATIVES

*C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty**

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to Financial Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to Credit Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross products netting agreements							
- positive fair value	—	—	214,735	80,241	84,255	395,177	—
- negative fair value	—	—	(363,466)	(364,823)	(42,828)	(97,300)	—
- future exposure	—	—	626,580	411,169	53,703	191,217	—
- net counterparty risk	—	—	626,028	422,927	71,292	541,736	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €395,093,000, €215,287,000 of which in respect of banks, €68,482,000 of financial companies, €66,666,000 of insurances and €44,658,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €461,896,000 was paid in, €281,185,000 of which in respect of banks, €139,170,000 of financial companies, and €41,541,000 of insurances.

1.3 BANKING GROUP – LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process.

In defining liquidity risk, a distinction is usually made between risks which refer to the short term (known as "liquidity risk") and risks which refer to the long term ("funding risk"):

- Liquidity risk is the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;
- Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to meet its own financial requirements without incurring an excessive increase in the cost of financing.

Within the Mediobanca Group, liquidity and funding risk is governed by the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. The Regulations set out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system and the contingency funding plan.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated.

The Regulations assign various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The issues most relevant to liquidity risk are discussed by the Group ALM Committee which defines the asset and liability structure and related risk taking, directing management in line with the commercial and financial objectives set in the budget and the Group RAF.

The parent company units responsible for ensuring that the Regulations are applied accurately are:

– Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
– The Accounting and Financial Reporting unit supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management, in compliance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

The metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB and marketable securities) and the cumulative net cash outflows.

The system of limits is structured on the basis of the normal course of business up to a time horizon of three months, with an early warning system if the limit is approached.

The short-term liquidity monitoring is supplemented by stress testing which assumes three scenarios:

– Italy downgrade: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on uncommitted credit lines. The counterbalancing capacity is impacted by the adverse changes to Italian government securities observed during the crisis period referred to;
– Name crisis: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Major outflows from demand deposits are also assumed. The counterbalancing capacity is impacted by the adverse change to the securities issued by Mediobanca (ABS and covered bonds) during the crisis period;
– Combined: combined name crisis-Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the movements in both directions on the interbank market and a table showing the Group's funding balances by individual form.

Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that inflows cover at least 90% of outflows for maturities of more than one and three years.

Throughout the entire twelve months under review, both indicators, short- and long-term, were at all times above the limits set in the Regulations.

In accordance with the Regulations, the Group monitors and records the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the twelve months under review, these indicators, including those which form part of the Group Risk Appetite Framework, were well above the set limits at all times. In particular, the LCR as at 30 June 2018 stood at 186%, compared to a minimum regulatory threshold of 100%.

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

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

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors or from situations which are specific to the Banking Group itself.

To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

– An adequate level of high-quality, highly liquid assets to offset any mismatches, extended or otherwise;
– Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
– A robust stress testing framework which is updated regularly;
– An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable early warning indicator system.

In a market scenario characterized by the announcement of a gradual reduction in quantitative easing by the European Central Bank and the need to refinance the T-LTRO facilities expiring, the Group has continued to focus attention on diversifying its sources of funding and optimizing its costs, consistent with the durations of the applications in a management scenario marked by increasingly integrated asset and liability management.

In the year under review, against redemptions of securities totalling €4bn, over twenty issues placed in an amount of some €4bn, with institutional issues of approx. €2.9bn roughly half of which secured, plus a €750m covered bond issue with a twelve-year duration. Funding raised by refinancing assets with the European Central Bank reduced to €4.3bn as a result of full repayment of the T-LTRO I tranche (in an amount of €1.5bn).

As at 30 June 2018, the counterbalancing capacity stood at €10.1bn, €8.7bn of which in the form of bonds deliverable in exchange for cash from the ECB (30/6/17: €8.6bn, €8.2bn of which deliverable bonds); while the balance of liquidity reserves established at the European Central bank amounted to approx. €5.6bn (€7.2bn), approx. €1.2bn of which in the form of cash not used and hence qualifying as part of the counterbalancing capacity.

QUANTITATIVE INFORMATION

1 Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	4,565,686	568,394	594,874	995,628	2,725,328	4,077,173	4,426,173	28,615,927	12,384,781	209,188
A.1 Government securities	—	788	—	6,123	112,469	502,732	44,255	5,008,510	1,174,736	—
A.2 Other debt securities	1,165	2,971	3,296	19,794	92,354	111,818	188,912	2,456,829	809,114	—
A.3 UCITS units	21,629	—	—	—	—	—	—	1	—	—
A.4 Loans and advances	4,542,892	564,635	591,578	969,711	2,520,505	3,462,623	4,193,006	21,150,587	10,400,931	209,188
– to banks	3,460,466	260,250	126,853	30,517	228,777	864,113	282,391	1,071,337	898,440	183,749
– to customers	1,082,426	304,385	464,725	939,194	2,291,728	2,598,510	3,910,615	20,079,250	9,502,491	25,439
Cash liabilities	16,593,542	1,316,079	348,576	1,660,875	3,270,804	3,625,617	4,758,121	19,988,246	5,683,044	494
B.1 Deposits and currentaccounts	14,854,758	473,432	146,444	1,027,373	1,106,910	2,067,989	1,079,590	30,399	—	—
– to banks	495,245	56	—	—	—	—	—	—	—	—
– to customers	14,359,513	473,376	146,444	1,027,373	1,106,910	2,067,989	1,079,590	30,399	—	—
B.2 Debt securities	929	228	21,124	24,688	1,580,479	534,328	3,245,727	10,972,943	4,866,357	—
B.3 Other liabilities	1,737,855	842,419	181,008	608,814	583,415	1,023,300	432,804	8,984,904	816,687	494
Off-balance-sheet transactions	—	—	—	—	—	—	—	—	—	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
– long positions	3,736	835,704	82,189	2,696,127	3,410,639	1,696,897	1,078,168	1,676,408	550,887	—
– short positions	3,736	254,116	438,418	2,294,087	2,805,782	717,931	963,612	1,948,348	478,459	—
C.2 Financial derivatives without principal exchange of	—	—	—	—	—	—	—	—	—	—
– long positions	4,186,764	4,621	2,558	7,250	69,297	43,960	79,321	40,104	—	—
– short positions	3,435,699	5,972	2,424	9,419	65,918	72,794	70,778			
C.3 Deposits and loans for collection	—	—	—	—	—	—	—	—	—	—
– long positions	—	589,753	—	21,255	152,144	619,384	177,460	638,379	—	—
– short positions	—	—	—	—	—	189,055	55,723	1,712,118	241,479	—
C.4 Irrevocable commitments to disburse funds *	—	—	—	—	—	—	—	—	—	—
– long positions	524	723	45	60,596	221,376	38,037	158,468	4,007,710	228,108	87
– short positions	1,725,903	1,233,731	45	479,306	220,400	414,788	186,321	410,448	44,645	87
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
- long positions	—	—	—	—	7,000	22,900	592,480	2,169,323	167,647	—
- short positions	—	—	—	—	—	10,000	248,846	1,674,229	1,026,276	—
C.8 Credit derivatives without exchange of principal	—	—	—	—	—	—	—	—	—	—
- long positions	848,055	—	—	—	—	—	—	—	—	—
- short positions	1,592,978	—	—	—	—	—	—	—	—	—

* The item includes hedge sales perfectly matched by buys for the same amount.

1.4 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE INFORMATION

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirements for operational risk

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement 30 June 2018 was €311.8m, higher than the €284.1m recorded last year, in part due to expansion of the Group's scope of consolidation.

Risk mitigation

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

The processes of identifying, assessing, collecting and analysing loss data and mitigating operational risks are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

The operating losses recorded in the course of the financial year have been low and account for less than 1% of the Group's total revenues.

The merger of Banca Esperia into Mediobanca S.p.A. did not generate any particular loss events. For the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown below:

Event Type	**% on Total Loss**
Clients, products and business practices	61.3%
Execution, delivery and process management	21.6%
External fraud	13.1%
Employment practices and workplace safety	3.9%
Other	0.1%

During the twelve months under review, more than half of the operating losses due to the "Clients, products and business practices" event type, which includes losses deriving form complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. These were followed by process risks ("Execution, delivery and process management") and external fraud on retail financing products (fake documentation and/or cards), for which mitigation action has been taken.

In terms of potential effects, or estimates, operational risks will be higher than in the past due to the growth in the Wealth Management and Consumer Banking businesses, the commercial networks and the higher number of potential instances of risk, such as cyber risk, the potential risk of low frequency/high severity events inherent in businesses which feature non-standard transactions of large size, such as CIB and in part Wealth Management in particular. All operational risks are mitigated by stronger governance and enhanced first-level controls, and by stepping up monitoring activity and valuation capability.

With reference to IT risk in particular, the Group has instituted an IT Governance unit which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans.

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 175, 176, 177 and 178.

Other risks

As part of the process of assessing the current and future capital required for the company to perform its business (ICAAP) required by the regulations in force, the Group has identified the following types of risk as relevant (in addition to those discussed previously, i.e. credit risk, counterparty risk, market risk, interest rate risk, liquidity risk and operational risk:

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Expected shortfall on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;
- Strategic risk, both in the sense of risk deriving from current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Basis risk: in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;

– Compliance risk, i.e. the 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;
– Reputational risk, i.e. the 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;
– Residual risk, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
– Country and transfer risk – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management Committees.

* * *

The Mediobanca Group continues to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. (investment banking services) and Group company Cairn Capital (alternative fund management). The potential impact of the Brexit vote for the Group is limited and may be quantified at 1.2% of total revenues). Mediobanca continues to monitor the progress of the negotiations and the potential impact in regulatory terms via an internal working group set up for this purpose, which is co-operating with the JST to understand the implications for offsetting derivatives contracts and to agree on the draft business plan for the Financial Conduct Authority which will describe the new legal status decided for the branch office.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

*B.1 Consolidated net equity: breakdown by type of company**

	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
Share capital	459,918	—	—	—	459,918	16,643
Share premium reserve	2,193,591	—	—	—	2,193,591	1,848
Reserves	5,559,032	—	—	—	5,559,032	68,582
Equity instruments	—	—	—	—	—	—
Treasury shares	(109,338)	—	—	—	(109,338)	—
Revaluation reserves:	761,276	—	—	—	761,276	(2,979)
- Financial assets available-for-sale	121,844	(304)	—	—	121,540	—
- Property, plant and equipment	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—	—
- Cash flow hedges	(18,569)	—	—	—	(18,569)	(2,869)
- Exchange differences	(8,899)	—	—	—	(8,899)	(3)
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(6,163)	—	—	—	(6,163)	(107)
- Portion of measurement reserves relating to investments carried at equity method	663,431	304	—	—	663,735	—
- Special revaluation laws	9,632	—	—	—	9,632	—
Net profit (loss) for the period (+/-) of Group and minorities	867,726	—	—	—	867,726	3,806
Total	9,732,205	—	—	—	9,732,205	87,900

* Includes Compass RE (insurance) and R&S, equity-consolidated consolidated pro rata (Other companies).

B.2 AFS valuation reserves: composition

Assets/Values	Banking Group		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	64,164	(22,148)	1,239	(1,543)	—	—	—	—	65,403	(23,691)
2. Equities	60,499	(5,506)	—	—	—	—	—	—	60,499	(5,506)
3. UCITS units	29,267	(4,432)	—	—	—	—	—	—	29,267	(4,432)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 30/6/18	153,930	(32,086)	1,239	(1,543)	—	—	—	—	155,169	(33,629)
Total at 30/6/17	324,347	(7,266)	2,443	(168)	—	—	—	—	326,790	(7,434)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	98,834	192,574	27,947	—
2. Positive changes	14,599	1,413	10,060	—
2.1 Increases in fair value	14,108	1,412	9,350	—
2.2 Negative reserves charged back to profit and loss as result of	486	—	154	—
– impairment	—	—	—	—
– disposals	486	—	154	—
2.3 Other additions	5	1	556	—
3. Negative changes	71,726	138,989	13,172	—
3.1 Reductions in fair value	51,781	21,456	8,615	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as result of: disposals	19,945	117,533	3,996	—
3.4 Other reductions	—	—	561	—
4. Closing balance	41,707	54,998	24,835	—

SECTION 2

Regulatory and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2017, which set the limit for CET1 at 7.652% and the total capital level at 11.152%, the lowest levels among Italian banks. These values reflect the new phase-regime for the capital conservation buffer (1.875%, as against 2.5% fully-phased as from 2019). Further details are available in the information disclosed to the public as required under Pillar III of Basel II, published on the Bank's website at www.mediobanca.com.

2.1 Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, after receiving the relevant clearances, has weighted the investment Assicurazioni Generali at 370%, as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limit for the insurance group, which in December 2017 was reduced to 20% from its previous level of 25% to comply with the limit on related parties).

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €937m of the positive AFS equity reserves, €18.1m of which in government securities and €827.9m deriving from Assicurazioni Generali being equity-consolidated), and the profit for the period (€455m) net of the dividend for the year (€412.8m) corresponding to a payout ratio of 48% calculated based on a dividend of €0.47 per share. From this amount the following items are deducted: treasury shares (€109.3m after the partial usage in the RAM acquisition), intangible assets (€102.8m), goodwill (€649.8m, €177m in respect of newly-acquired company RAM), and other prudential adjustments (€41.2m) in connection with the values of financial instruments (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €1,773.4m were deducted, €1,515.7m of which in respect of the Assicurazioni Generali investment.

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

Tier 2 capital includes the liabilities issued (€1,819.4m) and the surplus arising on value adjustments relative to expected losses (€9.2m).

Issue	**30/6/18**		
	ISIN	**Nominal value**	**Book value***
MB Subordinato Mar 29	XS1579416741	50,000	48,500
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	285,377
MB OPERA 3.75 2026	IT0005188351	299,960	291,450
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	228,804
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	491,436
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,242	473,861
Total subordinated debt securities		**2,354,586**	**1,819,428**

* The calculated value differs from the book value for items recognized at fair value and amortized cost and for buyback commitments.

The subordinated liabilities fell from €2,036.4m to €1,819.4m, due to movements from the period plus the repayment share (€266.5m), there having been no new issues during the year under review. No subordinated Tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUANTITATIVE INFORMATION

	30/6/18	30/6/17
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,285,623	8,843,333
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(12,852)	(4,460)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,272,771	8,838,873
D. Items to be deducted from CET1	(3,518,758)	(1,779,520)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	992,586	(42,072)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	6,746,599	7,017,281
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,819,428	2,036,402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	—	(149,070)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	9,238	(25,599)
P. Total T2 (M-N+/-O)	1,828,666	1,861,733
Q. Total own funds (F+L+P)	8,575,265	8,879,014

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2018, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.24%, higher than last year (13.31%). The improvement in the ratios was helped by application of the AIRB models to calculate RWAs for the Large Corporate portfolio (adding 140bps, which translates to a reduction of some €5bn in RWAs), only in part offset by the RAM Active Investments SA acquisition which absorbed 30bps of capital representing the balance between goodwill (minus 40bps), seed capital (minus 5bps) and delivery of treasury shares by way of partial consideration (adding 15bps). Prudential treatment of the Assicurazioni Generali investment, in accordance with the new, 20% concentration limit, drove a €1.4bn reduction in RWAs, against a €0.5bn increase in deductions. There was also an equivalent rise in the total capital ratio, from 16.85% to 18.11%.

During the twelve months under review:

– The Liquidity Coverage ratio (LCR) decreased from 245% to 186%, comfortably above the regulatory limit of 100% introduced on 1 January 2018;

– The Leverage Ratio decreased from 9.5% to 8.8%, but remains well above the regulatory limit of 3% in force only since 1 January 2018, the definitive requirements for which are expected to be made known by year-end 2018 for application starting from 2019.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/18	30/6/17	30/6/18	30/6/17
A. RISK ASSETS				
A.1 Credit and counterpart risk	65,110,914	62,865,854	40,479,850	46,158,581
1. Standard methodology	49,338,183	62,553,175	31,415,612	45,873,175
2. Internal rating methodology	15,611,090	—	8,936,201	—
2.1 Basic	—	—	—	—
2.2 Advanced	15,611,090	—	8,936,201	—
3. Securitization	161,641	312,679	128,037	285,406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,238,388	3,692,686
B.2 Credit valuation risk			49,724	60,699
B.3 Settlement risk			—	—
B.4 Market risk			189,093	179,130
1. Standard methodology			189,093	179,130
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			311,808	284,144
1. Basic Indicator Approach (BIA)			311,808	284,144
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,789,013	4,216,660
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,362,665	52,708,249
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.24%	13.31%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.24%	13.31%
C.4 Regulatory capital/risk-weighted assets (Total capital ratio)			18.11%	16.85%

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

Mediobanca S.p.A. completed the acquisition of a 69% stake in RAM Active Investments SA on 28 February 2018. The acquisition of was €143.4m.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%.

A preliminary calculation of the goodwill arising from the transaction came to €177m (bearing in mind the liability in respect of the put-and-call option which was valued at €40.5m), which under the requirements of IFRS13 must be subject to a Purchase Price Allocation process within twelve months of the date of acquisition.

The contribution of RAM AI to the Group's performance may be quantified as follows on annual basis:

– Approx. €57.1m in net fee and commission income;
– AUM of €4.3bn;
– Net profit of €19.6m.

During the year some extraordinary intragroup operations were also carried out; these transactions are excluded from the scope of application of IFRS3 and involved the transfer of branches or legal entities within the Mediobanca Group scope of consolidation or business combinations between the companies themselves (known as "under common control").

Following the acquisition of the remaining 50% of Banca Esperia, completed during the previous year (during 1H FY 2017-18), Mediobanca has completed the allocation (PPA) process, recognizing a brand valued at €15.5m, a client list worth €4.5m, and residual goodwill outstanding of €55.2m in its financial statements.

On 1 December 2017, Banca Esperia was merged into Mediobanca with effect in accounting and tax terms from 1 July 2017; and on the same date the new Mediobanca Private Banking was established.

The subsidiaries owned by Banca Esperia thus came to be controlled directly by Mediobanca S.p.A. (Duemme SGR, renamed Mediobanca SGR, and Duemme International Luxembourg SA, renamed Mediobanca Management Company SA) and their book value has been readjusted to fair value.

The other subsidiary owned by Banca Esperia, Esperia Servizi Fiduciari, was spun off to Spafid S.p.A. in September 2017 and subsequently merged into the latter with effect in accounting terms again from 1 July 2017.

For further details on all transactions which have generated goodwill, please see Part B of the Notes to the Consolidated Balance Sheet, Section 13 (Intangible Assets).

SECTION 2

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3

Retrospective adjustments

No adjustments have been made to the accounts for the year under review in connection with previous business combinations.

Part H - Related party disclosure

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure. in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca. having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees. has incorporated the Bank of Italy's most recent instructions on this subject to this procedure. which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in May 2018. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted. please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies. are maintained on an arm's length basis. and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

2.1 Regular financial disclosure: most significant transactions

There were no such transactions to report during the financial year under review.

2.2 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) remained substantially unchanged during the twelve months under review (€1.1bn) and now represents 1.5% of total assets (30/6/17: 1.6%). At the same time. interest income from such items accounts for 1.1% of this item.

Situation as at 30 June 2018

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.2	409.3	647.4	1,057.9
of which: other assets	—	*212.1*	*393.6*	*605.7*
loans and advances	*1.2*	*197.2*	*253.8*	*452.2*
Liabilities	17.5	0.1	188.4	206.0
Guarantees and commitments	—	—	43.0	43.0
Interest income	—	9.1	12.5	22.0
Interest expense	(0.1)	—	(1.6)	(1.7)
Net fee income	—	2.8	60.9	63.7
Other income (costs)	(39.3) [1]	(1.1)	(26.2)	(66.6)

[1] Of which: short-term benefits amounting to €30.4m and performance shares worth €3.7m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year

Situation at 30 June 2017

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.5	501.3	572.5	1,075.3
of which: other assets	—	*297.1*	*340.0*	*637.1*
loans and advances	*1.5*	*204.2*	*232.5*	*438.2*
Liabilities	19.4	—	225.3	244.7
Guarantees and commitments	—	—	63.3	63.3
Interest income	—	21.9	17.4	39.3
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	6.2	94.3	100.5
Other income (costs)	(29.4) [1]	(3.7)	9.7	(23.4)

[1] Of which: short-term benefits amounting to €26m and performance shares worth €3.1m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved by shareholders in extraordinary general meetings reflect the following situation:

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
For use in connection with stock option and performance stock option schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
Of which directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
For use in connection with performance share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,096,209 [3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] Of these, 2,000,000 were granted to one former director.

[3] In respect of awards made in 2014, 2015, 2016 and 2017.

2. Description of stock option and performance stock option schemes

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with the dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allotted are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

- Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
- Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued; the 8,714,833 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2017 financial year, a total of 1,725,837 performance shares were awarded (net of 108,647 recovered); the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches (up to 792,471 in FY 2019-20, up to 475,932 in FY 2020-21, up to 349,146 in FY 2021-22, and up to 108,288 n in FY 2022-23).

Beneficiaries were also awarded a total of 1,559,507 shares, 21,725 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015; and a further 135,834 shares were recovered.

Subsequently, as part of staff variable remuneration for the 2018 financial year, a total of 1,744,669 performance shares were awarded, at a notional cost of €11.7m in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available in tranches in November 2020 (up to 817,307), November 2021 (up to 477,879), November 2022 (up to 347,193) and November 2023 (up to 102,290).

QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

	30/6/18			30/6/17		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Opening balance	4,442,500	6.53	August 18	10,167,500	6.55	August 18
B. Increases						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Decreases						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	3,800,000	6.54	X	5,725,000	6.57	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	642,500	6.51	October 18	4,442,500	6.53	August 18
E. Performance shares exercisable as at reporting date	642,500	6.51	X	4,442,500	6.53	X

2. Changes in performance share scheme during the year

	30/6/18		30/6/17	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,065,713	6.37	7,377,896	5.27
B. Increases				
B.1 New issues	1,834,484	7.93	2,229,665	5.07
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,559,507	7.09	4,489,290	3.92
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	244,481	6.99	52,558	5.10
D. Closing balance	5,096,209	6.69	5,065,713	6.37

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Corporate & Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Writeoffs	Group
Net interest income	266.1	868.8	255.2	(7.2)	(37.5)	14.0	1,359.4
Net trading income	110.5	—	12.1	21.9	13.1	(0.2)	157.4
Net fee and commission income	254.4	127.4	258.7	—	15.5	(33.8)	622.2
Share in profits earned by equity-accounted companies	—	—	—	280.3	—	—	280.3
Total income	**631.0**	**996.2**	**526.0**	**295.0**	**(8.9)**	**(20.0)**	**2,419.3**
Personnel costs	(137.4)	(96.1)	(201.1)	(3.8)	(118.2)	(1.2)	(557.8)
Administrative expenses	(118.5)	(188.4)	(215.7)	(1.0)	(55.1)	21.6	(557.1)
Operating costs	**(255.9)**	**(284.5)**	**(416.8)**	**(4.8)**	**(173.3)**	**20.4**	**(1,114.9)**
Gain (losses) on AFS	—	—	2.0	96.3	—	—	98.3
Net loss provisions	19.0	(241.9)	(16.4)	(1.8)	(7.5)	0.1	(248.5)
Others	(2.0)	(6.6)	(0.6)	—	(49.3)	0.1	(58.4)
Profit before tax	**392.1**	**463.2**	**94.2**	**384.7**	**(239.0)**	**0.6**	**1,095.8**
Income tax for the period	(127.6)	(147.9)	(24.4)	(10.9)	83.0	(0.6)	(228.1)
Minority interest	—	—	(0.6)	—	(3.2)	—	(3.8)
Net profit	**264.5**	**315.3**	**69.2**	**373.8**	**(158.9)**	**—**	**863.9**
Cost/income ratio (%)	*40.6*	*28.6*	*79.2*	*1.6*	*n.m.*	*n.m.*	*46.1*

Notes:

[1] Divisions comprise:
- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
  - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolios) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
  - Affluent & Premier, addressed by CheBanca!;
  - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque and CMB Asset Management;
  - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion and RAM Active Investments;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS).

[2] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €0.3m).

A.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Functions	Group
Financial assets held for trading	8,170.7	—	34.1	—	—	8,204.9
Treasury funds	4,567.3	127.2	—	—	3,663.6	8,358.2
AFS securities	—	1.7	23.7	746.8	—	772.3
Banking book securities	727.4	178.8	351.3	—	6,487.2	7,744.7
Loans and advances to customers	16,134.2	12,517.8	10,359.2	—	2,116.7	41,127.9
Equity investments	—	—	—	3,210.8	—	3,210.8
Tangible and intangible assets	0.7	380.0	115.0	—	532.0	1,027.7
Other assets	24.6	645.8	337.3	—	846.3	1,854.0
Total assets	**29,631.2**	**13,937.4**	**11,319.5**	**3,957.7**	**13,658.5**	**72,300.5**
Funding	29.6	2.783.6	19,116.3	—	26,961.7	48,893.2
Treasury funding	3,617.3	—	—	—	1,673.1	5,290.4
Financial liabilities held for trading	6,462.4	—	—	—	—	6,462.4

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Foreign countries [1]	Group
Net interest income	1,300.9	58.5	1,359.4
Net trading income	144.3	13.1	157.4
Net fee and commission income	447.3	174.9	622.2
Share in profits earned by equity-accounted companies	280.3	—	280.3
Total income	**2,172.8**	**246.5**	**2,419.3**
Personnel costs	(432.6)	(125.2)	(557.8)
Administrative expensives	(492.9)	(64.2)	(557.1)
Operating costs	**(925.5)**	**(189.4)**	**(1,114.9)**
Gain (losses) on AFS	96.3	2.0	98.3
Net loss provisions	(247.2)	(1.3)	(248.5)
Others	(57.0)	(1.4)	(58.4)
Profit before tax	**1,039.4**	**56.4**	**1,095.8**
Income tax for the period	(201.1)	(27.0)	(228.1)
Minority interest	(3.8)	—	(3.8)
Net profit	**834.5**	**29.4**	**863.9**
Cost/income ratio (%)	*42.6%*	*76.8%*	*46.1%*

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company and RAM Active Investments, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Foreign countries [1]	Group
Financial assets held for trading	8,140.6	64.3	8,204.9
Treasury funds	4,063.7	4,294.5	8,358.2
AFS securities	757.1	15.2	772.3
Banking book securities	7,070.0	674.7	7,744.7
Loans and advances to customers	35,141.0	5,986.9	41,127.9
Equity investments	3,205.2	5.6	3,210.8
Tangible and intangible assets	997.7	30.0	1,027.7
Other assets	1,526.2	327.8	1,854.0
Total assets	**60,901.5**	**11,399.0**	**72,300.5**
Funding	(39,220.3)	(9,672.9)	(48,893.2)

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company and RAM Active Investments, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London); in particular, the heading "Funding" includes €2.9bn of intercompany amounts.

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13.
Situation at 30 June 2018

(€m)

Business Line	**Composition**	**Heading 120 Total income***			**Full-time employees** [1]		
		Italy	**International**	**Group**	**Italy**	**International**	**Group**
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	476	38	514	185	156	341
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech)	90	—	90	243	—	243
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	853	2	855	1,363	1	1,364
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	292	—	292	1,271	5	1,276
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by Banca Esperia and Spafid and in Monaco by Compagnie Monegasque de Banque; this division also includes the Alternative AM product factory and in particular Cairn Capital	90	142	232	112	325	437
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	111	—	111	12	—	12
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); ; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment)	(26)	—	(26)	880	24	904
Adjustments [2]		(20)	5	(15)	—	—	—
Group total		1,866	187	2,053	4,066	511	4,577

* As per P&L heading Voce 120 according to Bank of Italy circular 262/05, which differs from "Total income" (Margine di Intermediazione) of P&L scheme in pagg. 293 and 294 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce 120 according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Situation at 30 June 2017

(€m)

Business Line	**Composition**	**Heading 120 Total income***			**Full-time employees** [1]		
		Italy	**International**	**Group**	**Italy**	**International**	**Group**
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	496	52	548	177	157	334
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech)	67	—	67	222	—	222
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	809	2	811	1.366	1	1.367
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	274	—	274	1.354	5	1.359
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by Banca Esperia and Spafid and in Monaco by Compagnie Monegasque de Banque; this division also includes the Alternative AM product factory and in particular Cairn Capital	68	122	190	336	271	607
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	171	—	171	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); ; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment)	(70)	1	(69)	757	29	786
Adjustments [2]		(46)	(3)	(49)	—	—	—
Group total		1,769	174	1,943	4,223	463	4,686

* As per P&L heading Voce 120 according to Bank of Italy circular 262/05, which differs from "Total income" (Margine di Intermediazione) of P&L scheme in pagg. 293 and 294 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce 120 according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

ANNUAL GENERAL MEETING,
27 OCTOBER 2018

AGENDA

1) Financial statements as at 30 June 2018 Board of Directors' review of operations and other reports, reports by external auditors and Statutory Audit Committee; related resolutions.

2) Measures required under Article 15 of the company's Articles of Association: appointment of two directors.

3) Remuneration policies:

   a. Staff remuneration policies;

   b. Cap on variable and fixed remuneration based on a ratio of 2:1;

   c. Policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca.

4) Proposal for authorization to buy back and sell treasury shares; related resolutions.

ACCOUNTS OF THE BANK

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Overview

In the twelve months under review, Mediobanca earned a net profit of €337m, higher than the €318.3m recorded last year, in part due to the merger of Banca Esperia with the latter's results included for the full twelve months for the first time.

Revenues reflect substantial, 20.1% growth, from €574.8m to €690.1m (up 9.5% on a like-for-like basis), with all the main income sources contributing positively:

- Net interest income rose by 12.4%, from €84.6m to €95.1m, due to an increase in lending volumes in corporate banking (up 4.2%), the addition of certain private banking positions (€965m, adding net interest income of €8.3m), and a reduction in the cost of funding;
- Net treasury income climbed 26.2%, from €116.3m to €146.8m, on AFS dividends totalling €21.9m (€16.7m), dealing profits of €108.7m (€95m), and gains on disposals of banking book securities worth €23.9m (€22.9m);
- Net fee and commission income was up 27.9%, from €211.7m to €270.7m, driven by asset management and private banking investment services (€52.2m), with Wholesale Banking fees resilient at €219m (€211m);
- Dividends from equity investments were 9.4% higher, up from €162.2m to €177.5m, due to the higher payout by Assicurazioni Generali.

Operating costs increased by 19.1%, from €348.3m to €414.8m, split equally between labour costs and overheads and administrative expenses; on a like-for-like basis, however, the increase was just under 1%.

Writebacks of €43.6m to the loan book (€13m) were 90% attributable to amounts collected in respect of corporate non-performing exposures.

Lower gains on disposal of AFS equities of €96.3m (€161.6m) were offset by the reduction in contributions to the resolution funds (down from €62.8 to €30.3m) due to the lower extraordinary component of €8.3m (€42.6m).

On the balance-sheet side, total assets rose from €57.9bn to €59.2bn, chiefly due to the higher lending volumes:

- Corporate loans rose from €9.6bn to €9.9bn; the consolidation of former Banca Esperia assets from private banking operations, included for the first time, also added nearly €1bn;
- Net treasury assets decreased from €10bn to €9.2bn, which was offset by an increase in banking book bonds, from €10.8bn to €11.5bn;
- Funding reduced from €41bn to €39.2bn, mostly on account of the €1.5bn repayment of the first T-LTRO programme.

Mediobanca's capital ratios as at 30 June 2018, taking into account the possibility of weighting the Assicurazioni Generali investment at 370% (thus complying with the concentration limit versus the company) and the proposed dividend (€0.47 per share), continued to reflect high levels, above the regulatory limits set: in particular the Common Equity ratio was up from 15% to 16.24% and the Total Capital ratio up from 19.97% to 21.51%. RWAs declined from €32.4bn to €29.4bn, following application of the AIRB models for the Large Corporate portfolio (which cut RWAs by €5bn). The fully-loaded ratios, i.e. without weighting the Assicurazioni Generali investment at 370%, reduce to 15.1% (CET1 ratio) and 21.1% (Total Capital ratio) respectively, but continue to reflect high levels.

Financial highlights

The profit and loss account and balance sheet have been restated to provide the most accurate reflection of the Bank's operations. The results are also presented in the format recommended by the Bank of Italy in the annex.

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

Profit-and-loss data	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Net interest income	84.6	95.1	12.4
Net trading income	116.3	146.8	26.2
Net fee and commission income	211.7	270.7	27.9
Dividends on investments	162.2	177.5	9.4
Total income	**574.8**	**690.1**	**20.1**
Labour costs	(198.9)	(237.8)	19.6
Administrative expenses	(149.4)	(177.0)	18.5
Operating costs	**(348.3)**	**(414.8)**	**19.1**
Gain (loss) on AFS, HTM and L&R	161.6	96.3	-40.4
Loan loss provisions	13.0	44.3	n.m.
Provisions for other financial assets	(4.1)	1.1	n.m.
Impairment on investments	(0.9)	(0.3)	-66.7
Other gains (losses)	(47.8)	(32.7)	-31.6
Profit before tax	**348.3**	**384.0**	**10.2**
Income tax for the period	(30.0)	(47.0)	56.7
Net profit	**318.3**	**337.0**	**5.9**

RESTATED BALANCE SHEET

(€m)

	30/6/17	30/6/18
Assets		
Financial assets held for trading	7,271.3	8,211.9
Treasury funds	10,031.8	9,236.0
AFS securities	659.5	746.8
Banking book securities	10,764.3	11,454.9
Loans and advances to customers	25,226.7	25,745.1
Equity investments	3,057.0	3,084.2
Tangible and intangible assets	132.2	155.4
Other assets	766.1	600.1
Total assets	**57,908.9**	**59,234.4**
Liabilities and net equity		
Funding	41,038.2	39,173.0
Treasury funding	4,451.3	7,287.4
Financial liabiliites held for trading	5,859.2	6,510.5
Other liabilities	1,136.4	872.5
Provisions	105.7	105.5
Net equity	4,999.8	4,948.5
Profit (loss) for the period	318.3	337.0
Total liabilities and net equity	**57,908.9**	**59,234.4**
Regulatory capital (€ mln)	4,861.5	4,772.7
Solvency margin (€ mln)	6,470.0	6,323.1
RWA (€ mln)	32,399.6	29,395.2
Regulatory capital/RWA	15.0%	16.24%
Solvency margin/RWA	19.97%	21.51%
No. of shares outstanding (€ mln)	881.2	886.6
Market capitalization (€ mln)	7,613.7	7,062.6
No. of staff	757	982

Review of key items

Funding – this item reduced by 4.5%, from €41bn to €39.2bn, following repayment of the first tranche of the T-LTRO (€1.5bn), and the reduction in debt securities, from €18.8bn to €16.8bn, only in part offset by the increased contribution from CheBanca! (up from €10.7bn to €11.2bn). In the twelve months under review there were new issues worth approx. €1.8bn, made up entirely of senior notes, including a covered bond issue with CheBanca! mortgage receivables as the underlying instrument (€750m), against redemptions and buybacks totalling €4.2bn.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Debt securities	18,826.8	45%	16,769.4	42%	-10.9%
Interbank funding	14,289.7	35%	14,767.7	38%	3.3%
- of which: CheBanca! intercompany	*10,741.6*	*26%*	*11,192.4*	*29%*	*4.2%*
ECB (T-LTRO / LTRO)	5,611.9	14%	4,363.1	11%	-22.3%
Other funding	2,309.8	6%	3,272.8	8%	41.7%
Total funding	**41,038.2**	**100%**	**39,173.0**	**100%**	**-4.5%**

Loans and advances to customers – loans and advances to customers remained basically stable at €25.7bn (€25.2bn), following the addition of private banking positions (€1bn) which offset the reduction in loans to other Group companies (which decreased from €15.6bn to €14.8bn), in particular to Compass (€0.9bn lower), financed through securitizations subscribed to entirely by Mediobanca with the securities held as part of the banking book (€3.9bn, €1.2bn of which issued during the financial year). The corporate banking component increased from €9.6bn to €9.9bn, in particular non-Italian loans, following disbursements of €4.1bn and redemptions totalling €2.9bn, €1.7bn of which are early redemptions. New loans for the year were up 58%.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Corporate customers	9,591.4	38%	9,934.2	39%	3.6%
Private customers *	—	—	965.0	4%	—
Group companies	15,635.3	62%	14,845.9	57%	-5.0%
Total loans and advances to customers	**25,226.7**	**100%**	**25,745.1**	**100%**	**2.1%**
– of which: impaired assets	*371.7*		*344.0*		*-7.5%*

(*) Following Banca Esperia merger.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Italy	6,440.4	67%	6,525.1	60%	1.3%
France	965.5	10%	1,022.5	9%	5.9%
Spain	713.8	7%	1,312.0	12%	83.8%
Germany	456.0	5%	645.7	6%	41.6%
UK	—	—	500.0	5%	n.m.
Other non-resident	1,015.7	11%	893.9	8%	-12.0%
Total loans and advances to customers	**9,591.4**	**100%**	**10,899.2**	**100%**	**13.6%**

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Compass Banca	5,333.9	35%	4,405.1	30%	-17.4%
CheBanca!	5,195.9	33%	5,336.2	36%	2.7%
Leasing	1,519.1	10%	1,639.0	11%	7.9%
Mediobanca International	2,242.2	14%	2,133.3	14%	-4.9%
Consumer and Factoring	1,314.8	8%	1,294.0	9%	-1.6%
Others	29.4	—	38.3	—	30.3%
Total loans and advances to Group companies	**15,635.3**	**100%**	**14,845.9**	**100%**	**-5.0%**

Non-performing loans totalled €344m (€371.7m), and consist of five exposures, two fewer than last year, and three private banking positions (generated by the former Banca Esperia); together they represent 3.2% (3.9%) of the corporate loan book, plus exposures in the form of endorsements totalling €9.3m (€17.3m); the coverage ratio improved to 47.7% (46%). Bad debts of €3.8m are attributable to private banking operations and have been written off in full.

Equity investments – these increased slightly from €3,057m to €3,084.2m, due to: movements in the period which regard capital increases by Mediobanca Group companies (€36.9m, €34.5m of which to MBFACTA); the acquisition of RAM Active Investments SA (€143.4m); completion of the Banca Esperia merger, which entailed its two subsidiaries Mediobanca SGR (formerly Duemme SGR) and Mediobanca Management Company (formerly Duemme International Luxembourg) being recognized in the accounts at their fair value (€38m and €4m respectively), after the Banca Esperia investment was discharged (€195.4m).

(€m)

	Percentage shareholding	30/6/17	30/6/18
Associates			
Assicurazioni Generali	13.0	1,096.3	1,096.3
Istituto Europeo di Oncologia	25.4	39.0	39.0
Burgo Group	22.1	—	—
Total associates		**1,135.3**	**1,135.3**
Total subsidiaries		1,921.7	1,948.9
Total equity investments		**3,057.0**	**3,084.2**

Investments in associates are unchanged and chiefly regard the stakes held in:

– Assicurazioni Generali, equal to 13% of the ordinary share capital booked at €1,096.3m, and reflects a gain as at the reporting date of €1,816.7m.

– Istituto Europeo di Oncologia, an interest of 25.4%, worth €39m.

The criteria adopted for the valuations and impairment tests are explained in section 10 part B of the notes to the accounts.

Banking book securities – these include debt securities held as part of the AFS, HTM and unlisted portfolios, and at the reporting date were worth a total of €11.5bn, up 6.4% on the €10.8bn reported one year previously. During the twelve months under review there were redemptions of €2.6bn, yielding gains of €12.1m (€10.4m of which in exchange rate adjustments). The exposure to Italian government securities fell from €3.2bn to €2.6bn, and accounts for 23% of the banking book, with an average duration of under three years. The exposure to non-Italian government securities totalled €2,560.8m (€2,205.2m), and reflects a higher degree of securitization within the Eurozone. The exposure to securitizations of Consumer Banking receivables (Compass and Futuro) rose from €2.7bn to €3.9bn and accounts for 34% of the balance.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
AFS securities	5,004.9	47%	4,419.5	39%	-11.7%
Securities held to maturity	2,394.9	22%	2,595.1	23%	8.4%
Unlisted debt securities (stated at cost)	3,364.5	31%	4,440.3	38%	32.0%
Total fixed financial assets	**10,764.3**	**100%**	**11,454.9**	**100%**	**6.4%**

(€m)

	30/6/17			30/6/18		
	Book Value	%	AFS reserve	Book Value	%	AFS reserve
Italian government securities	3,179.0	30%	61.6	2,582.9	23%	25.2
Foreign government bonds	2,205.2	20%	17.4	2,560.8	22%	14.0
Bonds issued by financial institutions	4,564.8	42%	37.1	5,610.2	49%	16.6
- of which: Consumer Banking ABS securities	*2,725.7*	*25%*	—	*3,891.3*	*34%*	—
Corporate bonds	815.3	8%	27.2	701.0	6%	16.2
Total debt securities	**10,764.3**	**100%**	**143.3**	**11,454.9**	**100%**	**72.0**

The valuation reserve decreased from €143.3m to €72m, in part as a result of the disposals (€28.9m) and the reduction in Italian government securities recorded at end-June; there were also €37.7m in unrealized gains on fixed financial assets (versus €86.5m as at 30 June 2017).

AFS shares – this portfolio brings together equities and investments in funds, including those promoted by the Group through seed capital.

(€m)

	30/6/17			30/6/18		
	Book value	% ord.	AFS reserve	Book value	% ord.	AFS reserve
Atlantia	275.6	1.4	124.6	—	—	—
Italmobiliare	69.2	6.1	45.4	60.8	6.1	37.0
RCS MediaGroup	41.8	6.6	20.1	36.9	6.6	15.2
Other listed equities	12.7	—	5.0	141.6	—	(0.9)
Private equity	63.6	—	25.5	67.0	—	22.1
Other unlisted equities	67.1	—	11.6	125.1	—	11.9
Seed capital	129.5	—	11.2	315.4	—	7.5
Total equities	**659.5**		**243.4**	**746.8**		**92.8**

The portfolio increased in value from €659.5m to €746.8m, representing the difference between sales of shares totalling €301.6m, which mostly involved the remaining shares in Atlantia (disposal of €240m, generating a €89m gain), new investments in listed equities totalling €128.9m, and fund investment activity (€170.8m), chiefly subscription to five RAM funds for a total nav amount as at 30 June 2018 of €171.4m. There was also €1.8m in net value adjustments. The valuation reserve for the portfolio decreased from €243.4m to €92.8m, as a result of the disposals (which reduced the reserve by €131.7m) and downward adjustments to reflect fair value at the reporting date totalling €18.3m.

Net treasury assets – the balance between financial instruments held for trading purposes and trading assets and liabilities totalled €3,650m, a substantial reduction compared to the €6,992.6m last year, due to more effective liquidity management in a negative market interest rate scenario. The strategy drove a reduction in net deposits in repos (from €4,004.6m to €462.9m) and other liquid assets (from €1,575.5m to €1,485.7m), in particular assets held with the European Central Bank (from €1,255.2m to €1,172.2m). The heading includes equities totalling €1,625.9m (€1,534.4m), over 87% of which are hedged by derivatives with clients, and debt securities of €310.7m (€175m).

(€m)

	30/6/17	30/6/18	Chg.
Financial assets held for trading	7,271.3	8,211.9	13%
Treasury funds	10,031.8	9,236.0	-8%
Financial liabilities held for trading	(5,859.2)	(6,510.5)	11%
Treasury funding	(4,451.3)	(7,287.4)	64%
Total	**6,992.6**	**3,650.0**	**-48%**

(€m)

	30/6/17	30/6/18	Chg.
Loan trading	59.6	25.0	-58%
Derivatives contract valuations	(356.9)	(260.1)	-27%
Equities	1,534.4	1,625.8	6%
Bond securities	175.0	310.7	78%
Financial instruments held for trading	**1,412.1**	**1,701.4**	**20%**

(€m)

	30/6/17	30/6/18	Chg.
Cash and banks	1,575.5	1,485.7	-6%
PCT&PT	1,168.8	(960.0)	n.m.
Financial assets deposits	1,798.8	146.2	n.m.
Stock Lending	1,037.4	1,276.7	23%
Net treasury assets	**5,580.5**	**1,948.6**	**-65%**

Tangible and intangible assets – these increased, from €132.2m to €155.4m, chiefly due to registration of the brand (€15.5m) and goodwill (€12.5m) following the Banca Esperia merger and related purchase price allocation. Depreciation and amortization charges for the period totalled €11.8m (€12.1m), while investments amounted to €3.3m (€12.3m), due chiefly to new IT applications.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Land and properties	113.4	86%	112.3	72%	-1.0%
- of which: core	*87.9*	*66%*	*87.1*	*56%*	*-0.9%*
Other tangible assets	4.6	3%	4.5	3%	-2.2%
Other intangible assets	14.2	11%	38.6	25%	n.m.
- of which: goodwill	—	—	*12.5*	*8%*	—
- of which: brand	—	—	*15.5*	*10%*	—
Total tangible and intangible assets	**132.2**	**100%**	**155.4**	**100%**	**17.5%**

Provisions – this item was basically unchanged at €105.5m (€105.7m), following transfers to the provisions for risks totalling €2m in connection with the reorganization of the CIB area, and net withdrawals of €1.7m, chiefly due to the effects of the Banca Esperia merger. The share of the staff severance indemnity provision declined from €8.9m to €7.7m, with the discount reserve virtually stable (down from €0.4m to €0.5m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Provisions for risk and charges	96.8	92%	97.8	93%	1.0%
Staff severance provision	8.9	8%	7.7	7%	-13.5%
of which: staff severance provision discount	*0.4*	—	*0.5*	—	*25.0%*
Total provisions	**105.7**	**100%**	**105.5**	**100%**	**-0.2%**

Net equity – the €32.6m, or 0.6%, decrease in net equity reflects the €155.2m reduction in the valuation reserves, in particular those for AFS equities (down €186.2m), and the 2017 dividend (€320.2m) which accounted for the profit for the year (€337m) and the reduction in treasury shares (from €197.7m to €109.3m) after 7,021,953 shares were used as part of the consideration in the RAM Active Investments acquisition in February 2018.

The Bank's share capital increased from €440.6m to €443.3m, following the exercise of 3,770,000 stock options and the award of 1,537,782 performance shares to staff worth a total amount of €23.7m, including the share premium.

(€m)

	30/6/17	30/6/18	Chg.
Share capital	440.6	443.3	0.6%
Other reserves	4,274.0	4,375.2	2.4%
Valuation reserves	285.2	130.0	-54.4%
-of which: AFS securities	*312.9*	*126.7*	*-59.5%*
cash flow hedge	*(33.6)*	*(2.6)*	*n.m.*
Profit for the period	318.3	337.0	5.9%
Total net equity	**5,318.1**	**5,285.5**	**-0.6%**

The AFS reserve involves equities as to €92.7m, Italian government securities as to €25.2m, and other bonds as to €46.8m, net of the €38m tax effect.

(€m)

	30/6/17	30/6/18	Chg.
Equities	243.5	92.7	-61.9%
Bonds	143.4	72.0	-49.8%
of which: Italian government bonds	*61.6*	*25.2*	*-59.1%*
Tax effect	(74.0)	(38.0)	-48.6%
Total AFS reserve	**312.9**	**126.7**	**-59.5%**

Net interest income – net interest income improved despite interest rate stagnation and the reduction in returns on corporate loans, rising 12.4%, from €84.6m to €95.1m, due to the contribution from the former Banca Esperia private banking portfolio and the lower cost of funding. On a like-for-like basis the increase would have been 2.3%.

(€m)

	30/6/17	30/6/18	Chg.
Interest income	813.1	762.7	-6.2%
Interest expense	(742.0)	(667.6)	-10.0%
Other [1]	13.5	—	n.m.
Interest margin	**84.6**	**95.1**	**12.4%**

[1] Includes margins on interest rate derivative contracts (heading 80) and the hedging effect (heading 90).

Net trading income – net trading income increased from €116.3m to €146.8m, with all segments contributing despite the market instability during the fourth quarter: AFS dividends rose from €16.7m to €21.9m, equity trading posted an increase from €44.6m to €55.7m, and fixed-income trading from €55m to €69.2m, including gains realized on banking book securities totalling €23.9m (€22.9m).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
AFS Dividends	16.7	21.9	31.1%
Fixed-income trading profit	55.0	69.2	25.8%
Equity trading profit	44.6	55.7	24.9%
Net trading income	**116.3**	**146.8**	**26.2%**

Net fee and commission income – the significant, 27.9% improvement in this item, from €211.7m to €270.7m, was due to the inclusion of private banking activities for the first time which contributed €52.5m. On a like-for-like basis there would have been an increase in any case, of 3.1%. Fees earned from Wholesale Banking rose from €196.7m to €199.1m, on 35.2% growth in M&A advisory fees, from €47.8m to €64.7m, and growth in Debt Capital Market fees (from €17.4m to €24.9m), which offset the lower performance in Equity Capital markets of €40.9m (€68.7m), which last year included one especially large deal.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Lending	43.9	46.8	6.6%
Advisory M&A	47.8	64.7	35.2%
Capital Market	86.1	65.8	-23.5%
Sales and Markets	18.5	21.8	17.9%
Private Banking	—	52.5	n.m.
Other income	15.4	19.1	23.9%
Net fee and commission income	**211.7**	**270.7**	**27.9%**

Operating costs – the 19.1% increase in this item, from €348.3m to €414.8m, was split equally between labour costs and administrative expenses; net of the former Banca Esperia contribution, the increase reduces to around 1%. The Banca Esperia merger resulted in higher consultancy costs (up from €18.2m to €22.3m) and data processing expenses (up from €43.5m to €52.8m).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Labour costs	198.9	237.8	19.6%
of which: directors	*3.4*	*3.5*	*1.9%*
stock options and performance shares schemes	*11.5*	*7.8*	*-32.-%*
Sundry operating costs and expenses	149.4	177.0	18.5%
of which: depreciations and amortizations	*12.1*	*11.8*	*-2.5%*
administrative expenses	*137.3*	*168.1*	*22.4%*
Operating costs	**348.3**	**414.8**	**19.1%**

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Legal, tax and professional services	9.2	11.9	29.3%
Other consultancy expenses	18.2	22.3	22.5%
Marketing and communication	2.9	4.9	69.0%
Rent and property maintenance	8.2	11.4	39.0%
EDP	43.5	52.8	21.4%
Financial information subscription	18.0	19.5	8.3%
Bank services, collection and payment commissions	1.4	1.9	35.7%
Operating expenses	6.0	6.6	10.0%
Other labour costs	9.0	11.9	32.2%
Other costs	16.1	19.9	23.6%
Direct and indirect taxes	4.8	5.0	4.2%
Total administrative expenses	**137.3**	**168.1**	**22.4%**

Loan loss provisions – writebacks of provisions increased significantly, from €14m to €44m, due to the improved risk profile; writebacks due to collections on non-performing accounts represented around €39m of the total.

Provisions for other financial assets and impairment charges to investments – writebacks in respect of performing fixed financial assets (€2.9m) offset the writedowns charged to the value of investments in Group companies (€0.3m) and to AFS equities (€1.8m), chiefly attributable to real estate funds.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Equity investments	0.9	0.3	-66.7%
Equities	0.9	1.8	n.m.
Bonds	3.2	(2.9)	n.m.
Total	**5.0**	**(0.8)**	**n.m.**

Income tax for the year – on a GOP of €384m (versus €348.3m last year), income tax for the year was €47m (€30m). The effective tax rate, around 12%, was assisted by the partial dividend exemption regime and capital gains tax, albeit less so than last year (9%).

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions and Futuro. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

* * *

Significant events that have taken place during the twelve months under review include:

- The merger of Banca Esperia into Mediobanca was completed, resulting in the new Mediobanca Private Banking division, targeting the top end of the asset management market; the merger will generate cost synergies as a result of streamlining overheads and eliminating one of the banking legal entities;
- The acquisition of RAM Active Investments SA was completed, with a view to strengthening the Group's alternative asset management platform. RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic asset managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client basis of professional and institutional investors. The company manages fourteen funds with a combined value of approx. CHF 5bn. The agreement involved the acquisition of a 69% stake, with management retaining an interest and continuing to work for the company for at least ten years; the Reyl group, which is an historical shareholder and institutional investor in RAM, has retained a minority interest of 7.5% in the company;
- Reorganization of the Mediobanca S.p.A. Corporate and Investment Banking division, which is now headed up by Francisco Bachiller (Country Head, Spain & Latin America) and Francesco Canzonieri (Country Head, Italy).

Other significant events that took place in the year under review include:

- Authorization from the European Central Bank to adopt the AIRB models, or internal risk management systems, starting from 31 March 2018, to manage the capital requisites for credit risk on the Large Corporate portfolio;
- In October 2017, rating agency S&P upgraded its ratings for Mediobanca from BBB- to BBB for the long term and from A-3 to A-2 for the short term, with stable outlook. This decision reflects the upgrade in the long- and short-term ratings for the republic of Italy (on 27 October 2017), from BBB-/A-3 to BBB/A-2 respectively; while the BBB rating assigned by rating agency Fitch remains unchanged. Rating agency Moody's also issued its first ratings for Mediobanca: Baa1 long-term, A3 for deposits, and P-2 short-term. These

are the highest ratings assigned to an Italian bank and higher even than the sovereign ratings for the republic of Italy. The outlook assigned by Moody's is stable for the long term, and has been changed from negative for deposits to "under review for downgrade", after the same decision was made for the outlook for the republic of Italy on 30 May 2018.

Related party disclosure

Financial accounts outstanding as at 30 June 2018 between companies forming part of the Mediobanca Group and related parties and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in respect of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts fall within the company's ordinary operations, are maintained on an arm's length basis, and are entered into in the interests of the Group itself. No atypical or unusual transactions have been entered into with these counterparties.

Other information

With regard to securities trading, a total of 22.9 million Mediobanca shares were traded on behalf of customers, worth €216.4m.

Information regarding the Bank's ownership structure as required under Article 123-bis of Italian Legislative Decree 58/98 is contained in the annual statement on corporate governance attached hereto and available on the Bank's website under Corporate Governance.

Assets which have been revalued and recorded in the balance sheet are listed in table A.

The other information on ratings and research is shown on p. 63 of the consolidated Review of Operations.

Information on the most important litigation pending involving the Bank is also provided in Liabilities, section 12.

Outlook

The healthy performance by the Bank's core businesses should continue next year, despite the scenario in terms of very low interest rates, uncertainty on financial markets (in particular the domestic Italian market), and fiercer competition which inevitably affect net interest income, the results of treasury activity and performance in terms of fees and commissions. The cost/income ratio should remain at its current levels, and the trend in the cost of risk should continue to be favourable.

Milan, 20 September 2018

THE BOARD OF DIRECTORS

Proposal to approve financial statements and profit allocation for the year ended 30 June 2018

Dear shareholders,
The net profit for the year was € 337,033,833.68

€ 580,772,80	to the Legal Reserve, which accordingly would amount to € 88,704,294.00, or 20% of the Bank's share capital;
€ 33,122,610.57	to the Statutory Reserve;
€ 303,330,450.31	as profit remaining

We therefore propose to distribute a €0.47 dividend on each of the 878,328,107 shares in issue entitling their holders to such rights, which, including the redistribution of amounts payable in respect of the treasury shares, makes for a total amount of €412,814,210.29, to be made up from the profit remaining plus €109,483,759.98 to be taken from the Statutory Reserve, as per the table shown below.

Accordingly, you are invited to approve the financial statements for the year ended 30 June 2018, including the balance sheet, profit and loss account and accompanying schedules, and the following profit allocation:

Net profit for the year	€ 337,033,833.68
To the Legal Reserve	€ 580,772.80
To the Statutory Reserve	€ 33,122,610.57
Remaining profit	€ 303,330,450.31
From the Statutory Reserve	€ 109,483,759.98
Dividend of €0.37 on 865,476,647 shares	€ 412,814,210.29

The dividend of €0.47 per share will be paid on 19 November 2018, with the shares going ex-rights on 20 November 2018.

Milan, 31 July 2018

THE BOARD OF DIRECTORS

DECLARATION IN RESPECT OF INDIVIDUAL FINANCIAL STATEMENTS

DECLARATION IN RESPECT OF
INDIVIDUAL FINANCIAL STATEMENTS
as required by Article 81-*ter* of Consob resolution no. 11971
issued on 14 May 1999 as amended

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1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the separate financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2018.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the separate financial statements as at 30 June 2018 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT framework).

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

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

Milan, 20 September 2018

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

AUDITORS' REPORT

pwc

Independent auditor's report

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

To the shareholders of Mediobanca SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mediobanca SpA (the Company), which comprise the balance sheet as of 30 June 2018, the profit and loss account, the comprehensive profit and loss account, the statement of changes to net equity, the cash flow statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 30 June 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans to customers *Notes to the accounts:* *Part A – Accounting policies;* *Part B – Information on the balance sheet, Assets, section 7;* *Part C – Information on the profit and loss account, section 8;* *Part E – Information on risks and related hedging policies.* Loans to customers as of 30 June 2018 were equal to Euro 14.7 billion, corresponding to 24% of total assets of the financial statements. Net value adjustments for impairment of loans to customers charged in the year under examination amounted to Euro 32.9 million. We paid special attention to those items during our audit considering the materiality of the balance and that the valuation processes and criteria involve the use of judgement and complex processes for the estimation of a large number of variables. These variables refer mainly to the existence of indicators of impairment, the calculation of the expected future cash flows and related timing of recovery, the realisation value of guarantees, as well as the use of internal and external inputs observable at the measurement date.	As part of the audit, to address this key audit matter we performed the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls in place on the IT systems and application software used; • Analysis of business procedures and processes and tests of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • Comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • Analysis of the valuation models and methodologies, both in aggregate and individually, and sample tests of the actual application of previously defined criteria of the reasonableness of the variables estimated in those models, as well as of the recovery assumptions, with the support of experts from the PwC network; • On a sample basis, tests of the valuation and classification of loans to customers in the financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting; • Examination of the completeness and adequacy of disclosures provided in the financial statements considering the requirements of the applicable reporting standards.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recognition of extraordinary transactions in relation with the merge of Banca Esperia *Notes to the accounts:* *Part A – Accounting policies;* *Part B – Notes to the consolidated balance sheet, Assets, sections 10 and 12;* *Part G – Combination involving Group companies or business units.* Following the acquisition of control over the Banca Esperia Group completed in April 2017, during the fiscal year under examination the Company merged it. Throughout the course of our audit, we paid special attention to this aspect due to the complexity of the valuation models used, commonly adopted in prevailing practice, which require the use of estimates. For the purposes of the allocation of the difference arising on the merger, the results of the purchase price allocation process ("PPA") were used, and the Company recognized the fair value of assets acquired from Banca Esperia (principally equity investments, loans and securities) for a total amount of Euro 12.5 million, intangible assets ("brand") for Euro 15.5 million and residual goodwill amounting to Euro 12.5 million.	As part of the audit, with the support of experts from the PwC network, to address this key audit matter we performed the following main activities: • Analysis of documentary evidence and discussion with the corporate functions involved; • Understanding and evaluation of the method applied to calculate the fair values of the assets acquired; • Understanding and evaluation of the criteria used by the Company to identify and recognize the brand and the goodwill; • Analysis of the accounting treatment applied to the transaction in accordance with the applicable reporting standards and check of the completeness and adequacy of disclosures provided in the financial statements considering the requirements of the applicable reporting standards.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

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

Report on Compliance with other Laws and Regulations

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

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Mediobanca SpA as of 30 June 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Mediobanca SpA as of 30 June 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Mediobanca SpA as of 30 June 2018 and are prepared in compliance with the law.

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

Milan, 1 October 2018

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

STATUTORY AUDITORS' REPORT

STATUTORY AUDIT COMMITTEE'S REPORT
as required under Article 153 of Italian Legislative Decree 58/98

Dear Shareholders,

This report, which has been prepared as required under Article 153 of Italian Legislative Decree 58/98 (the "Italian Consolidated Finance Act"), refers to the activities carried out by the Statutory Audit Committee (the "Statutory Audit Committee") of Mediobanca S.p.A. ("Mediobanca", the "Bank" or the "Company") during the financial year ended 30 June 2018, in accordance with the relevant regulations, and taking into account the Rules of Conduct for Statutory Audit Committees recommended by the Italian national council of chartered accounts and accounting experts. During the course of the year, the Statutory Audit Committee met on a total of 29 occasions, 12 of which with the Risks Committee; it also took part in 11 Board meetings, 12 Executive Committee meetings, 9 Related Parties' Committee meetings, and 8 Remuneration Committee meetings.

1. Supervision of compliance with law and Articles of Association

The Statutory Audit Committee has received regular information from the directors, *inter alia* through participating in meetings of the Board of Directors, Executive Committee and the other Board committees, on the activities carried out, the management actions performed, and the most significant transactions in earnings, financial and capital terms approved and executed by the Bank and the other Group companies, including in compliance with Article 150, paragraph 1 of the Italian Consolidated Finance Act. Based on the information available, the Statutory Audit Committee can provide reasonable assurance that these transactions have been carried out in compliance with the provisions of the law and the company's Articles of Association, and are not manifestly imprudent or risky, in conflict with the resolutions adopted by shareholders in general meeting, or such as may compromise the integrity of the Company's assets. Furthermore, all transactions in relation to which the Directors were the bearers of interests have been approved in compliance with the provisions of the law, the regulations in force and the company's Articles of Association.

Significant events during the twelve months under review which the Statutory Audit Committee considers appropriate to recall here in view of their relevance to assessment of the Bank's solidity and the consistency of the management decisions made with the strategic guidelines established in the 2016-19 business plan include:

- The merger of Banca Esperia into Mediobanca was completed, resulting in the new Mediobanca Private Banking division, targeting the top end of the asset management market; the merger will generate cost synergies as a result of streamlining overheads and eliminating one of the banking legal entities;
- The acquisition of RAM Active Investments SA was completed, with a view to strengthening the Group's alternative asset management platform. RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic asset managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client basis of professional and institutional investors.
- The ECB's decision, at the outcome of the SREP 2017 process, to confirm last year's capital requirements for the Mediobanca Group. In particular, the minimum CET1 ratio has been set at 7.625%, including the Pillar 2 requirement ("P2R") of 1.25%, while the minimum total capital ratio has been set at 11.125%. The requirements are among the best at European level, and reflect the Mediobanca Group's strong risk coverage and capital solidity even in stressed conditions.
- Authorization from the European Central Bank for Mediobanca to adopt its own internal risk management systems (AIRB models) as from 31 March 2018 to measure the capital requisites for credit risk in the large corporate segment; the roll-out plan for the models to be adopted progressively for the other businesses has also been approved (use of the models for CheBanca! mortgage loans should be launched this year);
- Agreement with IBM Italy (effective from 1 January 2018) to outsource IT infrastructure, end-user, data connectivity and computer security services for the whole Mediobanca Group, which were previously provided by the Group consortium services company Mediobanca Innovation Services.

At Group level, in August 2018 an agreement was reached between Compass Banca and the Trinugraha consortium to acquire a 19.9% stake in Indonesian company BFI Finance, a consumer credit player operating in the local market. The deal forms part of the process of redeploying capital to specialized, high-growth and highly-profitable banking business and expanding the Group's international footprint. The deal is subject to authorization from the European Central Bank.

With reference to relations with the authorities, the Statutory Audit Committee has at all times been kept updated by the relevant company units – in particular Risk Management insofar as regards the ECB – of the checks which the authorities have carried out. On a monthly basis Risk Management informs the Committee of the various activities performed by the ECB (Thematic Review, onsite inspection, etc.), presents the results of such activities, and reports on the remediation actions in progress for problems raised by the authority.

Particular attention has been devoted by the Statutory Audit Committee to the action plans agreed with the ECB for work to be done in connection with management and the control system for interest rate risk on the banking book, implementation of IFRS9, authorization to use internal models, and liquidity and funding risk management.

2. Monitoring compliance with principles of proper management and adequacy of the Bank's organizational structure

The Statutory Audit Committee has been informed regarding, and has monitored the adequacy of, the Bank's organizational structure and its compliance with the principles of proper management, by obtaining information from the heads of the relevant company divisions and meetings with the External Auditors involving the mutual exchange of relevant data and information. It has also monitored the adequacy of the instructions given by the company to its subsidiaries, as required by Article 114, paragraph 2 of Italian Legislative Decree 58/98.

With reference to the principles of proper management, from the meetings held with the heads of the governance areas and control units, the Head of Company Financial Reporting and the external auditors, the Statutory Audit Committee can reasonably affirm that the operations performed have been carried out in accordance with the principles of proper management, and that the operating decisions have been taken on the basis of adequate reporting flows being made available and with awareness of the risks involved.

The Statutory Audit Committee also noted that no atypical and/or unusual transactions have been entered into with Group companies, third parties or related parties.

During the twelve months under review, the rationalization of some of the Bank's internal units has continued. The following actions in particular have been completed:

– The AML unit has been centralized at parent company level, with the objective of creating a specialist skill centre on issues which are common to the various Italian companies so as to ensure more uniform risk governance strategies and leverage operating synergies based on an approach which aims to achieve ongoing improvement in the effectiveness and efficiency of the company's control processes;

– The Group Audit Unit has been redesigned following the Banca Esperia merger, with the establishment of the following units: Parent Company and CIB, Wealth Management, and Consumer Banking;
– A Group Governance & Treasury unit has been set up to combine the Group Corporate Affairs and Group Treasury units;
– A new unit, Capital and COREP controls, has been set up as part of the Planning and Control area, tasked *inter alia* with checking the accuracy and coherence of the regulatory capital calculations, and checking the COREP reports before they are sent.

Particular attention has been focused on the new Private Banking division, set up following the merger and integration of Banca Esperia, and reporting directly to the General Manager of Mediobanca. With reference to the integration of the former Banca Esperia control units, these have been reallocated to the model and respective control units of Mediobanca. The control units themselves have also set up a specific Wealth Management team.

The organizational structure has also been strongly affected by the outsourcing the Group's IT infrastructure, end-user, data connectivity and hardware IT security services, which historically were performed by the Group's consortium company MIS (Mediobanca Innovation Service), with the objective of rationalizing the increasing costs due to updating and managing hardware. A contract was finalized with IBM, selected following a competitive procedure which took due account of technical and financial issues, in respect of a business unit comprising not only hardware but also human resources (around 70 staff). The contract, which has a duration of ten years, was authorized by the ECB and makes provision for control measures to ensure adequate service levels are provided.

The Committee followed the progress of the entire outsourcing process, from the competitive phase to execution of the contract.

Subsequently it met on several occasions with the Chief Operating Officer to discuss the state of progress with the project, which will require another few months to be completed, even if the state of the services provided does not show any critical issues, substantial continuity having been achieved through effective co-operation during the "transition" phase. The checks carried out by the Group Audit Unit have also confirmed that the situation with respect to management of the outsourced activities is substantially adequate.

Our review of the annual reports on the financial statements of Group companies by the Statutory Audit Committee revealed no critical issues. Equally, no such issues emerged from our meetings with the members of the same Committees, which in each of the Group companies also act as the supervisory bodies instituted pursuant to Italian Legislative Decree 231/01.

The Statutory Audit Committee also reviewed the corporate processes which led to the definition of the company's remunerations policies, with reference in particular to the executive directors, the heads of the control units, and the Head of Company Financial Reporting.

3. Supervision of the internal control and risk management systems

The Statutory Audit Committee has monitored the adequacy of the internal control and risk management system, by:

- Holding meetings with the Bank's senior management to examine the internal control and risk management system;
- Holding regular meetings with the Group Audit, Compliance/AML and Risk Management units (the "Control Units") to evaluate the methods used for planning activities based on an identification and assessment of the principal risks involved in the various processes and organizational units;
- Review of the Control Units' reports and regular information on the outcome of monitoring activity and the status of corrective action highlighted;
- Receiving information from the heads of the various divisions of the company;
- Meetings with the heads of the supervisory bodies of the leading Group companies, in accordance with the provisions of Article 151, paragraphs 1 and 2 of the Italian Consolidated Finance Act, in the course of which the Statutory Audit Committee received information on developments involving the Group companies and the internal controls system considered to be significant;
- Discussion of the results of the work performed by the External Auditors;
- Taking part in meetings of the Risks Committee, and dealing with issues in conjunction with it where necessary.

Some time ago Mediobanca adopted a Group Policy on the Internal Controls System which defines the internal control system's structure, the roles and responsibilities of the governing bodies and the control units, and the means of co-ordination between these units. The Mediobanca internal controls system is compliant with the recommendations of international progress as applied in Italy by Bank of Italy circular no. 285. The control system is structured across three levels; the first refers to line controls intended to guarantee that operations are performed correctly; the second level to control of risks and compliance; and the third level to identifying breaches of procedures and internal regulations.

Regarding the first-level controls, Mediobanca has instituted operational procedures (or process flows) which cover all activities performed and define, in accordance with the company process tree, the relevant activities, roles, instruments and line controls.

These procedures are updated by Group Organization on a regular basis, to bring them in line with any changes in the external or internal regulations, changes to the Bank's organizational structure and operating methods, and to incorporate suggestions for improvement which emerge from the activities performed by the control units themselves. Regarding the activities of the Private Banking division deriving from the newly-merged Banca Esperia, the work of adapting the procedures is still in progress. However, adaptation of the internal regulations on the most important issues, those involving the Compliance, AML, Loan Processing and Approval, Complaints and Data Privacy, has been completed.

As far as regards the second and third levels, in the performance of its control activities, the Statutory Audit Committee has maintained an ongoing dialogue with the Control Units; a summary of these units' activities is provided below.

The Group Audit Unit's operations are based on three-year and one-year audit plans. The three-year Group plan sets the objectives, and serves also to co-ordinate and direct the work for the three-year and one-year plans prepared by the individual companies. In the space of three years assurance is provided for all processes identified in the risk assessment used to define priority of audit. The one-year plan establishes which activities and processes are to be analysed in accordance with the three-year plan and from a risk-based perspective. The plans are approved once a year by the Board of Directors.

The activities planned for the year under review substantially covered the scope of activities which the unit had undertaken to execute, and also the target in terms of mix of audits to be carried out was basically met. No significant critical issues emerged from this activity. The audit and follow-up activities performed (including at Group level) in any case highlighted the need for the relevant company units to implement the remediation actions identified, in order to mitigate the risks inherent in certain operating processes and practices which are residual in any banking activity but without prejudicing the reliability of the internal controls system which as a whole continues to be adequate.

In addition to the normal activities performed on an annual basis, the Unit has also performed activities at the specific request of the Statutory Audit Committee, the European Central Bank following their inspections, and from projects of systemic importance in progress, notably the IFRS9. The results have all been brought to the Statutory Audit Committee's attention, which has also monitored the state of progress made in the mitigation activities implemented to rectify critical issues and/or suggestions for improvements that have emerged.

The Compliance & AML unit presides directly over those regulatory areas considered to present the highest reputational risks (e.g. MiFID, market abuse, transparency, conduct, remuneration policies and anti-money laundering), and also, by means of a "graduated" model, the areas of regulations covered by other specialist units. In the year under review its activity was focused on the numerous regulations that have come into force during the twelve months under review, notably MiFID II and GDPR for which the project activities have been completed, with the exception of some residual activities which will be closed by year-end 2018 due both to the complexity of the subject matters in question, and to IT implementations required which involve third-party suppliers.

The most important project for the Compliance unit involved integration of the former Banca Esperia's activities into the new Private Banking division. The most important activity performed by the unit was the due diligence performed on the operating and assessment procedures regarding customer classification criteria and assessment of the adequacy from a MiFID perspective of transactions and client portfolios, including in view of the changes introduced by MiFID2. Some areas for improvement identified have been resolved, whereas others will be completed by the year-end.

In connection with the activities performed by the AML unit, the Statutory Audit Committee also monitored, with reference to tackling money-laundering and terrorist financing, the development of electronic and control instruments intended to strengthen the measures in force. Regarding the controls carried out after the fact to ensure that the AML procedures have been complied with, no significant critical issues were noted.

With reference to the AML risk self-assessment, there has been an increase in the potential risk facing Mediobanca since last year, due to the activities of the new Private Banking division being included in the assessment process. The Bank's residual risk is therefore now assessed as "Low" (compared with "Not significant" as previously), but nonetheless reflecting the good quality and broad solidity of the measures in force, with the need for limited residual work to strengthen required, some of which has already been launched.

The Risk Management unit manages and monitors the principal risks to which the Bank is involved with reference to credit risk, financial and market risks and operational risks. This activity revealed no critical issues worth reporting, while for the points noted as requiring improvement, remediation action is already underway.

During the year under review, the strengthening of the Risk Management processes and unit continued at Group level, with more precise definition of the governance, interactions and information flows between the local and central teams, and the integrated Group processes.

This process took place at the same time as some important project initiatives, led by the Risk Management unit of Mediobanca S.p.A. but with fundamental implications for the local teams as well. In particular, the adoption of IFRS9 has seen Risk Management involved throughout the year in a Group-wide project across several units. The new framework for calculating impairment has been defined on a like-for-like business for the various portfolios, and has involved aspects of methodology, process and IT architecture.

In the same way, close co-operation between central and local units has been required by the authorization process for internal credit risk models being extended to the CheBanca! mortgage loan book, in line with Group's Roll-Out plan.

A further area in which governance was strengthened was the progress made in centralization of liquidity risk management. Centralization at parent company level has also been extended to include the weekly reports to the Bank of Italy and to measurement of the operating and structural liquidity position.

The Committee has examined the internal capital adequacy assessment process (ICAAP) which quantifies the internal capital, current and future, to be held to cover the risks faced by the Group, and the internal liquidity adequacy assessment process (ILAAP), which assesses the adequacy of the liquidity held by the Bank, both of which were approved by the Board of Directors at a meeting held on 19 October 2017, *inter alia* on the basis of the reports received from the Validation and Group Audit units which conclude that the regulatory provisions have been complied with.

In February 2018, the European Central Bank authorized the adoption, starting from 31 March 2018, of the internal models for measuring credit risk for the large corporate portfolio in calculating the capital requirements. The Committee monitored the exhaustiveness, adequacy, functioning and reliability of these systems, finding that they meet the regulatory requirements *inter alia* for the purposes of the annual statement issued by the Board of Directors. The Committee has reviewed the report issued by the Validation and Group Audit units, both of which conclude that the system overall is compliant with the relevant regulations.

On 12 July 2018, the Board of Directors of Mediobanca S.p.A. approved the annual revised version of the Risk Appetite Framework (RAF). The framework has developed in terms of the structure of the document itself and the calibration of the risk metrics and limits, in order to address the recommendations made by the regulatory authorities and the guidance contained in the regulations themselves. A structured risk monitoring and internal reporting process was also finalized for the Private Banking division, using indicators applied at the individual company level for the division as a whole.

Particular attention is paid by the control units to the activities of the international branches, where the Group Audit Unit carries out specific audits. The activities thus performed have not revealed any particular issues requiring to be brought to shareholders' attention.

The Statutory Audit Committee notes that the annual reports by the Control Units conclude with a favourable opinion overall being expressed on the internal controls system.

On the subject of business continuity and IT risk, ad hoc reports have been prepared in accordance with the supervisory instructions in force. With reference to business continuity, the planned tests performed during the year have all been passed successfully. Regarding IT risk, the annual analysis showed no significant risks.

The Statutory Audit Committee, having been vested with the powers attributable to the supervisory body instituted pursuant to Article 6, para. 4-bis of the Italian Legislative Decree 231/01 regarding corporate administrative liability, viewed and obtained information regarding the organizational and procedural activity implemented in compliance with the aforementioned legislative decree. In this connection, the Supervisory Body has been involved in the activities of updating the Organizational, Management and Control Model which was formally completed in July 2018. This update was necessary in order to incorporate the new types of underlying crimes and to rationalize the Model's content on the basis of the experience acquired since it was first instituted. The supervisory body reported on the activities performed by it during the year ended 30 June 2018 without highlighting any critical issues, revealing a situation which on the whole was satisfactory and in line with the provisions set forth in the Organizational, management and control model.

Based on the activities performed, the information obtained and the contents of the Control Units' reports, the Statutory Audit Committee believes there are no critical issues that could jeopardize the Group's internal controls and risk management system.

4. Supervision of the administrative and accounting system and the financial reporting process

The Statutory Audit Committee, in its capacity as the committee responsible for internal control and auditing pursuant to Article 19, paragraph 2, letter A) of Italian Legislative Decree 39/10, has monitored the process and reviewed the effectiveness of the internal controls and risk management systems with reference to the issue of financial reporting.

Financial reporting is monitored by the Head of Company Financial Reporting (the "Head of Company Financial Reporting"), adopting Models based on the best market practices (the COSO Report and the CobIT Framework) which provide reasonable assurance over the reliability of the financial reporting, the effectiveness and efficiency of the business operations, and compliance with the provisions of the law and the internal regulations. The processes and controls are revised and updated annually.

Work continued in FY 2017-18 on keeping the map of processes in line with the projects in progress, the new forms of operations undertaken and the organizational changes that have been made. In particular, the Bank has proceeded to map the administrative and accounting processes relating to the former Banca Esperia, MB International Luxembourg, Mediobanca SGR and MBFacta, the latter two companies having entered the scope of companies on which controls are to be performed. Key controls have been updated for CMB following organizational changes and the IT systems migration. Controls to ensure that the Model is functioning correctly are guaranteed by a series of self-assessments made by the individual process owners as supplemented by checks carried out by the Group Audit Unit.

The Statutory Audit Committee has met regularly with the Head of Company Financial Reporting to exchange information on the administrative and accounting system, its reliability for the purposes of correctly representing operations, and has reviewed the Head of Company Financial Reporting's report containing the results of the tests of the controls performed and the main problems noted in the application of Italian law 262/05. From the report, it emerged that the points requiring attention which were raised in the previous report have all been resolved, while some projects to bring about improvements have been launched recently and will be completed during the year under review.

The Statutory Audit Committee also reviewed the statements made by the Chief Executive Officer and the Head of Company Financial Reporting as required by the instructions contained in Article 154- bis of the Italian Finance Act. It has also met with the Group Audit Unit to review the results of the activities performed to this end.

The Committee has monitored the state of progress in the IFRS9 project for the new standard coming into force to replace IAS39. Mediobanca has launched a project to adapt the processes and procedures to make them compliant with the new accounting standard. With the support of the Validation unit and the external auditors, the Statutory Audit Committee has supervised the development of the activities, including in view of the disclosures on the impact of first-time application (FTA) of IFRS9 to be made in the financial statements for the year ending 30 June 2018, in accordance with the guidance issued by ESMA in November 2016. The ECB has carried out a Thematic Review on the application of this standard, which concluded with an assessment in line with the expectations, while suggesting areas for improvement which have for the most part been implemented. Disclosure on FTA has been provided in the notes to the financial statements for the year ended 30 June 2018.

As far as regards the formation of the individual and consolidated financial statements, the Statutory Audit Committee:

– Duly notes that the Board of Directors, at a meeting held on 14 June 2018, approved the impairment procedure as required by the joint Bank of Italy/Consob/ISVAP document dated 3 March 2010;
– On the issue of legal and tax risks, refers to the notes and accompanying schedules to the consolidated financial statements on the subject of litigation pending which involves Mediobanca.

The representatives of the External Auditors, in their regular meetings with the Statutory Audit Committee, have not reported any issues which could affect the internal controls system with reference to the administrative and accounting procedures.

The Statutory Audit Committee has ascertained that the flows provided by the non-EU Group companies of significant relevance are adequate to allow the activity of auditing the annual and interim accounts to be performed as required by Article 15 of the Regulations for Markets.

Based on the foregoing, no evidence has emerged of deficiencies that could affect the assessment of the internal control system’s adequacy, the process of financial reporting, and the reliability of the administrative and accounting procedures in representing the Bank’s operations.

5. Supervision of transactions with related parties

The Statutory Audit Committee has reviewed the Procedure in respect of related parties, its compliance with the regulations in force, and its application in practice. It has taken part in meetings of the Related Parties Committee, instituted under the procedure referred to, and has received regular information on the transactions that have been performed. The Statutory Audit Committee is not aware of any intra-group transactions or deals with related parties carried out in conflict with the interests of Mediobanca.

During the year under review, no transactions qualifying as "most significant" under the terms of the Procedure were executed.

The Statutory Audit Committee checked that adequate information had been provided on transactions with related parties by the Board of Directors in its Review of Operations and the notes to the accounts, in view of the requirements set in the regulations in force.

The Procedure in respect of related parties, which includes the internal controls policies on risk assets and conflicts of interest versus connected parties as an annex, was revised by the Board of Directors at a meeting held on 7 May 2018. The changes involved: the definition of "Significant Interests" in relation to operations with SelmaBipiemme Leasing, the approval phase for most significant transactions for transparency purposes, and the introduction of specific regulations on transactions in which employees have a personal interest.

The Statutory Audit Committee expressed a favourable opinion on the changes.

The Statutory Audit Committee, in view *inter alia* of the results of the activities of the various units involved in the Related Parties procedure, considers that transactions with related parties are managed adequately.

6. Methods for implementing corporate governance rules in practice

The Statutory Audit Committee has assessed the ways in which the Code of conduct in respect of listed companies operated by Borsa Italiana and adopted by Mediobanca on the terms illustrated in the "Annual statement on corporate governance and ownership structure" is implemented.

The Statutory Audit Committee has also ascertained that the criteria and procedures adopted by the Board of Directors to assess the independence of its members have been applied correctly.

7. Supervision of External Auditors' activity

In accordance with the provisions of Article 19 of Italian Legislative Decree 39/10, the Statutory Audit Committee, identified therein as the "Committee for internal control and auditing", duly carried out the required activity in terms of monitoring the External Auditor's operations.

PricewaterhouseCoopers is the company which the shareholders of Mediobanca, at an ordinary annual general meeting held on 27 October 2012, appointed to serve as its external auditors to audit the company's individual and consolidated financial statements until the end of the financial year ending on 30 June 2021. This appointment includes the responsibility for checking that the company's books are kept properly, that operations are recorded correctly in the book entries, reviewing the accounts of the international branches for their inclusion in the consolidated reporting, limited audit of the interim statements, audits relating to signing off tax returns, and the statements to be made to the Italian deposit guarantee fund.

The Statutory Audit Committee met on several occasions with the External Auditors as appointed *inter alia* pursuant to Article 150 of the Italian Consolidated Finance Act in order to exchange information regarding the latter's activity. In such meetings the External Auditor has at no stage shown evidence of facts considered to be censurable or other irregularities such as would warrant reporting as required by Article 155, para. 2 of the Italian Consolidated Finance Act.

In particular it met with the External Auditor during the year under review during the preparation of the company's interim financial statements for the period ended 31 December 2017. On this occasion, the External Auditor submitted a document summarizing its activities, with reference in particular to the most significant valuation items. On 9 February the External Auditor issued a report on its limited audit of the consolidated interim financial statements, with no irregularities noted.

On 1 October 2018 the External Auditor, appointed pursuant to Article 14 of Italian Legislative Decree 39/10, issued its reports on the individual and consolidated financial statements for the year ended 30 June 2018. With reference to the opinions and declarations, in its audit report on the financial statements the External Auditors:

- Issued an opinion from which it emerges that Mediobanca's company's individual and consolidated financial statements present a truthful and proper reflection of the company's and Group's capital and financial situation as at 30 June 2018, their earnings results, changes to their net equity and cash flows during the year under review in accordance with the International

Financial Reporting Standards adopted by the European Union, and the rulings issued in implementation of Article 9 del Italian Legislative Decree n. 38/05 and Article 43 del Italian Legislative Decree 136/15;

– Presented the key aspects of the auditing process which according to its own professional judgement, are most significant and contribute to the formation of the overall opinion on the financial statements;
– Issued their opinion that the Reviews of Operations attached to the individual and consolidated financial statements for the twelve months ended 30 June 2018 are consistent with certain specific information contained in the "Report on Corporate Governance and Ownership Structure" stipulated in Article 123-bis, para. 4 of the Italian Consolidated Finance Act, responsibility for which lies with the Bank's directors, and have been drawn up in accordance with the legal provisions in force;
– Declared, with reference to the possibility of there being material errors in the Reviews of Operations, that based on their knowledge and understanding of the company and the scenario in which it operates, obtained as a result of their audit activities, that they had no comment to make in this connection.
– Reviewed the Directors' approval of the Consolidated Non-Financial Statement.

On 1 October 2018 the External Auditors also submitted the additional report required under Article 11 of Regulation (EU) no. 537/2014 to the Statutory Audit Committee. As an annex to the additional report, the External Auditor also submitted its statement of independence, as required by Article 6 of Regulation (EU) no. 537/2014, to the Statutory Audit Committee, from which no situations emerged that could compromise its independence. The Committee also duly noted the report on transparency prepared by the external auditors and published on its own website pursuant to Article 18 of Italian Legislative Decree 39/2010.

In addition to the duties prescribed by regulations for listed companies, the External Auditors and the other companies forming part of its network have received other mandates, the fees paid in respect of which, shown also in the notes to the financial statements as required by Article 149-*duodecies* of the Regulations for Issuers, have been recognized in the consolidated profit and loss as follows:

Type of service	**PricewaterhouseCoopers €'000**	**PricewaterhouseCoopers network €'000**
Statements	256	119
Other services	—	33
Total	256	152

The statement services are different from audit services but are performed by an auditor by law or by an authority, along with activities that constitute an extension to auditing (such as agreed audit procedures, issuance of comfort letters, etc.). Such activities are normally performed by the external auditor as by their nature they are held to be unable to comprise its independence.

Given the mandates conferred on PricewaterhouseCoopers S.p.A. and its network by Mediobanca and the other Group companies, the Statutory Audit Committee does not consider that there are any critical issues arising with respect to the External Auditor’s independence.

The External Auditors have also confirmed to the Statutory Audit Committee that no external opinions have been expressed by them as required by law in the course of the financial year under review, in the absence of any grounds for such opinions.

8. Omissions, censurable facts, opinions given and initiatives undertaken

During the year under review, the Statutory Audit Committee received a letter pursuant to Article 2408 of the Italian Civil Code from shareholder Tommaso Marino on 4 December 2017, regarding: (i) with reference to the annual general meeting held on 28 October 2017, the failure to provide answers to some of the questions tabled prior to the meeting. In addition, the same shareholder sent two further letters on 20 November 2017 and 12 December 2017 asking for checks to be carried out regarding: (ii) “Barclays’ decision to join the underwriting syndicate for the capital increase by Carige”, and in particular “the advantages and disadvantages for the Mediobanca Group, to ascertain whether or not significant losses of capital could result from such decision”; (iii) the liability and censure of those Barclays mortgage contracts indexed in CHF.

The Committee reviewed the complaints, carried out the requisite enquiries and analysis, and obtained the relevant information from the Bank’s various units. Based on this initial activity the Committee felt that there were no grounds for following up on the complaints received. In particular: (i) during the Annual General Meeting, answers were provided to the questions submitted, and Annex C of the minutes to the said meeting show the questions asked by shareholders and the answers provided to them; (ii) Barclays is not a Mediobanca Group company, and Mediobanca did not take part in the underwriting syndicate for the Carige capital increase; and (iii) CheBanca!, in its acquisition of the Barclays business unit, did not acquire the portfolio of mortgage loans indexed in CHF.

The Statutory Audit Committee is not aware of any facts or complaints, other than those referred to above, to be reported on to shareholders in general meeting.

The Statutory Audit Committee issued opinions or made observations as required by the regulations in force, in particular as follows:

– Favourable opinion on the changes to the Procedure in respect of transactions with related parties referred to under section 5 above;
– Favourable opinion regarding suitability of appointment to position of head of the AML unit;
– Favourable opinion on the formal approval by the Board of Directors on meeting the requisites to use the internal risk measurement systems;
– Opinion on the issuance of covered bonds;
– Considerations on the annual report on outsourcing important corporate functions.

In the course of the Committee's activities and based on the information obtained, no omissions, censurable facts, irregularities or other significant circumstances such as would require the supervisory authorities to be notified or as would warrant inclusion in this report have come to its attention.

9. Consolidated non-financial statement

The Statutory Audit Committee, in the exercise of its functions, has monitored compliance with the provisions of Italian Legislative Decree 254/16 and the Consob regulation implementing the said decree adopted under resolution no. 20267 of 18 January 2018, in particular with reference to the process of drawing up, and the contents of, the Consolidated Non-Financial Statement (CNFS) published by Mediobanca.

The CNFS was approved by the Board of Directors at a meeting held on 20 September 2018 as a document separate from the consolidated Review of Operations for the year ended 30 June 2018.

The external auditors retained to perform the limited assurance with reference to the CNFS as required by Article 3, paragraph 10 of Italian Legislative Decree 254/16, in its report issued on 1 October 2018, state that no evidence has reached its attention such as to suggest that the CNFS prepared by the Mediobanca Group for the year ended 30 June 2018, has not been prepared in all significant aspects, as required by Articles 3 and 4 of Italian Legislative Decree 254/16 and the "Global Reporting Initiative Sustainability Reporting Standards".

The Statutory Audit Committee is not aware of any breaches of the regulatory provisions.

10. Conclusions

The agenda for the ordinary Annual General Meeting of Mediobanca shareholders to take place on 27 October 2018 includes the following items in addition to approval of the financial statements for the year ended 30 June 2018:

– Measures required under Article 15 of the company's Articles of Association: appointment of two Directors.

– Remuneration policies:

  a. Staff remuneration policies.

  b. Cap on variable and fixed remuneration based on a ratio of 2:1.

  c. Policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca.

– Proposal for authorization to buy back and sell treasury shares. Related resolutions.

In view of the specific duties assigned to the External Auditors in terms of auditing the Group's accounts and appraising the reliability of its financial statements, the Statutory Audit Committee has no observations to make to shareholders in general meeting, pursuant to Article 153 of the Italian Consolidated Finance Act, regarding approval of the financial statements for the year ended 30 June 2018 and the Review of Operations as presented by the Board of Directors, and the proposed profit allocation and dividend distribution formulated by the Board itself.

Milan, 1 October 2018

THE STATUTORY AUDIT COMMITTEE

INDIVIDUAL FINANCIAL STATEMENTS *

* Figures in Euros.

Mediobanca S.p.A. Balance Sheet

Assets		30/6/18	30/6/17
10.	Cash and cash equivalents	1,173,154,677	1,255,629,468
20.	Financial assets held for trading	8,211,913,655	7,271,344,274
30.	Financial assets at fair value through profit or loss	—	—
40.	Financial assets available-for-sale	5,166,351,679	5,664,401,363
50.	Financial assets held-to-maturity	2,595,142,322	2,394,875,243
60.	Due from banks	19,553,430,989	20,408,727,799
70.	Due from customers	18,725,997,984	16,991,344,037
80.	Hedging derivatives	235,591,092	462,595,557
90.	Adjustment of hedging financial assets (+/-)	—	—
100.	Equity investments	3,084,158,386	3,056,998,433
110.	Property, plant and equipment	116,806,552	118,063,530
120.	Intangible assets	38,629,954	14,165,449
	of which: goodwill	*12,514,145*	—
130.	Tax assets	236,334,661	207,452,093
	a) current	*133,984,760*	*93,598,346*
	b) deferred	*102,349,901*	*113,853,747*
	of which under L. 214/2011	*50,322,879*	*54,950,270*
140.	Loans classified as held-for-sale	—	—
150.	Other assets	96,899,605	63,311,007
Total assets		**59,234,411,556**	**57,908,908,253**

Liabilities and net equity	30/6/18	30/6/17
10. Due to banks	25,519,218,956	24,242,941,954
20. Due to customers	4,124,182,895	2,350,342,477
30. Debt securities in issue	16,827,008,980	18,902,615,956
40. Trading liabilities	6,510,480,039	5,859,160,778
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	220,712,763	498,679,049
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	363,933,424	412,789,546
a) current	*105,752,737*	*122,415,558*
b) deferred	*258,180,687*	*290,373,988*
100. Other liabilities	277,857,220	218,544,938
110. Staff severance indemnity provision	7,723,450	8,860,341
120. Provisions	97,786,044	96,808,459
a) post-employment and similar benefits	—	—
b) other provisions	*97,786,044*	*96,808,459*
130. Revaluation reserves	129,954,143	285,167,356
140. Redeemable shares repayable on demand	—	—
150. Equity instruments repayable on demand	—	—
160. Reserves	2,292,839,423	2,284,194,072
170. Share premium reserve	2,191,742,930	2,187,579,966
180. Share capital	443,275,220	440,606,329
190. Treasury shares (-)	(109,337,765)	(197,708,966)
200. Profit for the period (+/-)	337,033,834	318,325,998
Total liabilities and net equity	**59,234,411,556**	**57,908,908,253**

Mediobanca S.p.A. Profit and Loss Account

Item		30/6/18	30/6/17
10.	Interest and similar income	762,701,644	813,117,541
20.	Interest expense and similar charges	(667,617,589)	(742,001,588)
30.	**Net interest income**	**95,084,055**	**71,115,953**
40.	Fee and commission income	284,692,778	219,137,973
50.	Fee and commission expense	(26,134,905)	(16,908,369)
60.	**Net fee and commission income**	**258,557,873**	**202,229,604**
70.	Dividends and similar income	261,588,554	243,247,631
80.	Net trading income	37,058,760	41,387,411
90.	Net hedging income (expense)	822,028	10,655,427
100.	Gain (loss) on disposal/repurchase of:	112,753,049	152,373,547
	a) loans and advances	*1,584,206*	*(5,317,397)*
	b) AFS securities	*119,795,869*	*174,077,143*
	c) financial assets held to maturity	*(919,453)*	*1,981,349*
	d) financial liabilities	*(7,707,573)*	*(18,367,548)*
110.	Net result from assets/liabilities recognized	—	—
120.	**Total income**	**765,864,319**	**721,009,573**
130.	Adjustments for impairment to:	46,831,412	8,971,734
	a) loans and advances	*34,387,805*	*1,773,181*
	b) AFS securities	*(1,848,277)*	*(869,064)*
	c) financial assets held to maturity	*2,970,784*	*(3,184,519)*
	d) other financial assets	*11,321,100*	*11,252,136*
140.	**Net income from financial operation**	**812,695,731**	**729,981,307**
150.	Administrative expenses:	(430,233,782)	(396,811,281)
	a) personnel costs	*(237,826,064)*	*(198,897,926)*
	b) other administrative expenses	*(192,407,717)*	*(197,913,355)*
160.	Net transfers to provisions	995,023	15,000,000
170.	Net adjustments to tangible assets	(3,504,538)	(3,454,693)
180.	Net adjustments to intangible assets	(8,344,677)	(8,655,724)
	of which: goodwill	—	—
190.	Other operating income (expense)	12,735,088	13,191,978
200.	**Operating costs**	**(428,352,886)**	**(380,729,720)**
210.	Gain (loss) on equity investments	(309,031)	(925,631)
230.	Writedowns on intangible assets - goodwill	—	—
240.	Gain (loss) on disposal of investments in:	20	42
	a) property	—	—
	b) other assets	*20*	*42*
250.	**Profit (loss) on ordinary activities before tax**	**384,033,834**	**348,325,998**
260.	Income tax for the year on ordinary activities	(47,000,000)	(30,000,000)
270.	**Profit (loss) on ordinary activities after tax**	**337,033,834**	**318,325,998**
290.	**Net profit (loss) for the period**	**337,033,834**	**318,325,998**

Mediobanca S.p.A. Comprehensive Profit and Loss Account

Item		30/6/18	30/6/17
10.	Profit (loss) for the period	337,033,834	318,325,998
	Other income items net of tax without passing through profit and loss	**43,174**	**743,363**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	43,174	743,363
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	—	—
	Other income items net of tax passing through profit and loss	**(155,256,387)**	**(95,113,520)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	—	—
90.	Cash flow hedges	31,011,688	(39,752,968)
100.	AFS financial assets	(186,268,074)	(55,360,552)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	—	—
130.	**Total other income items, net of tax**	**(155,213,213)**	**(94,370,157)**
140.	**Comprehensive income (headings 10 + 130)**	**181,820,621**	**223,955,841**

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/17	Allocation of profit for previous period		Changes during the reference period								Other comprehensive income statement for the 12 mths ended 30/6/18	Total net equity at 30/6/18
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity								
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]			
Share capital:	440,606,329	—	—	—	2,668,891	—	—	—	—	—		—	443,275,220
a) ordinary shares	440,606,329	—	—	—	2,668,891	—	—	—	—	—		—	443,275,220
b) other shares	—	—	—	—	—	—	—	—	—	—		—	—
Share premium reserve	2,187,579,966	—	—	—	4,162,964 [2]	—	—	—	—	—		—	2,191,742,930
Reserves:	2,284,194,072	318,325,998	(320,226,359)	—	(768,891)	(272,578)	—	—	—	11,587,181		—	2,292,839,423
a) retained earnings	2,148,015,263	318,325,998	(320,226,359)	—	(768,891)	—	—	—	—	—		—	2,145,346,011
b) others	136,178,809	—	—	—		(272,578)	—	—	—	11,587,181		—	147,493,412
Valuation reserves	285,167,356	—	—	—	—	—	—	—	—	—		(155,213,213)	129,954,143
Equity instruments	—	—	—	—	—	—	—	—	—	—		—	—
Treasury shares	(197,708,966)	—	—	—	88,098,623	272,578	—	—	—	—		—	(109,337,765)
Profit (loss) for the period	318,325,998	(318,325,998)	—	—	—	—	—	—	—	—		337,033,834	337,033,834
Total net equity	5,318,164,755	—	(320,226,359)	—	94,161,588	—	—	—	—	11,587,181		181,820,621	5,285,507,785

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Includes the negative difference between the market price and the book value of treasury shares used for the acquisition of the RAM AI equity interest, equal to €18.8m.

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period							Other comprehensive income statement for the 12 mths ended 30/6/17	Total net equity at 30/6/17
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]		
Share capital:	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
a) ordinary shares	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,152,828,778	—	—	—	34,751,188	—	—	—	—	—	—	2,187,579,966
Reserves:	2,217,335,267	288,037,576	(230,914,761)	—	(2,233,782)	(272,580)	—	—	—	12,242,352	—	2,284,194,072
a) retained earnings	2,093,126,230	288,037,576	(230,914,761)	—	(2,233,782) [2]	—	—	—	—	—	—	2,148,015,263
b) others	124,209,037	—	—	—	—	(272,580)	—	—	—	12,242,352	—	136,178,809
Valuation reserves	379,537,513	—	—	—	—	—	—	—	—	—	(94,370,157)	285,167,356
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,981,546)	—	—	—	—	272,580	—	—	—	—	—	(197,708,966)
Profit (loss) for the period	288,037,576	(288,037,576)	—	—	—	—	—	—	—	—	318,325,998	318,325,998
Total net equity	5,275,267,635	—	(230,914,761)	—	37,613,688	—	—	—	—	12,242,352	223,955,841	5,318,164,755

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Free equity granting following the performance shares scheme.

Mediobanca Cash Flow Statement Direct Method

	Amount	
	30/6/18	30/6/17
A. Cash flow from operating activities		
1. Operating activities	**(205,874,865)**	**(14,102,028)**
- interest received	2,780,442,543	2,245,472,442
- interest paid	(2,520,886,308)	(2,013,595,367)
- dividends and similar income	78,058,468	64,271,566
- net fees and commission income	87,531,956	60,902,154
- cash payments to employees	(128,059,333)	(105,273,959)
- net premiums gains (+)	—	—
- other insurance gains/losses (+/-)	—	—
- other expenses paid	(706,412,057)	(911,978,844)
- other income received	267,801,263	568,975,301
- income taxes paid	(64,351,396)	77,124,678
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**1,255,364,989**	**20,701,063**
- financial assets held for trading	(381,747,441)	(353,692,676)
- financial assets recognized at fair value	—	—
- AFS securities	(426,199,021)	2,042,178,751
- due from customers	(725,508,303)	2,653,091,972
- due from banks: on demand	2,653,967,433	863,776,079
- due from banks: other	7,830,088	(5,098,640,475)
- other assets	127,022,232	(86,012,590)
3. Cash generated/absorbed by financial liabilities	**(627,157,974)**	**2,002,429,465**
- due to banks: on demand	4,787,034,767	7,072,906,267
- due to banks: other	944,100,559	952,104,150
- due to customers	(3,785,370,455)	(5,527,258,750)
- debt securities	(2,236,819,552)	(302,602,903)
- trading liabilities	(216,234,772)	(171,252,467)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(119,868,521)	(21,466,832)
Net cash flow (outflow) from operating activities	**422,332,150**	**2,009,028,499**
B. Investment activities		
1. Cash generated from	**360,771,360**	**372,460,582**
- disposals of shareholdings	350	2,592,482
- dividends received in respect of equity investments	177,506,484	162,170,808
- disposals/redemptions of financial assets held to maturity	183,264,526	207,697,292
- disposals of tangible assets	—	—
- disposals of intangible assets	—	—
- disposals of business units	—	—
2. Cash absorbed by	**(570,187,191)**	**(1,034,712,337)**
- acquisitions of shareholdings	(222,517,552)	(369,689,321)
- acquisitions of held-to-maturity investments	(342,582,640)	(652,718,016)
- acquisitions of tangible assets	(1,645,000)	(2,149,000)
- acquisitions of intangible assets	(3,442,000)	(10,156,000)
- acquisitions of business units	—	—
Net cash flow (outflow) from investment/servicing of finance	**(209,415,832)**	**(662,251,755)**
C. Funding activities		
- issuance/acquisition of treasury shares	24,835,250	37,613,688
- issuance/acquisitions of equity instruments	—	—
- dividends payout and other applications of funds	(320,226,359)	(230,914,761)
Net cash flow (outflow) from funding activities	**(295,391,109)**	**(193,301,074)**
Net cash flow (outflow) during period	**(82,474,791)**	**1,153,475,670**

Reconciliation of Movements in Cash Flow During the Period

	Amounts	
	30/6/18	30/6/17
Cash and cash equivalents: balance at start of period	1,255,629,468	102,153,798
Total cash flow (ouflow) during period	(82,474,791)	1,153,475,670
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1,173,154,677	1,255,629,468

NOTES TO INDIVIDUAL ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

Mediobanca individual financial statements for the period ended 30 June 2018 have as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The individual financial statements for the period ended 30 June 2018 have also been prepared on the basis of IAS34 on interim financial reporting, and the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (fourth amendment issued on 15 December 2015).

SECTION 2

General principles

These individual financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive profit and loss account;

– Statement of changes to net equity;

– Cash flow statement (direct method);

– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied immediately, which have integrated the current regulations on accounting principles and have been incorporated into the Mediobanca accounting policies:

Approval regulation	Group application date	Topic
2017/1989, approved on November 6, 2017	July 1, 2017	Changes to IAS12 – *Taxes on income*
2017/1990, approved on November 6, 2017	July 1, 2017	Changes to IAS7 – *Cash flow statement*
2018/182 approved on February 7, 2017	July 1, 2017	Changes to IFRS12 – *Disclosure of interest in other entities*

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied during the next period or later, which have integrated the current regulations on accounting principles and have been incorporated into the Mediobanca accounting policies:

Approval regulation	Group application date	Topic
2017/1986 approved on October 31, 2017	July 1, 2019	Adoption IFRS16 – *Leases*
2016/1905 approved on September, 22, 2016	July 1, 2018	Adoption IFRS15– *Revenue from contracts with customers;*
2017/1987 approved on October 31, 2017		Amendments to IFRS15
2016/2067 approved on November 22, 2016	July 1, 2018	Adoption IFRS9 – *Financial instruments*
2018/498 approved on March 22, 2018	July 1, 2019	Amendments to IFRS9 – *Financial instruments*
2018/182 approved on February 7, 2018	July 1, 2018	Amendments to IAS28 – *Investments in associates and joint ventures*
	July 1, 2018	Amendments to IFRS1 – *First time adoption of financial reporting*
2018/289 approved on February 26, 2018	July 1, 2018	Amendments to IFRS2 – *Share based payment*
2018/400 approved on March 14, 2018	July 1, 2018	Amendments to IAS40 – *Investment property*
2018/498 approved on March 22, 2018	July 1, 2019	Amendments to IFRS9 – *Financial instruments*
2018/519 approved on March 28, 2018	July 1, 2018	Adoption IFRIC22 – *Foreign Currency Transactions and Advance Consideration*

IFRS9: Mediobanca Group Project

Regulatory scenario

In July 2014 the International Accounting Standards Board (IASB) issued the new IFRS9 "Financial Instruments", with the aim of introducing new regulations on the classification and measurement of financial instruments, the criteria and methods for calculating value adjustments, and the hedge accounting model. The ratification process was completed with the issue of Commission Regulation (EU) 2016/2067 of 22 November 2016, published in the Official Journal of the European Union, L 323, on 29 November 2016.

IFRS9 replaces IAS39 and applies from the starting date of the first financial year which commences on 1 January 2018 or thereafter. Mediobanca, which ends its financial year on 30 June each year, will adopt the new standard as from 1 July 2018.

In accordance with the guidance of the European Securities and Markets Authority (ESMA), contained in the document entitled "European common enforcement priorities for 2017 financial statements" dated 27 October 2017, and pursuant to the requirements of IAS8 sections 30 and 31, in this section Mediobanca sets out its disclosure on implementation of the new standard.

IFRS9, with regard to financial instruments, is structured into three different areas: "Classification and measurement", "Impairment" and "Hedge accounting". For each of these areas, we describe the results to emerge from the project environment, and provide an indication of the main qualitative impacts and an estimate of the quantitative impacts.

The most important changes involve the "Classification and measurement" and "Impairment" areas, whereas the changes introduced in on the issue of "Hedge accounting" are less significant. Details are as follows:

– On the first issue, the classification and method used to measure financial assets (apart from shares) will be subject to two tests: one on the business model, and the other on the contractual features of the cash flows involved (known as the "SPPI test", i.e. "Solely Payment of Principal and Interest"). Only those instruments which pass both tests can be recognized at amortized cost; otherwise, the assets will have to be recognized at fair value and the effects taken through the profit and loss account (this category therefore becomes the residual portfolio). There is also an intermediate portfolio (Held to collect and sell), which, like the current Available for Sale portfolio, involves recognition at fair value against a matching entry in net equity ("Other Comprehensive Income").

Shares must always be recognized at fair value, with the possibility, for those not held for trading purposes, of the fair value effects being recognized in a net equity reserve (rather than through the profit and loss account); "recycling", however, is abolished (i.e. the effects of the disposals will no longer be taken through the profit and loss account.

No major changes will be made to the treatment of financial liabilities in terms of their classification and measurement. Indeed, the existing rules will remain in force apart from the accounting treatment of own credit risk: for financial liabilities recognized at fair value (or under the fair value option), the standard stipulates that the changes in fair value attributable to changes in own credit risk must be booked to net equity, unless such treatment creates or inflates an accounting asymmetry in the profit for the period, whereas the remaining amount of the changes in the fair value of the liabilities must be taken through profit and loss.

– On the issue of impairment, for instruments recognized at amortized cost and fair value against a matching entry in net equity (apart from equity instruments), the new standard marks the transition from an incurred to an expected loss calculation model; with the focus on the expected losses in value, provisioning has to be made in respect of the entire portfolio (including performing items) and on the basis of estimates which take into account macroeconomic factors. In particular, at the initial recognition stage (stage 1), the instrument must already reflect an expected loss over a twelve-month time horizon; if a significant increase in credit risk then occurs, the asset is classified in the underperforming portfolio (stage 2), which means incorporating an expected loss across the entire outstanding life of the asset; and finally, if further impairment occurs, the asset is classified as non-performing (stage 3), in which the final recovery value is estimated. The expected loss must be based on point-in-time data reflecting the internal credit models used.

– As for hedge accounting, the new model rewrites the rules for designating a hedge relationship and for checking its effectiveness, with the objective of aligning accounting representation with risk management activities, and improving the disclosure on risk management activities performed by the entity preparing the financial reporting.

Current project

An internal project was launched in 2015, led jointly by Risk Management and Group Financial Reporting, with the involvement of all the other areas affected (in particular Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury). The initiative was organized ac-cording to the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting). The testing phase of the new IFRS9 systems and processes began in January 2018, in which IAS39 and IFRS9 ran in parallel to allow the system of internal regulations (methodologies, processes and procedures) to be updated, and the IT systems to be checked.

In the course of 2017, the framework for implementation was the subject of a Thematic Review by the Single Supervisory Mechanism to assess the state of preparation for application of IFRS9, which resulted in certain limited "recommendations" that have already been addressed in an action plan shared with the supervisory authority.

The main results, in terms of impacts expected and decisions taken within the Mediobanca Group are set out below, divided according to the main project areas.

Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS9 has introduced new rules for financial assets based on the portfolio management model used and the contractual cash flow characteristics of the instruments concerned, as certified via the SPPI (Solely Payment of Principal and Interest) test.

The standard identifies two main macro models: Hold to collect and Hold to collect and sell, plus a residual business model (Other) which brings together all portfolios held for trading purposes which continue to be recognized at fair value with any changes to it taken through the profit and loss account.

For the purposes of classifying financial instruments, the business model analysis was performed by valuing the Group's portfolio of assets in the light of the strategy adopted by senior management, risk management for the portfolios concerned, remuneration mechanisms, reporting methods, and movements (past sales and future expectations). Such considerations are incorporated into the internal management policies, which reiterate the correlation between business model and accounting treatment, and introduce thresholds in terms of frequency and significance for movements in portfolios recognized at amortized cost.

The analysis showed the following results:

- The loan books – which under IAS39 were recognized at amortized cost as "Loans and Receivables" – have a management strategy which is consistent with a Hold to Collect business model;
- Debt securities held as part of the banking book which constitute "Financial assets held to maturity" under IAS39, are classified based on a Hold to Collect model;
- Debt securities held as part of the banking book which constitute "Financial assets available for sale" under IAS39 are classified almost entirely on the basis of a Hold to Collect and Sell business models; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
- Debt securities held as part of the trading book move to the "Other" business model;
- As for equities, shares held for trading purposes also move to the "Other" business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and loss account (accounting category: "Fair Value to Other Comprehensive Income", or "FVOCI"). For funds, stock units held over the medium/long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the "Other" business model.

It should be noted that although the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"), the Group has not decided to take up this option for assets but to use it only for a limited number of liability instruments, to eliminate or significantly reduce accounting asymmetries.

To complete the classification phase for financial instruments according to the new categories provided for by IFRS9, the business model analysis must be accompanied by analysis of the contractual cash flows (the "Solely Payment of Principal and Interest", or "SPPI", test).

The SPPI test is performed at the level of the individual financial instrument, product or sub-product, and is based on the contractual features of the asset being tested. To this end, the Group has drawn up a standardized process for performing the test, which involves analysing the loans via a specific tool developed internally (the "SPPI Tool") structured on the basis of decision-making trees, at the level of individual financial instrument or product based on their differing degrees of customization. If the instrument or product fails the test, the SPPI Tool will suggest recognizing the asset at fair value and taking the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"). The method for testing loans will be distinguished between retail and corporate (at the product level for retail loans, and analytically for each drawdown of corporate loans). For analysis of debt securities, an external info provider will be used; if the test results are unavailable for whatever reason, the instrument will be analysed by the SPPI Tool developed internally.

In addition to the above, specific analysis methodologies have been developed both for instruments which require a benchmark test for the modified time value of money, and to evaluate the credit risk of securitization tranches.

The analysis carried out on the portfolio of financial assets has shown that the measurement criteria for the new categories according to which the financial instruments will be classified are substantially in line with the IAS39 categories. The only exceptions to this are a few cases described in more detail in the section on First-Time Adoption (FTA).

Impairment

Under IFRS9, all financial assets not measured at fair value and taken through the profit and loss account, i.e. debt securities and loans as well as off-balance-sheet exposures, are associated with Hold to Collect or Hold to Collect and Sell business models and must be subject to the new forward-looking impairment model. In practice, compared to the previous approach which was based on the “incurred loss”, an “expected loss” approach will be adopted, with the loss estimated at twelve months or the end of the instrument’s remaining life. For this reason the losses must be booked to reflect not only the objective loss of value recorded at the reporting date, but also the expected future value losses which have not yet occurred. In view of these factors, IFRS9 stipulates that financial instruments must be classified in three categories (or stages), reflecting increasing levels of impairment in credit standing.

For purposes of the individual reporting, intercompany positions too were subject to the same rules.

In order to comply with the IFRS9 requirements, the Group has drawn up a stage allocation model for financial instruments, to ensure that performing exposures are correctly allocated to stage 1 or stage 2 if there has been a “Significant Increase in Credit Risk” (“SICR”).

For impaired exposures, by contrast, the fact that our practice is aligned with the default accounting and regulatory definitions, means the criteria according to which exposures are classified as “non-performing/impaired” will be the same as those for exposures to be classified within stage 3, albeit with certain very minor differences of valuation (cf. below).

The main methodological choices made on the issue of impairment are summarized below:

– Assessment of significant increase in credit risk: the assessment is based on both qualitative and quantitative criteria to identify whether or not a there has been a significant risk in the credit risk associated with the counterparty for each facility. The recognition of forbearance measures or the “30 days past due” criterion are considered as backstop indicators. As per the supervisory authority’s expectations, only limited use will be made of the simplified approach, or "low credit risk exemption". The criteria defined for exposures to transition from stage 2 to stage 1 mirror those for the significant increase in credit risk (i.e. when the aspects which denote the significant deterioration cease to exist, the exposure returns to stage 1);

– Inclusion of forward-looking information in the model used to calculate the expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, to ensure a time horizon held to be reasonable is considered. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;

– Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. Alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);

– Validation and back-testing: in connection with the models based on recording expected losses, a process has been finalized for validation and back-testing. The reference framework adopted means that the unit which develops the model must be independent of the unit which validates it, with a clear definition of the roles and responsibilities between them. Regular testing is also carried out to ensure that the assumptions on which the model is based continue to be valid, and that the any new information which becomes available is factored in accordingly;

– Calculation of expected losses at twelve months and over life-time: the IFRS9 estimate of the PD, LGD and EAD indicators is based on the existing prudential models (e.g. internal models where present) and on specific models adapted with the necessary adjustments to incorporate the forward-looking information and the multi-period time horizon;

– Calculation of expected losses on intercompany exposures – including off-balance-sheet items – through the use of PD and LGD parameters compiled using internal models where available.

Hedge accounting

As for the IFRS9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS39, the Group will opt in to the new criteria introduced for general hedging, and does not foresee any significant impact in doing so.

Effects of first-time adoption (FTA)

The changes introduced by IFRS9 in the areas of "Classification and measurement" and "Impairment" produce their effects at the first-time adoption stage on the amount and composition of Net equity.

With respect to "Classification and measurement", the analysis carried out for the entire portfolio of financial assets has not revealed any significant impact.

The existing business model basically reflects the new IFRS9 portfolios, as follows:

- Receivables and debt securities are recognized at amortized cost and restated according to the Hold to collect business model;
- Securities held for trading fall within the remit of the "Other" business model;
- Debt securities currently held as "Available for Sale" will be treated according to the Hold to Collect and Sell business model;
- Available for sale equities which the Group has elected to recognize at fair value against a matching reserve in net equity, with the existing Available For Sale reserve transferred to the OCI (Other Comprehensive Income) reserve.

In some cases, however, changes in the business models used to manage the financial instruments or contractual cash flows not in line with the SPPI notion have been detected, hence the transition from IAS39 to IFRS9 with reference to "Classification and Measurement" will entail reclassification as follows:

– Loans and receivables will be reclassified as FVPL in view of the fact that the instruments' characteristics (subordination, equity convertible options, indirect exposure to equity) mean they would not pass the SPPI test;

– Available-for-sale debt securities will be reclassified as HTC to provide a better representation of the business model's strategies, which will lead to the net equity reserve accumulated written back and the historical acquisition cost being recovered;

– Debt securities held as part of the banking book will be reclassified as FVPL, as a result of failing the SPPI test;

– Stock units held in investment funds classified as AFS have been reclassified as assets compulsorily recognized at fair value with effects taken through profit and loss and the current AFS reserve being transferred to the earnings reserve; this is consistent with the ale IFRS Interpretation Committee's recent statements that such financial assets should be treated as equities;

– AFS equities will be reclassified as financial assets recognized at FVOCI (without passing through profit and loss);

– Held-for-trading financial assets will be reclassified as FVOCI following changes to the business model.

Adoption of the new classification rules for financial instruments should gen-erate a limited negative effect on net equity.

The most significant impact of the transition to IFRS9, however, derives from the changes in relation to "Impairment", which involves the value adjustments to financial assets having to be recalculated based on the expected loss method, and for non-performing loans, the use of forward-looking parameters to calculate the expected losses. Compared to the IAS39 provisioning, there is an overall increase in expected losses, which is entirely attributable to the performing exposures (stages 1 and 2) and in particular the intercompany accounts.

The stage 2 positions account for 10% of the performing exposures.

The combined changes generate an impact of approx. €26m on the Bank's net equity (€18m net of the tax effect), with minimal impact at the CET1 ratio level.

These impacts recorded represent the best information that the Group had available at the date on which these financial statements were approved and hence are subject to possible changes as a result of completion of the FTA process for IFRS9, including following the scheduled validation and internal and external control activities. In any case, the impacts are relatively low compared to those of other Italian banks and in line with the leading EU banks, and reflect the good quality of the Group's asset portfolios.

In order to mitigate the impact of the new standards on the prudential ratios, Regulation (E) 2017/2395 of the European Parliament and of the Council as regards "Transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds", amending Regulation (EU) 575/2013 (the "CRR"), with the new Article 473-bis "Introduction of IFRS9", offers the possibility for banks to distribute the impact of the introduction of IFRS9 on own funds for a transitional period of five years, by including a decreasing amount of the impact in CET1. The Group will apply the static approach, to neutralize the effect of the higher provisioning for performing assets, starting from the first-time adoption of IFRS9 and for the next five years [1].

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS9 and IFRS1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

[1] Year 1: 95%; year 2: 85%; year 3: 70%; year 4: 50%; year 5: 25%.

IFRS15: Revenues from contracts with customers

The new accounting standard introduces a new model for the recognition of revenues coming from contracts with customers. The new standard will replace the current requirements in IFRS for the recognition of revenues: IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programs, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective from 1 January 2018, for the Mediobanca Group from 1 July 2018. The new IFRS provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract;
- identification of individual performance obligation;
- determination of the transaction price;
- allocation of the transaction price to each performance obligation, on a "market prices" basis ("stand-alone selling price");
- recognition of the revenues allocated to the single bond when it is settled, i.e. when the customer obtains control of the goods and services.

The implementation of the new standard was centrally coordinated by the Parent Company through a customized working group to extend the analysis to the whole Group involving the subsidiaries where necessary.

The analysis carried out led to the identification of all types of contracts with customers and to the revenues recognition in order to establish an accordance with the principle. No significant impacts arose from the application of the new standard.

The other standard that may impact the Mediobanca Group is the IFRS16 – Leases, whose application runs from 1 January 2019 (on 1 July 2019 for the Mediobanca Group). The standard will replace the IAS17 currently in force for leasing contracts, as well as the interpretations IFRIC4, SIC15 and SIC27.

This new principle mainly impacts the lease accounting rules as for the lessee, who must take into account the elimination of the financial and operating leases distinction. All contracts must be accounted for following the rules of the "old" financial leasing standard, i.e. by recording an asset/liability in the balance sheet and recognizing financial expenses through the profit and loss account.

As for the lessor no change arises.

SECTION 3

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the period ended 30 June 2018.

In July the liquidation of the subsidiaries MB advisory Turkey and Quarzo MB has been started.

SECTION 4

Other aspects

The consolidated financial statements and the financial statements of the parent company are audited by the auditing company PricewaterhouseCoopers SpA, pursuant to Legislative Decree no. January 27, 2010 n. 39 and in execution of the Shareholders' Meeting resolution of October 27, 2012, for the years from 2013 to 2021.

For a description of the other significant events that occurred after the closing period, please refer to the information provided in the Review of Operations.

A.2 - Significant accounting policies

Financial assets held for trading

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

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value [2] 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. 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, [3] which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value 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

[2] See Part A – Information on fair value, pp. 393 - 400, for further details.

[3] See Part A – Information on fair value, pp. 393 - 400, for further details.

value is measured on the same principles as described for trading instruments. 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 30% 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 [4], 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.

[4] See Part A – Information on fair value, pp. 393 - 400, for further details.

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

IAS17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period [5].

[5] As required by the amortized cost rules under IAS39.

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;
- 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, with the effects taken through the profit and loss account.

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

Equity investments

This heading consists of investments in:

- Subsidiaries
- 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, which are also equity-accounted;
- Other investments of negligible value.

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. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

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, long-term computer software applications and other intangible assets (list of clients and development software) deriving from the Purchase Price Allocation process.

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.

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.

As permitted by IAS37, para. 92, no precise indication has been given of any potential liabilities.

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

Trading liabilities

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

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 and net interest.

Actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EU 475/12 [6].

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

[6] Until 30 June 2012 the Group accounted for these items directly as labour costs.

Foreign currency transactions

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

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

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted on the basis of the average exchange rates for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

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.

Contributes to Deposits Guarantee Schemes and resolution funds are accounted for according to IFRIC21.

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

In accordance with IAS24, related parties are defined as:

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;

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

c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;

d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);

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

f) Pension funds for employees of the parent company or any other entity related to it;

g) Transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

A.3 - Information on transfers between financial asset portfolios

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 30/6/18	Fair value at 30/6/18	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities [1] (ABS)	Financial assets held for trading	Due from customers	—	—	(1,868)	530	—	530
Debt securities [1] (ABS)	AFS securities	Due from customers	—	—	(98)	78	—	78
Debt securities [2]	AFS securities	Financial assets held to maturity	134,678	141,221	(4,968)	6,385		6,385
Totale			134,678	141,221	(6,934)	6,993	—	6,993

[1] Made during FY 08/09, and entirely sold during the period.

[2] Made during FY 10/11.

A.3.2 Reclassified financial assets: effects on comprehensive profit and loss before transfer

(€'000)

Type of instrument	Transferred from	Transferred to	Profit and Loss plus/minus (pre-tax)		Balance Sheet plus/minus (pre-tax)	
			30/6/18	30/6/17	30/6/18	30/6/17
Debt securities (ABS)	Financial assets held to maturity	Due from customers	—	23	—	—
Total			—	23	—	—

A.4 - Information on Fair Value

QUALITATIVE INFORMATION

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

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics,
– Discounted cash flow calculations,
– Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

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

For investment funds (including open-end funds), private equity funds, hedge funds (including funds of funds) and real-estate funds the fair value is represented by the per share Net Asset Value (NAV) disclosed by them to the market. Lastly, some residual equity securities, for which it is not possible to reliably determine the fair value according to one of mentioned methods, are evaluated at cost.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it [7].

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

In accordance with the provisions of IFRS13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified.

– Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.
– Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

Fair Value Adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

– Credit/debit valuation adjustment;

– Other adjustments.

Credit/debit valuation adjustment (CVA/DVA)

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

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

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

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

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

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels and on valuation parameters and for taking into account the cost of funding.

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. For taking into account this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating to the European corporate derivative market.

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

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis.

– Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.

– Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. All ABS held in the Bank's portfolio are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.

– Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3.

- Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely; for them fair value is determined on the basis of internal models.
- Investment funds: the Bank holds interests in investment funds which provide the per share Net Asset Value (NAV, and the last available NAV is used, if not older than 3 months), including OICR, private equity funds, hedge funds (including funds of funds) and real-estate funds. Funds are generally classified into Level 1 when a quote is available on an active market, in other cases into Level 3.

Assets and liabilities measured at fair value on a non-recurring basis

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally rather than directly observable on the market.

For loans to corporates, fair value is measured via discounted cash flows, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level 2, and in all other cases as Level 3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks).

A.4.2 Measurement processes and sensibilities

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

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

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€'000), 30/6/18	+/- delta vs MtM (€'000), 30/6/17
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	620	624
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	325	50

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value* Assets 30/6/18 (€m)	Fair value* Liabilities 30/6/18 (€m)	Fair value* Assets 30/6/17 (€m)	Fair value* Liabilities 30/6/17 (€m)
OTC equity plain vanilla options, OTC equity digital options, variance swaps, bond options	Black-Scholes/ Black model	Implicit volatility [1]	1.46	(7.81)	1.25	(9.87)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation [2]	2.70	(4.84)	2.80	(0.34)
Synthetic CDOs	Gaussian copula model using factor with base correlation	Base correlation with bootstrap starting from quoted data on liquid index tranches [3]	—	—	0.14	(0.13)

* Values are shown net of reserves booked.

[1] Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

[2] Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

[3] The base correlation is the level of relation between the default events for the underlying instruments belonging to the principal credit indexes. The correlation is obtained from the quoted market prices of synthetic CDOs on the indexes, in particular from instruments hedging the various parts of the equity structure of these indexes.

A.4.3 Fair value ranking

Transfers between levels of fair value ranking

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level 1 to Level 2 or vice versa mainly as a result of changes in the significance of a price expressed by the reference active market for the instrument concerned.

The significance level for input data, in particular for the weight that not-observable inputs assume in respect of observable inputs, determines instead the transfer from Level 2 to Level 3 or viceversa.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

A.4.5 Fair value ranking

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

(€'000)

Financial assets/Liabilities measured at fair value	30/6/18			30/6/17		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets held for trading	4,805,778	3,253,877	152,259	4,004,381	3,122,863	144,100
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	4,563,419	298,863	304,070	5,020,919	383,326	260,156
4. Hedge derivatives	—	235,591	—	—	462,596	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,369,197	3,788,331	456,329	9,025,300	3,968,785	404,256
1. Financial liabilities held for trading	(3,206,919)	(3,216,430)	(87,131)	(2,730,204)	(3,045,815)	(83,142)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(220,713)	—	—	(498,679)	—
Total	(3,206,919)	(3,437,143)	(87,131)	(2,730,204)	(3,544,494)	(83,142)

The level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, in an amount of €72.6m (30/6/17: €65.4m), plus €1.9m (€7.4m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets increased from €71.3m to €77.8m, after new deals worth €16.2m, disposals and redemptions totalling €5.9m, and other negative changes, including movements in fair value, amounting to €3.8m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds. During the year under review AFS assets rose from €260.2m to €304.1m, representing the balance between purchases of €110.6m, sales of €80.1m and positive variations for €13.4m (gains, evaluations and transfers from other levels).

A.4.5.2 Annual changes in financial assets recognized at fair value on a recurring basis (level 3 assets)

(€'000)

	FINANCIAL ASSETS			
	Held for trading [1]	**Recognized at fair value**	**AFS** [2]	**Hedges**
1. Balance at the beginning of the period	71,287	—	260,156	—
2. Increases	19,063	—	136,702	—
2.1 Purchases	16,232	—	110,577	—
2.2 Profits recognized in:	2,845	—	10,557	—
2.2.1 profit and loss	2,845	—	4,199	—
- of which, gains	*871*	—	—	—
2.2.2 net equity	—	—	6,358	—
2.3 Transfers from other levels	—	—	559	—
2.4 Other increases	(14)	—	15,009	—
3. Decreases	12,570	—	92,788	—
3.1 Disposals	2,237	—	80,115	—
3.2 Redemptions	3,667	—	—	—
3.3 Losses recognized in:	6,666	—	12,673	—
3.3.1 profit and loss	6,666	—	5,766	—
- of which, losses	*6,666*	—	*1,848*	—
3.3.2 net equity	—	—	6,907	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other decreases	—	—	—	—
4. Balance at end of period	77,780	—	304,070	—

[1] Net of the market value of options covering those attached to bond issues (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m and €65.4m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments in unlisted companies valued on the basis of internal models.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	**Recognized at fair value**	**Hedges**
1. Balance at the beginning of the period	10,333	—	—
2. Increases	11,627	—	—
2.1 Issues	9,643	—	—
2.2 Losses recognized in:	1,984	—	—
2.2.1 profit and loss	1,984	—	—
- *of which, losses*	*1,984*	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other increases	—	—	—
3. Decreases	9,308	—	—
3.1 Redemptions	2,650	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	6,658	—	—
3.3.1 profit and loss	6,658	—	—
- *of which, gains*	*6,658*	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreases	—	—	—
4. Balance at end of period	12,652	—	—

[1] Includes market value of options covering those attached to bond issues (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m and €65.4m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€'000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	**30/6/18**				**30/6/17**			
	Book value	**Fair value**			**Book value**	**Fair value**		
		Level1	**Level2**	**Level3**		**Level1**	**Level2**	**Level3**
1. Financial assets held to maturity	2,595,142	2,576,912	28,086		2,394,875	2,416,975	50,933	—
2. Due from banks	19,553,431	—	6,620,038	12,952,352	20,408,728	—	6,992,576	13,429,009
3. Due from customers	18,725,998	—	7,136,216	10,702,838	16,991,344	—	7,693,013	9,337,914
4. Tangible assets held for investment purposes	25,162	—	—	94,077	25,505	—	—	92,961
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	40,899,733	2,576,912	13,784,340	23,749,267	39,820,452	2,416,975	14,736,522	22,859,884
1. Due to banks	25,519,219	—	25,519,219	—	24,242,942	—	24,242,942	—
2. Due to customers	4,124,183	—	4,124,183	—	2,350,342	—	2,350,342	—
3. Debt securities in issue	16,827,009	—	17,108,510	49,719	18,902,616	1,261,457	17,915,904	31,583
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	46,470,411	—	46,751,912	49,719	45,495,900	1,261,457	44,509,188	31,583

A.5 - Information on day one profit/loss

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

During the period from 1 July 2016 to 30 June 2017 this principle was applied by suspending the approx. €10m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. This difference was generated from the use of an internal model to value the unlisted instrument which, pursuant to paras. AG76 and AG76A of IAS39, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The portion recognized in profit and loss during the period amounted to approx. €2m, the portion that remains suspended amounts to approx. €6.7m (30/6/17: €8.7m).

Part B - Notes to Individual Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/18	30/6/17
a) Cash	574	450
b) Demand deposits with Central Banks	1,172,581	1,255,179
Total	1,173,155	1,255,629

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

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition**

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3	Level1	Level2	Level3
A. Balance-sheet assets						
1. Debt securities [1]	2,538,652	252,030	14,128	1,993,991	334,167	2,321
1.1 Structured securities	109	11,526	—	10,711	20,267	—
1.2 Others	2,538,543	240,504	14,128	1,983,280	313,900	2,321
2. Equity instruments [2]	1,616,416	—	50,145	1,453,540	—	54,253
3. Units in investment funds	101,498	—	9,342	93,736	—	10,524
4. Loans	24,966	—	—	—	59,639	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	24,966	—	—	—	59,639	—
Total A	4,281,532	252,030	73,615	3,541,267	393,806	67,098
B. Derivative instruments						
1. Financial derivatives	524,246	2,796,956	78,644	463,114	2,555,934	77,002
1.1 Trading	524,246	2,727,313	77,072 [3]	463,114	2,252,596	69,584 [3]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	69,643	1,572 [4]	—	303,338	7,418 [4]
2. Credit derivatives	—	204,891	—	—	173,123	—
2.1 Trading	—	204,891	—	—	173,123	—
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	524,246	3,001,847	78,644	463,114	2,729,057	77,002
Total (A+B)	4,805,778	3,253,877	152,259	4,004,381	3,122,863	144,100

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

1 Debt securities as at 30/6/17 do not include €194.7m in securities formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

2 Equities as at 30/6/18 include shares committed in securities lending transactions totalling €982,223,000 (30/6/17: €737,408,000).

3 Respectively €72,603,000 and €65,407,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

4 Includes the market value of options (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) matching those associated with bond issues recorded among financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	30/6/18	30/6/17
A. FINANCIAL ASSETS (NON-DERIVATIVES)		
1. Debt securities	2,804,810	2,330,479
a) Governments and Central Banks [1]	2,333,021	1,779,053
b) Other public-sector entities	20,680	15,160
c) Banks	120,771	135,197
d) Other issuers	330,338	401,069
2. Equity instruments	1,666,561	1,507,793
a) Banks	118,343	81,293
b) Other issuers:	1,548,218	1,426,500
- Insurance companies	16,939	54,142
- Financial companies	16,942	55,014
- Non-financial companies	1,514,337	1,317,344
- Other	—	—
3. Units in investment funds	110,840	104,260
4. Loans	24,966	59,639
a) Goverments and Central Banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	59,639
d) Other issuers	24,966	—
Total A	4,607,177	4,002,171
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,431,842	2,088,094
- Fair Value	2,431,842	2,088,094
b) Customers	1,172,895	1,181,079
- Fair Value	1,172,895	1,181,079
Total B	3,604,737	3,269,173
Total (A+B)	8,211,914	7,271,344

[1] Debt securities as at 30/6/17 do not include €194.7m in securities formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

SECTION 4

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3 *	Level1	Level2	Level3 *
1. Debt securities	4,120,642	298,863	—	4,621,602	383,326	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,120,642	298,863	—	4,621,602	383,326	—
2. Equity instruments	239,266	—	21,478	399,317	—	26,670
2.1 Designated at fair value	239,266	—	21,478	399,317	—	26,670
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds [1]	203,511	—	282,592	—	—	233,486
4. Loans	—	—	—	—	—	—
Total	4,563,419	298,863	304,070	5,020,919	383,326	260,156

* Includes shares in non-listed companies based on internal rating models.

[1] UCITS stock units as at 30/6/17 do not include €77.5m in units formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/18	30/6/17
1. Debt securities	4,419,505	5,004,928
a) Governments and Central Banks	2,886,008	3,422,929
b) Other public-sector entities	386,845	214,203
c) Banks	656,736	698,869
d) Other entities	489,916	668,927
2. Equity instruments	260,744	425,987
a) Banks	112	—
b) Other issuers:	260,632	425,987
- Insurance companies	—	—
- Financial companies	24,352	21,618
- Non-financial companies	236,280	404,369
- Other	—	—
3. Units in investment funds (including Private Equity funds) [1]	486,103	233,486
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	5,166,352	5,664,401

[1] UCITS stock units as at 30/6/17 do not include €77.5m in units formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

4.3 AFS securities: assets subject to specific hedging

Items/Values	30/6/18	30/6/17
1. Financial assets subject to fair value micro hedging	1,899,326	2,255,207
a) Interest rate risk	1,899,326	2,255,207
b) Currency rsk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Financial assets subject to cash flow micro hedging	—	240,019
a) Interest rate risk	—	—
b) Currency rsk	—	—
c) Other	—	240,019
Total	1,899,326	2,495,226

SECTION 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity: composition

	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Debt securities	2,595,142	2,576,912	28,086	—	2,394,875	2,416,975	50,933	—
- structured	—	—	—	—	—	—	—	—
- other	2,595,142	2,576,912	28,086	—	2,394,875	2,416,975	50,933	—
2. Loans	—	—	—	—	—	—	—	—

5.2 Financial assets held to maturity: by borrower/issuer

Type of transaction/Values	30/6/18	30/6/17
1. Debt securities	2,595,142	2,394,875
a) Government and Central Banks	1,838,768	1,747,050
b) Other public-sector entities	—	—
c) Banks	176,968	251,778
d) Other issuers	579,406	396,047
2. Loans	—	—
a) Government and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	2,595,142	2,394,875
Total Fair Value	2,604,998	2,467,908

SECTION 6

Heading 60 - Due from banks

6.1 Due from banks: composition

Type of transactions/Values	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Loans to Central Banks	163,515	—	163,515	—	157,191	—	157,191	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	163,515	X	X	X	157,191	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	19,389,916	—	6,456,523	12,952,352	20,251,537	—	6,835,385	13,429,009
1. Loans [1]	19,003,904	—	6,070,511	12,952,352	19,963,757	—	6,542,160	13,429,009
1.1 Current accounts and demand deposits	597,132	X	X	X	718,447	X	X	X
1.2 Time deposits	51,551	X	X	X	45,000	X	X	X
1.3 Other loans	18,355,221	X	X	X	19,200,310	X	X	X
- Repos	4,902,337	X	X	X	5,315,656	X	X	X
- Finance leases	—	X	X	X	—	X	X	X
- Other	13,452,884	X	X	X	13,884,654	X	X	X
2. Debt securities	386,012	—	386,012	—	287,780	—	293,225	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	386,012	X	X	X	287,780	X	X	X
Total	19,553,431	—	6,620,038	12,952,352	20,408,728	—	6,992,576	13,429,009

[1] At 30/6/17 does not include €79.2m formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A. and concerns current accounts and demand deposits and concerns (€71.3m) and time deposits (€6.1m).

6.2 Due from banks: subject to specific hedging

	30/6/18	30/6/17
1. Receivables subject to specific hedging of fair value	629	1.921
a) Interest rate risk	629	1.921
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Receivables subject to specific hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	629	1.921

SECTION 7

Heading 70: Due from customers

7.1 Due from customers: composition

Type of transaction/Value	30/6/18						30/6/17					
	Book Value			Fair Value			Book Value			*Fair Value*		
	Performing	Non performing		Level1	Level2	Level3	Performing	Non performing		Level1	Level2	Level3
		Purchased	Other					Purchased	Other			
Loans [1]	14,327,748	—	343,993	—	7,136,216	6,649,518	13,542,916	—	371,736	—	7,616,741	6,321,659
1. Current accounts	1,029,162	—	—	X	X	X	424,966	—	—	X	X	X
2. Repos	446,410	—	—	X	X	X	677,543	—	—	X	X	X
3. Mortgages	11,198,337	—	343,993	X	X	X	10,601,040	—	371,736	X	X	X
4. Credit cards, personal loans and salary-backed finance	—	—	—	X	X	X	—	—	—	X	X	X
5. Financial leases	—	—	—	X	X	X	—	—	—	X	X	X
6. Factoring	—	—	—	X	X	X	—	—	—	X	X	X
7. Other loans	1,653,839	—	—	X	X	X	1,839,367	—	—	X	X	X
Debt securities	4,054,257	—	—	—	—	4,053,320	3,076,692	—	—	—	76,272	3,016,255
8. Structured securities	—	—	—	X	X	X	—	—	—	X	X	X
9. Others [2]	4,054,257	—	—	X	X	X	3,076,692	—	—	X	X	X
Total	18,382,005	—	343,993	—	7,136,216	10,702,838	16,619,608	—	371,736	—	7,693,013	9,337,914

[1] At 30/6/17 does not include €930.1m in performing loans and €11.6m in NPLs formerly attributable to Banca Esperia which has since been merged into Mediobanca S.p.A., and chiefly regard current accounts and untied deposits as well as the sub-heading Other loans.

[2] €3,889,268,000 of which in respect of securitizations by Group companies (Compass and Futuro).

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/18			30/6/17		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by:	4,054,257	—	—	3,076,693	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	4,054,257	—	—	3,076,693	—	—
- Non-financial companies	2,140	—	—	74,064	—	—
- Financial companies	4,019,298	—	—	3,002,629	—	—
- Insurance companies	32,819	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	14,327,748	—	343,993	13,542,916	—	371,736
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	150,762	—	—	3,182	—	—
c) Other entities	14,176,986	—	343,993	13,539,734	—	371,736
- Non-financial companies	6,054,969	—	329,100	6,390,527	—	356,438
- Financial companies	6,495,032	—	14,790	6,226,864	—	15,298
- Insurance companies	655,099	—	1	922,320	—	—
- Other [1]	971,886	—	102	23	—	—
Total	18,382,005	—	343,993	16,619,609	—	371,736

[1] At 30/6/17 does not include €930.1m in performing loans deriving from the Banca Esperia acquisition; and €11.6m in NPLs formerly attributable to Banca Esperia which has since been merged into Mediobanca S.p.A..

7.3 Due from customers: assets subject to specific hedging

	30/6/18	30/6/17
1. Loans and receivables subject to micro-hedging of fair value	354,256	576,789
a) Interest rate risk	354,256	576,789
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risk	—	—
2. Loans and receivables subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	354,256	576,789

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal Value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	235,591	—	9,953,466	—	462,596	—	8,367,129
1) Fair value	—	235,591	—	9,953,466	—	462,596	—	8,367,129
2) Cash flow	—	—	—	—	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	235,591	—	9,953,466	—	462,596	—	8,367,129

8.2 Hedging derivatives: by portfolio hedged and hedge type (book value)

Transaction/ Type of hedging	Fair Value						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	249	—	—	X	—	X	—	X	X
3. Held-to-maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	249	—	—	—	—	—	—	—	—
1. Financial liabilities	235,342	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	235,342	—	—	—	—	—	—	—	—
1. Estimated transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

As at 30 June 2018, the stakes held as part of the Equity investment portfolio reflected a book value of €3,084.2m.

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Shareholding %	Voting right %
A. Directly-held investments				
Cairn Capital Group Limited *				
Share capital GBP 263, in par value €0.005 shares	London	London	100.00 (*)	51.00
CheBanca S.p.A.				
Share capital € 226.3m, in par value € 0.50 shares	Milan	Milan	100.00	100.00
Compagnie Monegasque de Banque - CMB S.A.M.				
Share capital € 111.1m, in par value € 200 shares	Montecarlo	Montecarlo	100.00	100.00
CMB Wealth Management Limited				
Share capital GBP 3m, in par value GBP 1 shares	London	London	100.00	100.00
Compass Banca S.p.A.				
Share capital € 587.5m, in par value € 5 shares	Milan	Milan	100.00	100.00
Mediobanca Innovation Services - MIS S.c.p.A.				
Share capital € 35m, in par value € 5 shares	Milan	Milan	99.99	99.99
Mediobanca Management Company S.A.				
Share capital € 500,000 in par value € 10 shares	Luxembourg	Luxembourg	100.00	100.00
Mediobanca SGR S.p.A.				
Share capital € 10.3m, in par value € 51.65 shares	Milan	Milan	100.00	100.00
MB Advisory Kurumsal Danismanlik Hizmetleri A.S.				
Share capital TRY 14m shares	Istanbul	Istanbul	100.00	100.00
MB Facta S.p.A.				
Share capital € 120m in par value €1 shares	Milan	Milan	100.00	100.00
MB Funding Lux S.A.				
Share capital € 431,000, in par value € 1 shares	Luxembourg	Luxembourg	100.00	100.00
MB International (Luxembourg) S.A.				
Share capital € 10m, in par value € 10 shares	Luxembourg	Luxembourg	99.00	99.00
MB Securities USA LLC				
Share capital $ 2.25m	New York	New York	100.00	100.00
Prominvestment S.p.A. (under liquidation)				
Share capital € 743,000, in par value € 0.52 shares	Milan	Rome	100.00	100.00
Quarzo MB S.r.l.				
Share capital € 30,000	Milan	Milan	90.00	90.00
RAM Active Investments S.A.				
Share capital CHF 1m in par value CHF 10 shares	Geneva	Geneva	89.3 (**)	69.00
Ricerche e Studi S.p.A.				
Share capital € 100,000, in par value € 5 shares	Milan	Milan	100.00	100.00
SelmaBipiemme Leasing S.p.A.				
Share capital € 41.3m, in par value € 0.50 shares	Milan	Milan	60.00	60.00
Spafid S.p.A.				
Share capital € 6.1m, in par value € 10 shares	Milan	Milan	100.00	100.00
B. Companies subject to significant influence				
Assicurazioni Generali S.p.A.				
Share capital € 1,561.8m, in par value € 1 shares	Trieste	Trieste	13.00	13.00
Burgo Group S.p.A.				
Share capital € 20m	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	22.13	22.13
Istituto Europeo di Oncologia S.r.l.				
Share capital € 80.6m	Milan	Milan	25.37	25.37

* Taking into account the put-and-call option exercisable from the third year after the date on which the transaction was executed.

** Taking into account the put-and-call option exercisable from year 3 to year 10 after the date on which the transaction was executed.

10.2 Equity investments: book values, fair values and dividends received

Company name	Book value	Fair Value	Dividends received
A. Directly-held companies			
Cairn Capital Group Limited	33,466	n.a.	—
Chebanca! S.p.A.	383,373	n.a.	—
Compagnie Monegasque de Banque - CMB S.A.M.	371,983	n.a.	—
CMB Wealth Management Limited	1,580	n.a.	—
Compass Banca S.p.A.	765,354	n.a.	—
Mediobanca Innovation Services - MIS S.c.p.A.	35,020	n.a.	—
Mediobanca Management Company S.A.	3,993	n.a.	—
Mediobanca SGR S.p.A.	37,974	n.a.	—
MB Advisory Kurumsal Danismanlik Hizmetleri A. S.	4,214	n.a.	—
MBFACTA S.p.A.	120,023	n.a.	—
MB Funding Lux S.A.	431	n.a.	—
MB International (Luxembourg) S.A.	5,942	n.a.	—
MB Securities USA LLC	211	n.a.	—
Prominvestment S.p.A. (under liquidation)	—	n.a.	—
Quarzo MB S.r.l.	45	n.a.	—
RAM Active Investments S.A.	143,382	n.a.	—
Ricerche e Studi S.p.A.	103	n.a.	—
SelmaBipiemme Leasing S.p.A.	32,909	n.a.	—
Spafid S.p.A.	8,888	n.a.	—
B. Companies under significant influence			
Assicurazioni Generali S.p.A.	1,096,272	2,912,993	172,306
Burgo Group S.p.A.	—	n.a.	—
Istituto Europeo di Oncologia S.r.l.	38,995	n.a.	—
Total	3,084,158		

The criteria for establishing whether or not an investee company is subject to joint control or significant influence are illustrated in “Section 3 - Part A - Accounting Policies” to which reference is made.

10.3 Significant investments: accounting data*

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues **	Interest margin	Adjustments and reversals on tangible and intangible assets	Profit/(Loss) from ordinary activities before tax	Profit/(Loss) from ordinary activities after tax	Profit/(Loss) from held-for-sale assets after tax	Profit/(Loss) for the period (1)	Other profit/loss items after tax (2)	Total profit/loss (3) = (1) +(2)
A. Directly-controlled companies														
Cairn Capital Group Limited	—	3,716	9,481	1,174	2,124	19,670	8	(147)	(1,279)	(1,094)	—	(1,094)	34	(1,060)
CheBanca! S.p.A.	60,798	19,754,847	342,738	19,516,753	280,799	291,623	209,180	(7,220)	27,730	18,999	—	18,999	(3,356)	15,643
Compagnie Monegasque de Banque - CMB S.A.M.	2,597	3,755,052	49,081	3,006,967	25,124	91,457	35,028	(4,649)	38,936	34,941	—	34,941	(6,877)	28,064
CMB Wealth Management UK Limitied	—	1,515	1	—	119	—	—	(30)	(129)	(129)	—	(129)	—	(129)
Compass Banca S.p.A.	1,430	11,423,368	978,667	10,346,261	222,405	796,589	806,173	(3,694)	375,089	252,830	—	252,830	3,046	255,876
Mediobanca Innovation Services - MIS S.c.p.A.	—	39	82,689	34,443	10,752	—	—	(10,005)	(1,173)	2	—	2	(74)	(72)
Mediobanca Management Company S.A.	2	7,907	6,689	—	8,752	7,217	—	(5)	3,889	2,996	—	2,996	—	2,996
Mediobanca SGR S.p.A.	2	13,857	17,745	—	7,490	17,560	—	(26)	6,507	4,434	—	4,434	2	4,436
MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	—	849	197	28	66	195	148	(2)	(1,038)	(1,038)	—	(1,038)	—	(1,038)
MBFACTA S.p.A.	—	1,872,692	1,056	1,728,886	8,748	42,924	38,978	(7)	20,032	13,500	—	13,500	(17)	13,483
MB Funding Lux S.A.	—	209	278	—	56	—	—	—	(5)	—	—	—	—	—
MB International (Luxembourg) S.A.	—	6,912,515	108,608	6,645,949	34,248	25,841	23,275	(6)	16,782	12,374	—	12,374	—	12,374
MB Securities USA LLC	—	5,429	315	—	1,021	3,511	(33)	(13)	1,276	715	—	715	—	715
Prominvestment S.p.A. (under liquidation)	—	771	102	2,802	2,130	53	(16)	—	(1,061)	(1,061)	—	(1,061)	—	(1,061)
Quarzo MB S.r.l.	—	52	—	—	48	—	—	—	(26)	(26)	—	(26)	—	(26)
RAM Active Investments S.A.	—	3,108	16,453	—	8,768	13,869	(6)	(11)	6,387	4,791	—	4,790	—	4,790
Ricerche e Studi S.p.A.	3	842	512	—	1,305	—	—	(1)	9	(3)	—	(3)	(2)	(5)
SelmaBipiemme Leasing S.p.A.	6	2,174,390	150,139	2,063,826	44,186	45,489	45,381	(1,823)	11,566	8,092	—	8,092	1,608	9,700
Spafid S.p.A.	4	41,589	14,878	2,460	4,666	8,769	123	(273)	628	438	—	438	(2)	436
B. Companies subject to significant influence														
Assicurazioni Generali S.p.A.	X	482,909,000	47,323,000	52,810,000	458,092,000	89,204,000	X	X	3,686,000	2,513,000	(217)	2,295,000	(189,000)	2,106,000
Burgo Group S.p.A.	X	591,341	976,205	1,156,442	185,629	2,008,220	X	X	17,503	8,727	—	8,727	(1,629)	7,098
Istituto Europeo di Oncologia S.r.l.	X	97,284	113,436	84,143	66,092	332,903	X	X	7,826	5,968	—	5,968	—	5,968

* All data in Euros, including for non-Italian Group companies.

** Interim results: total income as per the financial statements.

The following significant events took place during the twelve months under review:

In December 2017, Group company Banca Esperia S.p.A. was merged into Mediobanca S.p.A. and the new Mediobanca Private Banking division was launched. The aim of the merger was to achieve significant economies of cost and to develop and consolidate customer relations, including through synergies with the Mid-Cap area of the Corporate and Investment Banking division (CIB).

The purchase price allocation process has also been used to allocate the differences arising on merger, with some changes compared to the consolidated <<

The two subsidiaries 100%-owned by Banca Esperia which have now come under the parent company's direct ownership have been recognized at fair value in the individual accounts: Duemme SGR (recognized at €37.1m), now renamed Mediobanca SGR, and Duemme International Luxembourg (recognized at €4m), now renamed Mediobanca Management Company Luxembourg.

Also booked to the individual accounts are the Mediobanca Private Banking brand (€15.5m), adjustments to the fair value of receivables and securities (in an amount of €12.5m), and residual goodwill of €12.5m.

On 28 February 2018, acquisition was also completed of a 69% stake in RAM AI, a leading European systematic fund manager offering a wide range of alternative funds to institutional and professional investors with systematic management, both equity (RAM Systematic Funds) and discretionary fixed-income (RAM Tactical Funds).

The deal was structured to allow the founder partners to retain a significant interest in the company, and the Reyl group, a historical shareholder and investor in RAM AI, also retains a 7.5%.

The acquisition cost was CHF 164.8m, or €143.4m. Half of the purchase price for the 69% stake was settled via the delivery of 7,021,953 Mediobanca shares at current stock market prices.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%.

The Assicurazioni Generali investment continues to be recognized at cost.

The book value of the CheBanca! CheBanca!, Mediobanca SGR and Mediobanca Management Company investments were subject to impairment testing but no evidence of impairment was recorded.

10.5 Equity investments: movements during the period

	30/6/18	30/6/17
A. Opening balance	3,056,998	2,687,686
B. Increases	222,509	372,204
B.1 Purchases	221,836	364,651
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	673	7,553
C. Decreases	195,349	2,892
C.1 Sales	195,349	2,258
C.2 Adjustments	—	—
C.3 Other changes	—	634
D. Closing balance	3,084,158	3,056,998
E. Total revaluations	—	—
F. Total adjustments	820,806	820,806

SECTION 11

Heading 110: Property, plant and equipment

11.1 Tangible assets stated at cost

Assets/Values	30/6/18	30/6/17
1. Assets owned by the Group	91,645	92,559
a) land	67,897	67,897
b) buildings	19,245	20,023
c) furniture	921	1,059
d) electronic equipment	1,539	1,554
e) other assets	2,043	2,026
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	91,645	92,559

11.2 Properties held for investment purposes stated at cost

Items/Value	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Owned assets	25,162	—	—	94,077	25,505	—	—	92,961
a) Land	20,350	—	—	74,103	20,350	—	—	73,224
b) Buildings	4,812	—	—	19,974	5,155	—	—	19,737
2. Leased assets	—	—	—	—	—	—	—	—
a) Land	—	—	—	—	—	—	—	—
b) Buildings	—	—	—	—	—	—	—	—
Total	25,162	—	—	94,077	25,505	—	—	92,961

11.5 Core properties: movements during the period

Assets/Values	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	67,897	41,104	5,422	7,943	20,291	142,657
A.1 Total net reduction value	—	(21,081)	(4,363)	(6,389)	(18,265)	(50,098)
A.2 Net opening balance	67,897	20,023	1,059	1,554	2,026	92,559
B. Increases	—	460	263	469	984	2,176
B.1 Purchases	—	—	263	469	984	1,716
B.2 Capitalized expenditures on improvements	—	460	—	—	—	460
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	—	—	—	—	—
C. Decreases	—	1,238	401	484	967	3,090
C.1 Sales	—	—	—	—	—	—
C.2 Amortizations	—	1,238	401	484	967	3,090
C.3 Impairment losses allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.4 Negative changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	—	—	—	—
D. Net closing balance	67,897	19,245	921	1,539	2,043	91,645
D.1 Total net write-downs	—	(22,246)	(7,421)	(7,156)	(26,065)	(62,888)
D.2 Final gross balance	67,897	41,491	8,342	8,695	28,108	154,533
E. Carried at cost	—	—	—	—	—	—

11.6 Properties held for investment purposes: movements during the period

	Total	
	Land	**Building**
A. Opening balance	20,350	5,155
B. Increases	—	71
B.1 Purchases	—	—
B.2 Capitalized expenditures on improvements	—	71
B.3 Increases in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange difference	—	—
B.6 Transfers from properties used in the business	—	—
B.7 Other changes	—	—
C. Reductions	—	414
C.1 Disposals	—	—
C.2 Depreciations	—	414
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C.5 Negative exchange differences	—	—
C.6 Transfers to:	—	—
a) properties used in the business	—	—
b) non-current assets classified as held-for-sale	—	—
C.7 Other changes	—	—
D. Closing balance	20,350	4,812
E. Measured at fair value	74,103	19,974

SECTION 12

Heading 120: Intangible assets

12.1 Intangible assets: composition

Assets/Values	30/6/18		30/6/17	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill	X	12,514	X	—
A.2 Other intangible assets	10,626	15,490	14,165	—
A.2.1 Assets valued at cost	10,626	15,490	14,165	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	10,626	15,490	14,165	—
A.2.2 Assets valued at fair value	—	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	—	—	—	—
Total	10,626	28,004	14,165	—

12.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	—	—	—	83,450	—	83,450
A.1 Total net reduction in value	—	—	—	(69,285)	—	(69,285)
A.2 Net opening balance	—	—	—	14,165	—	14,165
B. Increases	12,514	—	—	4,806	15,490	32,810
B.1 Purchases	12,514	—	—	4,806	15,490	32,810
B.2 Increases in intangible assets generated internally	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Increases in fair value allocated to:	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other changes	—	—	—	—	—	—
C. Reduction	—	—	—	8,345	—	8,345
C.1 Disposals	—	—	—	—	—	—
C.2 Write-downs	—	—	—	8,345	—	8,345
- Amortization	X	—	—	8,345	—	8,345
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Reduction in fair value allocated to	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to non-current assets held-for-sale	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Other changes	—	—	—	—	—	—
D. Net closing balance	12,514	—	—	10,626	15,490	38,630
D.1 Total net reduction in value	—	—	—	(85,252)	—	(85,252)
E. Closing balance	12,514	—	—	95,878	15,490	123,882
F. Carried at cost	—	—	—	—	—	—

The new indefinite life intangible assets regard the Mediobanca Private Banking and goodwill, or the difference arising on the Banca Esperia merger. In continuity with the consolidated accounts, it has been decided to record the Mediobanca Private Banking as a defensive intangible asset, that is, an asset which the buyer does not intend to use or intends to use differently compared to other market operators. The value has been established based on the assumption that it increases visibility, thus helping to increase the retention rate for bankers and clients compared to an unbranded entity, thus stabilizing revenue flows over time.

Goodwill refers to the difference arising on the merger as stated above.

The values of the brand and the goodwill have been tested for impairment test, but no need emerged for adjustments to be made. For further details see the section on Equity Investments (section 10 on p. 414-418 of the Individual Financial Statements) and the Notes to the Consolidated Accounts (section 10, pp. 148-152).

SECTION 13

Asset heading 130 and Liability heading 80: Tax assets and liabilities

13.1 Advance tax assets: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	92,422	107,998
Balancing to the Net Equity	9,928	5,855
Total	102,350	113,853

13.2 Deferred tax liabilities: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	203,254	212,536
Balancing to the Net Equity	54,927	77,838
Total	258,181	290,374

13.3 Changes in advance tax during the period

	30/6/18	30/6/17
1. Opening balance	107,998	125,090
2. Increases	14,007	1,079
2.1 Deferred tax assets of the year	1,648	1,079
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	1,648	1,079
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	12,359	—
3. Decreases	29,583	18,171
3.1 Deferred tax assets derecognised during the year	29,583	18,171
a) Reversals of temporary differences	29,583	18,171
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
a) Conversion into tax credit under L. 214/2011	—	—
b) Other	—	—
4. Final amount	92,422	107,998

*13.3.1 Changes in advance tax during the period (pursuant to Italian Law 214/11)**

	30/6/18	30/6/17
1. Opening balance	54,950	57,842
2. Increases	682	—
3. Decreases	5,309	2,892
3.1 Reversals of temporary differences	4,698	2,892
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	611	—
4. Final amount	50,323	54,950

* Mediobanca has elected to retain its right to take advantage of the possibility of converting DTAs into tax credits provided for by Italian decree law 59/16 on 29 April 2016, as amended by Italian decree law 237/16. The exercise of this option is effective for all companies included in the tax consolidation. Such companies are not required to make the annual 1.5% payment as the tax paid by the consolidating entity exceeds the increase in the DTAs at the reporting date since 30 June 2008.

13.4 Changes in deferred tax during the period

	30/6/18	30/6/17
1. Opening balance	212,536	212,325
2. Increases	597	490
2.1 Deferred tax liabilities of the year	—	490
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	—	490
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	597	—
3. Decreases	9,879	279
3.1 Deferred tax liabilities derecognised during the year	9,879	279
a) Reversals of temporary differences	9,879	279
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	203,254	212,536

13.5 Changes in advance tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	5,855	7,232
2. Increases	12,808	25,011
2.1 Deferred tax assets of the year	12,581	25,011
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	12,581	25,011
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	227	—
3. Decreases	8,735	26,388
3.1 Deferred tax assets derecognised during the year	8,735	26,388
a) Reversals of temporary differences	8,735	26,388
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	9,928	5,855

[1] Taxes on cash flow hedges and AFS securities valuations.

13.6 Changes in deferred tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	77,838	84,277
2. Increases	254,898	309,235
2.1 Deferred tax liabilities of the year	253,687	309,235
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	253,687	309,235
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1,211	—
3. Decreases	277,809	315,674
3.1 Deferred tax liabilities derecognised in the year	277,809	315,674
a) Reversals of temporary differences	277,809	315,674
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	54,927	77,838

[1] Taxes on cash flow hedges and AFS securities valuations.

SECTION 15

Heading 150: Other assets

15.1 Other assets: composition

	30/6/18	30/6/17
1. Gold, silver and precious metals	—	—
2. Accrued income other than capitalized income from financial assets	12,791	7,742
3. Trade receivables or invoices to be issued	41,253	43,858
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	32,295	5,326
5. Other items:	10,561	6,385
- futures and other securities transactions	938	168
- advance payments on deposit commissions	—	—
- other items in transit [1]	6,857	—
- amounts due from staff	226	187
- improvements on third parties assets	1,846	2,626
- fiscal consolidated	—	583
- sundry other items	694	2,821
Total other assets	96,900	63,311

[1] Entirely attributable to the new Private Banking division (formerly Banca Esperia).

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	30/6/18	30/6/17
1. Deposits from Central Banks [1]	4,384,592	5,649,082
2. Deposits from banks	21,134,627	18,593,860
2.1 Other current accounts and demand deposits	13,320,028	13,633,457
2.2 Time deposits	1,729,319	480,643
2.3 Loans	5,941,371	4,299,916
2.3.1 Repos	4,224,600	3,209,125
2.3.2 Other	1,716,771	1,090,791
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	143,909	179,844
Total	25,519,219	24,242,942
Fair Value - Level1	—	—
Fair Value - Level2	25,519,219	24,242,942
Fair Value - Level3	—	—
Total Fair Value	25,519,219	24,242,942

[1] This item as at 30/6/17 includes €251.3m for Banca Esperia, since merged into Mediobanca S.p.A., and regards deposits held with the Bank of Italy.

1.4 Due to banks: items subject to specific hedges

	30/6/18	30/6/17
1. Liability items subject to micro-hedging of fair value:	733,462	1,115,469
a) Interest rate risk	733,462	1,115,469
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows;	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	733,462	1,115,469

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	30/6/18	30/6/17
1. Current accounts and demand deposits [1]	3,129,363	1,671,529
2. Time deposits including saving deposits with maturity [2]	62,644	—
3. Loans	931,850	678,481
3.1 Repos	806,937	577,708
3.2 Other	124,913	100,773
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	326	332
Total	4,124,183	2,350,342
Fair Value - Level1	—	—
Fair Value - Level2	4,124,183	2,350,342
Fair Value - Level3	—	—
Total Fair Value	4,124,183	2,350,342

[1] This item as at 30/6/17 includes €1,137m deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

[2] This item as at 30/6/17 includes €157.9m deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of securities/ Values	30/6/18				30/6/17			
	Book Value	Fair Value *			Book Value	Fair Value *		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Debt certificates including bonds								
1. Bonds	16,777,290	—	17,108,510	—	18,871,032	1,261,457	17,915,904	—
1.1 structured	5,021,049	—	5,145,546	—	6,174,664	—	6,408,765	—
1.2 other	11,756,241	—	11,962,964	—	12,696,368	1,261,457	11,507,139	—
2. Other structured securities	49,719	—	—	49,719	31,584	—	—	31,583
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	49,719	—	—	49,719	31,584	—	—	31,583
Total	16,827,009	—	17,108,510	49,719	18,902,616	1,261,457	17,915,904	31,583

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2018 would show a gain of €251.2m (€203.7m).

Debt securities in issue declined from €18,871,032,000to €16,777,290,000, on new issuance of €1.8bn, redemptions and buybacks of €4bn (generating losses of €8.8m).

3.2 Breakdown of heading 30 "Debt securities in issue": subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,470,249,000:

Issue	**30/6/18**		
	ISIN code	**Nominal value**	**Book value**
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Non included in the regolatory capital)	XS0270002669	21,739	24,620
MB Subordinato Mar 29	XS1579416741	50,000	50,476
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	665,668
MB OPERA 3.75 2026	IT0005188351	299,960	290,392
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	396,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	507,355
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,242	535,025
Total subordinated securities		2,376,325	2,470,249

3.3 Debt securities in issue: items subject to specific hedges

	30/6/18	**30/6/17**
1. Securities subject to micro-hedging of fair value:	12,099,153	12,430,548
a) Interest rate risk	12,099,153	12,430,548
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	12,099,153	12,430,548

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	30/6/18					30/6/17				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level1	Level2	Level3			Level1	Level2	Level3	
A. Financial liabilities										
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210	1,456,852	1,710,400	182	—	1,710,582
2. Deposits from customers	213,819	246,452	—	—	246,452	445,006	522,452	55	—	522,507
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	2,295,648	2,645,662	—	—	2,645,662	1,901,858	2,232,852	237	—	2,233,089
B. Derivative instruments										
1. Financial derivatives	—	561,257	1,983,295	87,131	2,631,683	—	497,352	2,622,063	83,015	3,202,430
1.1 Trading	X	561,257	1,896,136	83,713 [1]	X	X	497,352	2,305,314	74,114 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	87,159	3,418 [2]	X	X	—	316,749	8,901 [2]	X
2. Credit derivatives	—	—	1,233,135	—	1,233,135	—	—	423,515	127	423,642
2.1 Trading	X	—	1,233,135	—	X	X	—	423,515	127	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	561,257	3,216,430	87,131	X	X	497,352	3,045,578	83,142	X
Total (A+B)	X	3,206,919	3,216,430	87,131	X	X	2,730,204	3,045,815	83,142	X

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

[1] Respectively €72,603,000 and €65,407,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€1.9m at 30/6/18 and €7.4m at 30/6/17) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of hedge/ranking

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	220,713	—	9,235,466	—	498,679	—	9,577,633
1) Fair value	—	220,713	—	9,235,466	—	463,108	—	9,337,614
2) Cash flow	—	—	—	—	—	35,571	—	240,019
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	220,713	—	9,235,466	—	498,679	—	9,577,633

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/ Type of hedging	Fair Value						Cash flow		Non-Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	52,303	—	—	—	—	X	—	X	X
2. Loans and advances	40,247	—	—	X	—	X	—	X	X
3. Held to maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	92,550	—	—	—	—	—	—	—	—
1. Financial liabilities	128,163	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	128,163	—	—	—	—	—	—	—	—
1. Expected transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80 - Deferred liabilities

Please see asset section 13.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/18	30/6/17
1. Payments agreements (IFRS2)	—	—
2. Impaired endorsements	23,658	67,793
3. Working capital payables and invoices pending receipts	33,645	28,439
4. Prepaid expenses other than capitalized expenses or related financial assets	3,509	959
5. Amounts due to revenue authorities	26,226	8,301
6. Amounts due to staff	119,030	100,344
7. Other items	71,789	12,709
- coupons and dividends pending collection	2,324	2,286
- available sum payable to third parties	4,489	10,358
- fiscal consolidation	63,918	—
- other	1,058	65
Total	277,857	218,545

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	30/6/18	30/6/17
A. Opening balance	8,860	9,603
B. Increases	2,245	2,465
B.1 Provision of the year	1,246	2,465
B.2 Other increases	999	—
C. Reductions	3,382	3,208
C.1 Severance payments	2,687	675
C.2 Other decreases [1]	695	2,533
D. Closing balance	7,723	8,860
Total	7,723	8,860

[1] Includes €52,000 in transfers to external, defined contribution pension schemes (30/6/17: €2,197,000).

11.2 Other information

The staff severance indemnity provision, calculated in accordance with the provisions of the Italian Civil Code, amounts to €7,259,000 (€8,494,000); no new service costs accrued for the year.

In order to calculate the actuarial value, the provision has been adjusted in line with a rate of 1.45% for the current year, and discounted using the IBOXX Eurozone Corporate AA index (for a panel of comparable companies), with an effect (interest cost) of €128,000.

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/18	30/6/17
1. Provision to retirement payments and similar	—	—
2. Other provisions	97,786	96,808
2.1 Staff expenses	3,834	—
2.2 Other	93,952	96,808
Total	97,786	96,808

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

As at 30 June 2018, the heading "Other provisions" totalled €97.8m, €3.8m of which to cover personnel expenses in relation to staff reorganization schemes, and €94m for litigation and other contingent liabilities. No provisions have been set aside in respect of disputes with the Italian revenue authorities.

The most significant litigation still pending against Mediobanca consists of the two requests for damages made respectively by:

– Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with thirteen other banks. The liability with which the banks are charged is non-contractual, and consists of alleged participation in the former FMPS directors' contractual liability for damages caused to FMPS with the execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, and the next hearing has been set for 27 September 2018 to discuss whether or not authorization is needed from the Italian ministry for the economy and finance for FMPS to initiate proceedings against its former directors and the other preliminary enquiries, including the preliminary exemption for arbitration at the London Court of International Arbitration (LCIA) in Paris.
– Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-bis of the Italian bankruptcy law which included unbalanced guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. The first hearing has been set for 30 October 2018.

With reference to Private Banking division, a claim is pending for damages to costumers for a total amount in the region of €0.9m.

With reference to the disputes outstanding with the Italian revenue authorities as at 2018, the Bank had only one claim outstanding, regarding its alleged failure to apply withholding tax in granting a medium-/long-term loan to a non-Italian counterparty, involving higher tax worth a notified amount of €375,000. The Bank was successful at the second stage of the ruling process but the appeal submitted by the Italian tax authority is still pending at the Court of Cassation.

Mediobanca believes that the provisions are adequate to cover any charges due in connection with all the cases that have been brought against the Bank itself and the other Group companies (for which no other significant litigation is pending) and any other contingent liabilities, of which, as permitted by IAS37, paragraph 92, no precise indication has been given.

12.2 Provisions for risks and charges: movements during the period

	Charges relating to staff	Other provisions	Total
A. Opening balance	—	96,808	96,808
B. Increases	6,406	9,213	15,619
B.1 Provision for the year	2,000	8,708	10,708
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	4,406	505	4,911
C. Decreases	2,572	12,069	14,641
C.1 Use during the year	2,572	12,069	14,641
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	—	—
D. Closing balance	3,834	93,952	97,786

SECTION 14

Headings 130, 150, 160, 170, 180, 190 and 200: Net equity

14.1 "Capital" and "treasury shares": composition

For the composition of the Group's capital, please see part F of the notes to the accounts.

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

Item/type	Ordinary
A. Shares in issue at the beginning of the period	881,212,658
- entirely unrestricted	881,212,658
- with restrictions	—
A.1 Treasury shares (-)	(15,758,511)
A.2 Shares in issue: balance at the beginning of the period	865,454,147
B. Increases	12,381,460
B.1 New share issuance as a result of:	5,337,782
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	5,337,782
- to staff members	5,337,782
- to Board members	—
- others	—
B.2 Treasury share disposals	7,043,678
B.3 Other increases	—
C. Decreases	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other decreases	—
D. Shares in issue: balance at end of period	877,835,607
D.1 Add: treasury shares	8,714,833
D.2 Shares in issue at end of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—

14.3 Share capital: other information

The reduction in treasury shares is due to the use of 7,021,953 ordinary Mediobanca shares delivered by way of partial consideration for the RAM Active Investments acquisition in February 2018. A total of 21,725 treasury shares were also awarded to staff in the course of the financial year under review, in connection with the performance share scheme; as at 30 June 2018 there are no other treasury shares tied to awards of any kind.

14.4 Net equity: available and distributable reserves (Article 2427 of the Italian Civil Code, para. 7-bis)

	Amount	Possible uses	Portion available	Summary of uses over three previous years	
				To cover losses	Other
Share capital	443,275	—	—	—	—
Share premium reserve	2,191,743	A – B – C	2,191,743	—	—
Reserves:					
- Legal reserve	88,124	B	88,124	—	—
- Statutory reserve	1,284,471	A – B – C	1,284,471	—	33,733
- Treasury share reserve	109,338	A – B – C	109,338	—	—
- Other reserves	810,906	A – B – C	810,906	—	—
Valuation reserves:					
- AFS securities	126,665	—	—	—	—
- Cash flow hedges	(2,579)	—	—	—	—
- Special laws	9,632	A – B – C	9,632	—	—
- Treasury shares	(3,764)	—	—	—	—
- Own shares	(109,338)	—	—	—	—
Total	4,948,473	—	4,494,214	—	33,733
Portion unavailable	—	—	197,462	—	—
Remainder distributable	—	—	4,296,752	—	—

Legend:
A: Due to rights issues
B: To cover losses
C: Distribution to shareholders.

Other information

1. Guarantees and commitments

Operations	30/6/18	30/6/17
1) Financial guarantees given to	6,127,832	4,424,675
a) Banks	2,554,934	1,546,552
b) Customers	3,572,898	2,878,123
2) Commercial guarantees given to	77,160	66,812
a) Banks	19,598	12,497
b) Customers	57,562	54,315
3) Irrevocable commitments to disburse funds	10,234,617	9,569,083
a) Banks	1,118,165	1,746,782
i) usage certain	1,118,165	1,746,782
ii) usage uncertain	—	—
b) Customers	9,116,452	7,822,301
i) usage certain	8,286,231	7,621,534
ii) usage uncertain	830,221	200,767
4) Commitments underlying credit derivatives protection sales [1]	19,593,735	11,686,393
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	3,094,714	2,482,442
Total	39,128,058	28,229,405

[1] Includes transactions fully matched by hedge buys (€9,075,742,000 and €4,997,186,000 respectively).

2. Assets pledged as collateral for own liabilities and commitments

Portfolio	30/6/18	30/6/17
1. Financial instruments held for trading	3,089,233	2,489,838
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	1,823,019	2,750,235
4. Financial instruments held to maturity	1,262,240	1,260,208
5. Loans and receivables with banks	691,165	669,368
6. Loans and receivables with customers	4,966,219	5,199,924
7. Property, plant and equipment	—	—

4. Assets managed and traded on behalf of customers

Type of service	30/6/18	30/6/17
1. Orders execution on behalf of customers	33,181,966	29,733,276
a) purchases	16,781,419	14,899,875
1. settled	16,633,525	14,754,760
2. unsettled	147,894	145,115
b) sales	16,400,547	14,833,401
1. settled	16,252,653	14,688,286
2. unsettled	147,894	145,115
2. Portfolio management [1]	3,864,382	—
a) Individual	3,864,382	—
b) Collective	—	—
3. Custody and administration of securities [2]	41,994,255	33,499,344
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	8,894,582	9,678,117
1. securities issued by companies included in area of consolidation	194,759	297,405
2. other securities	8,699,823	9,380,712
b) Third-party securities held in deposits (excluding segregating accounts): other	5,054,619	—
1. securities issued by companies included in area of consolidation	—	—
2. other securities	5,054,619	—
c) securities of third deposited to third	13,673,186	8,757,803
d) property securities deposited to third	14,371,868	15,063,424
4. Other operations *	1,934,851	—

Entirely attributable to the new Private Banking division (formerly Banca Esperia).

[1] This item as at 30/6/17 includes €12.1bn deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

[2] This item as at 30/6/17 includes €7.8bn deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

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

Instrument type	Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet value of financial assets (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	3,211,541	—	3,211,541	2,395,795	366,897	448,849	484,555
2. Repos	5,348,747	—	5,348,747	5,348,747	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,560,288	—	8,560,288	7,744,542	366,897	448,849	X
Total 30/6/17	9,156,040	—	9,156,040	8,342,828	328,657	X	484,555

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

Forme tecniche	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet value of financial liabilities (c=a-b)	Related amount not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral pledged (e)		
1. Derivatives	3,130,349	49,050	3,081,299	2,395,795	451,846	233,658	406,914
2. Repos	5,031,537	—	5,031,537	5,031,537	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,161,886	49,050	8,112,836	7,427,332	451,846	233,658	X
Total 30/6/17	7,027,133	38,687	6,988,446	6,130,344	451,188	X	406,914

Part C - Notes to individual profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Financial assets held for trading - Cash Instruments	9,670	1,486	—	11,156	24,164
2. Available for sale financial assets	55,478	—	—	55,478	72,918
3. Held to maturity investments	40,212	—	—	40,212	42,812
4. Loans and receivables with banks	5,201	259,443	—	264,644	275,136
5. Loans and receivables with customers	52,773	194,581	—	247,354	238,676
6. Financial assets designated at fair value through profit or loss	—	—	—	—	—
7. Hedging derivaives	X	X	125,758	125,758	149,457
8. Other assets	X	X	18,100	18,100	9,955
Total	163,334	455,510	143,858	762,702	813,118

Last year, Banca Esperia contribute to interest income was equal to €15.7m.

1.2 Interest and similar income: differences arising on hedging transactions

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Positive differentials related to hedging operations	1,535,920	336,138
B. Negative differentials related to hedging operations	(1,410,162)	(186,681)
C. Net differentials (A-B)	125,758	149,457

1.3 Interest and similar income: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest income from currency assets	71,112	61,834
Interest income from leasing	—	—
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	71,112	61,834

1.4 Interest expense and similar charges: breakdown

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Deposits from central banks	(714)	X	—	(714)	(1,768)
2. Deposits from banks	(203,667)	X	—	(203,667)	(216,750)
3. Deposits from customers	(5,578)	X	—	(5,578)	(259)
4. Debt securities in issue	X	(453,987)	—	(453,987)	(516,745)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(3,672)	(3,672)	(6,480)
8. Hedging derivatives	X	X	—	—	—
Total	(209,959)	(453,987)	(3,672)	(667,618)	(742,002)

Last year, Banca Esperia contribute to interest expense was equal to €5.6m.

1.6 Interest expense and similar charges: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest expense on liabilities held in foreign currency	(76,144)	(59,145)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(76,144)	(59,145)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of services/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees given	5,773	6,284
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	137,239	107,258
1. securities trading	12,343	13,018
2. currency trading	—	—
3. portfolio management	24,122	—
3.1 individual	24,122	—
3.2 collective	—	—
4. custody and administration of securities	1,127	—
5. custodian bank	7,458	7,458
6. placement of securities	72,554	86,500
7. reception and transmission of orders	3,748	282
8. advisory services	5,672	—
8.1 related to investments	5,672	—
8.2 related to financial structure	—	—
9. distribution of third parties services	10,215	—
9.1 portfolio management	7,356	—
9.1.1 individual	832	—
9.1.2 collective	6,524	—
9.2 insurance products	2,859	—
9.3 other products	—	—
d) collection and payment services	159	—
e) securitization servicing	—	—
f) factoring services	—	—
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	435	—
j) other services	141,087	105,596
Total	284,693	219,138

Last year, Banca Esperia contribute to commission income was equal to €48.3m, split into funds asset management (€22m), advisory activity (€5.8m) and distribution of third-party services (€7.3m).

2.2 Fee and commission income: by product/service distribution channel

Canals/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) through Group bank branches	106,891	86,500
1. portfolio management	24,122	—
2. placement of securities	72,554	86,500
3. others' products and services	10,215	—
b) off-site	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others' products and services	—	—
c) other distribution channels	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others products and services	—	—

2.3 Fee and commission expense: breakdown

Services/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees received	—	—
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(11,471)	(7,309)
1. trading in financial instruments	(3,786)	(3,785)
2. currency trading	—	—
3. portfolio management	(3,309)	—
3.1 own portfolio	(3,309)	—
3.2 third parties portfolio	—	—
4. custody and administration securities	(1,501)	(1,312)
5. financial instruments placement	(2,875)	(2,212)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(3,556)	(3,316)
e) other services	(11,108)	(6,283)
Total	(26,135)	(16,908)

Last year, Banca Esperia contribute to commission expense was equal to €3.5m.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	12 mths ended 30/6/18		12 mths ended 30/6/17	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	61,455	729	63,602	777
b) Available for sale financial assets	2,953	18,946	14,058	2,639
c) Financial assets at fair value through profit or loss	—	—	—	—
d) Investments	177,506	X	162,172	X
Total	241,914	19,675	239,832	3,416

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized loss (C)	Realized loss (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	122,457	240,923	(241,935)	(277,792)	(156,347)
1.1 Debt securities	85,792	40,109	(91,056)	(37,673)	(2,828)
1.2 Equity	33,626	197,586	(149,419)	(212,377)	(130,584)
1.3 Units in investment funds	3,039	1,749	(1,151)	(27,742)	(24,105)
1.4 Loans	—	1,479	(309)	—	1,170
1.5 Other	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	(10,949)
4. Derivatives	2,338,557	1,743,901	(2,275,476)	(1,645,924)	204,355
4.1 Financial derivatives	2,079,723	1,256,528	(1,310,075)	(1,182,178)	887,295
- on debt securities and interest rates [1]	1,387,469	256,841	(729,346)	(230,350)	684,614
- on equity securities and shares' indexes	692,254	960,111	(580,729)	(951,828)	119,808
- on currencies and gold	X	X	X	X	43,297
- other [2]	—	39,576	—	—	39,576
4.2 Credit derivatives	258,834	487,373	(965,401)	(463,746)	(682,940)
Total	2,461,014	1,984,824	(2,517,411)	(1,923,716)	37,059

[1] Of which minus €3,388,000 in margins on interest rate derivatives (30/6/17: minus €2,579,000).

[2] Equity swap contracts have been classified as equity derivatives.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Incomes from:		
A.1 Fair value hedging instruments	499,777	333,406
A.2 Hedged asset items (in fair value hedge relationships)	27,938	22,995
A.3 Hedged liability items (in fair value hedge relationship)	79,090	250,394
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	606,805	606,795
B. Losses on:		
B.1 Fair value hedging instruments	(479,784)	(484,123)
B.2 Hedged asset items (in fair value hedge relationships)	(63,163)	(62,531)
B.3 Hedged liability items (in fair value hedge relationship)	(63,036)	(49,486)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(605,983)	(596,140)
C. Net profit from hedging activities (A-B)	822	10,655

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: breakdown

Items/Income	12 mths ended 30/6/18			12 mths ended 30/6/17		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	5,502	(7,350)	(1,848)	—	(5,570)	(5,570)
2. Loans and receivables with customers	5,232	(1,800)	3,432	933	(680)	253
3. Financial assets available for sale	130,090	(10,294)	119,796	187,826	(13,749)	174,077
3.1 Debt securities	33,682	(10,178)	23,504	26,215	(13,749)	12,466
3.2 Equity instruments	94,241	—	94,241	161,611	—	161,611
3.3 Units in investment funds	2,167	(116)	2,051	—	—	—
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)	3,413	(1,432)	1,981
Total assets	141,286	(20,825)	120,461	192,172	(21,431)	170,741
Financial liabilities						—
1. Deposits with banks	1,097	—	1,097	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(8,805)	(8,805)	—	(18,367)	(18,367)
Total liabilities	1,097	(8,805)	(7,708)	—	(18,367)	(18,367)

Losses on debt securities (available-for-sale and held-to-maturity securities) relate almost entirely to the exchange-rate valuation of foreign-currency bonds (€11.6m, €10.2m of which for AFS securities).

SECTION 8

Heading 130: Adjustments for impairment

8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Others		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	—	—	—	—	771	771	(522)
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased receivables									
- Loans	—	—	X	—	—	X	X	—	—
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	—	(4,677)	—	—	23,153	—	14,475	32,951	3,478
- Debt securities	—	—	—	—	—	—	666	666	(1,183)
C. Total	—	(4,677)	—	—	23,153	—	15,912	34,388	1,773

Legend

A = interest

B = other amounts recovered.

8.2 Net value adjustments for impairment to AFS securities: breakdown

Transactions/Income	Adjustments		Reversals of impairment losses		12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Specific			
	Write - offs	Others	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(70)	X	X	(70)	(816)
C. Units in investment funds	—	(1,778)	X	—	(1,778)	(53)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(1,848)	—	—	(1,848)	(869)

Legend

A = interest

B = other amounts recovered.

8.3 Net value adjustments for impairment to financial assets held to maturity: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Debt securities	—	—	—	—	—	—	2,971	2,971	(3,185)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	—	—	—	—	2,971	2,971	(3,185)

Legend

A = interest

B = other amounts recovered.

8.4 Net value adjustments for impairment to other financial transactions: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Guarantees given	—	(73)	(2,770)	—	15,769	—	—	12,926	4,758
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(315)	(3,040)	—	1,750	—	—	(1,605)	6,495
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(388)	(5,810)	—	17,518	—	—	11,321	11,253

Legend

A = interest

B = other amounts recovered.

SECTION 9

Heading 150: Administrative expenses

9.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Employees	(224,479)	(185,137)
a) wages and salaries	(162,826)	(131,757)
b) social security contributions	(34,976)	(28,179)
c) severance pay (only for Italian legal entities)	—	—
d) social security costs	—	—
e) allocation to employees severance pay provision	(5,513)	(4,172)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(7,019)	(6,427)
- defined contribution	(7,019)	(6,427)
- defined benefits	—	—
h) expenses resulting from share-based payments	(10,300)	(11,545)
i) other employees' benefits	(3,845)	(3,057)
2) Other staff	(5,186)	(4,994)
3) Directors and Statutory Auditors	(3,464)	(3,403)
4) Early retirement costs	(5,832)	(6,500)
5) Recovery of expenses for employees seconded to other companies	1,135	1,136
6) Reimbursement of cost of third-party employees seconded to the Bank	—	—
Total	(237,826)	(198,898)

Last year, Banca Esperia contribute to personnel costs was equal to €55.4m.

9.2 Average number of staff by category

	12 mths ended 30/6/18	12 mths ended 30/6/17
Employees		
a) Senior managers	247	179
b) Managers	567	462
c) Remaining employees staff	174	130
Other staff	110	83
Total	1,098	854

Last year, Banca Esperia total number of staff was equal to 245 employees (of which 87 senior executives) and 10 other staff.

9.5 Other administrative expenses: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(34,209)	(27,615)
– loan recovery activity	—	—
– marketing and communications	(4,855)	(2,944)
– property	(11,374)	(8,165)
– EDP	(52,763)	(43,537)
– info-provider	(19,486)	(17,991)
– bank charges, collection and payment fees	(1,914)	(1,411)
– operating expenses	(6,586)	(5,950)
– other staff expenses	(11,926)	(8,994)
– other costs [1]	(44,231)	(75,896)
– indirect and other taxes	(5,064)	(5,410)
Total other administrative expenses	(192,408)	(197,913)

[1] Includes €30,700,000 (30/6/17: €62,800,000) transfer to Single Resolution Fund (SRF).

Last year, Banca Esperia contribute to administrative expenses was equal to €25.7m, and main components were: expenses for legal, fiscal and professional services (€6m), real-estates related expenses (€3.6m) and ongoing expenses (€5.8m).

SECTION 10

Heading 160: Net transfers to provisions

10.1 Net transfers to provisions: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net transfers to provisions for risks and charges - legal expenses	—	—
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments	995	15,000
Total transfers to provisions for risks and charges	995	15,000

SECTION 11

Heading 170: Net adjustments to tangible assets

11.1 Net adjustments to tangible assets: breakdown

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, plant and equipment				
A.1 Owned	(3,504)	—	—	(3,504)
- For operational use	(3,090)	—	—	(3,090)
- For investment	(414)	—	—	(414)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(3,504)	—	—	(3,504)

SECTION 12

Heading 180: Net adjustments to intangible assets

12.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Intangible assets				
A.1 Owned	(8,345)	—	—	(8,345)
- Software	—	—	—	—
- Other	(8,345)	—	—	(8,345)
A.2 Acquired under finance lease	—	—	—	—
Total	(8,345)	—	—	(8,345)

SECTION 13

Heading 190: Other operating income (expense)

13.1 Other operating expense: breakdown

Income-based components/values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Leasing activity	—	—
b) Sundry costs and expenses	(6,741)	(3,013)
Total	(6,741)	(3,013)

13.2 Other operating income: breakdown

Income-based components/values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Amounts recovered from customers	271	793
b) Other income	19,205	15,412
Total	19,476	16,205

SECTION 14

Heading 210: Gains (losses) on equity investments

14.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Incomes	—	1,958
1. Revaluations	—	—
2. Gains on disposal	—	1,958
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(309)	(2,884)
1. Writedowns	—	—
2. Impairment losses	(309)	(2,884)
3. Losses on disposal	—	—
4. Other expenses	—	—
Total	(309)	(926)

SECTION 18

Heading 260: Income tax on ordinary activities

18.1 Income tax on ordinary activities: breakdown

Income components/Sectors	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Current tax expense (-)	(28,943)	(12,699)
2. Changes of current tax expense of previous years (+/-)	—	—
3. Reduction in current tax expense for the period (+)	—	—
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	—	—
4. Changes of deferred tax assets (+/-)	(27,936)	(17,090)
5. Changes of deferred tax liabilities (+/-)	9,879	(211)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(47,000)	(30,000)

18.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/18	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.0%	383,413
Theoretical tax rate	27.50%	105,438
Dividends (-)	-12.49%	(47,906)
Gains on disposals of equity investments (PEX) (-)	-6.13%	(23,502)
Gains on equity-accounted investments (-)	—	—
Changes in deferred tax for previous years (-)	—	—
Other taxes (non-Italian companies) (+/-)	—	—
Non-taxable income 10% IRAP (-)	-0.11%	(404)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.06%	(233)
Non-deductible interest expense 3% (+)	—	—
Benefit from tax consolidation (-)	—	—
Impairment (+/–)	0.03%	104
Extraordinary items (rate adjustments, …)	—	—
Other differences (+/-)	0.78%	3,003
TOTAL IRES	9.52%	36,500
IRAP	2.74%	10,500
TOTAL HEADING [1]	12.26%	47,000

[1] Compared with a tax rate of 8.61% in the previous financial year.

SECTION 21

Earnings per share

21.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net profit	337,034	318,326
Avg. no. of shares in issue	859,633,153	854,445,929
Avg. no. of potentially diluted shares	5,738,709	9,508,213
Avg. no. of diluted shares	865,371,862	863,954,142
Earnings per share	0.39	0.37
Earnings per share, diluted	0.39	0.37

Part D – Comprehensive Profit and Loss Account

Breakdown of Comprehensive Profit and Loss Constituents

Items	Before tax effect	Tax effect	After tax effect
10. Profit (loss) for the period	**X**	**X**	**337,034**
Other comprehensive income without passing through profit and loss			
20. Property, plant and equipment	—	—	—
30. Intangible assets	—	—	—
40. Defined benefits schemes	61	(18)	43
50. Non-current assets classified as held-for-sale	—	—	—
60. Valuation reserves from equity-accounted investments:	—	—	—
Other comprehensive income passing through profit and loss			**—**
70. Hedges of non-Italian investments:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
80. Exchange differences:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
90. Cash flow hedges:	32,993	(1,981)	31,012
a) changes in fair value:	32,993	(1,981)	31,012
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
100. AFS securities:	(221,826)	35,558	(186,268)
a) changes in fair value:	(61,290)	15,797	(45,493)
b) reclassifications through profit and loss account	(160,536)	19,761	(140,775)
- due to impairment	—	—	—
- gain/losses on disposals	*(160,536)*	*19,761*	*(140,775)*
c) other variations	—	—	—
110. Non-current assets classified as held-for-sale:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
120. Valuation reserves from equity-accounted investments:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
- due to impairment	—	—	—
- gain/losses on disposals	—	—	—
c) other variations	—	—	—
130. Total other comprehensive income	**(188,772)**	**33,559**	**(155,213)**
140. Comprehensive income after tax (10 + 130)	**X**	**X**	**181,821**

Part E - Information on risks and related hedging policies

SECTION 1

Credit risk

QUALITATIVE INFORMATION

Description of risk governance organization

The Bank has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guaranteeing that all forms of operations are consistent with their own propensity to risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction.

The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems.

The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; and the Private Investments Committee, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF, monitoring risks and ascertaining that the various limits established for the various business lines are complied with.

The Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's direction, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in strategic planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and is responsible for carrying out second-level controls; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator; iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; v) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and itself is responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Group's Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

Establishment of risk appetite and process for managing relevant risks

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits.

Based on its operations and the markets in which it operates, the Bank has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

Credit risk

With reference to the authorization process to use AIRB models to calculate the regulatory capital requirements for credit risk, the Bank has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the corporate loan book.

An integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013), the Group has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme").

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Bank has also instituted internal rating models for credit risk in the Banks segment.

In accordance with Bank of Italy circular 272/08, seventh update, Mediobanca has adopted the new definitions of non-performing credit exposures, now subdivided into three separate categories: non-performing, probable default and past due, plus the category of exposures subject to various kinds of tolerance measures, known as “forborne” exposures, applied to any asset (i.e. performing or non-performing).

In particular, forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as “financial difficulties”).

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of the accumulation, actual or potential (in the latter case if the concessions are not granted) of more than thirty days past due. Assessment of the borrower’s financial difficulties is based primarily on individual analysis.

Corporate lending

The Group’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. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower’s credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty’s credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval to the Lending & Underwriting Committee or to the Executive Committee, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

The Credit Risk Management unit carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

Any deterioration in the risk profile of either the loan or the borrower's rating are brought swiftly to the attention of the management and the aforementioned committees.

In terms of monitoring the performance of individual credit exposures, Mediobanca adopts an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (green, amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watchlist also includes all forborne positions, which are therefore subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Private Banking (Mediobanca)

Private banking operations include granting loans as a complementary activity in serving high net worth and institutional clients, with the aim of providing them with wealth management and asset management services. Exposure to credit risk versus clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally guaranteed, i.e. backed by endorsements or real guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the size of the loan, guarantees and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing is made on an individual basis, and takes into account the value of the real guarantees provided. Any provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends, segmentation by earnings and geography

A.1.1 Credit exposures by portfolio and credit quality (book value)

Asset portfolio/quality	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Overdue exposures (performing)	Other exposures (performing) *	Total
1. AFS securities	—	—	—	—	4,419,505	4,419,505
2. Financial assets held to maturity	—	—	—	—	2,595,142	2,595,142
3. Due from banks	—	—	—	—	19,553,431	19,553,431
4. Due from customers	—	343,366	627	13,559	18,368,446	18,725,998
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/18	—	343,366	627	13,559	44,936,524	45,294,076
Total 30/6/17	—	371,736	—	—	44,428,139	44,799,875

* No performing exposures which are past due or subject to renegotiation under collective agreements.

Last year, Banca Esperia reported €0.2m in non-performing exposures past due and €30.7m in performing exposures past due.

A.1.2 Credit exposures by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans			Performing loans			Total net exposure
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. AFS securities	—	—	—	4,419,505	—	4,419,505	4,419,505
2. Financial assets held to maturity	—	—	—	2,599,389	(4,247)	2,595,142	2,595,142
3. Due from banks	—	—	—	19,555,071	(1,640)	19,553,431	19,553,431
4. Due from customers	658,155	(314,162)	343,993	18,409,723	(27,718)	18,382,005	18,725,998
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/18	658,155	(314,162)	343,993	44,983,688	(33,605)	44,950,083	45,294,076
Total 30/6/17	694,926	(323,190)	371,736	44,477,017	(48,878)	44,428,139	44,799,875

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	7,881	6,426,632
2. Hedge derivatives	—	—	235,591
Total 30/6/18	—	7,881	6,662,223
Total 30/6/17	—	9,268	6,112,619

Information on exposures to sovereign debt

*A.1.2.a Exposures to sovereign debt securities by country/counterparty and portfolio**

Portfolio/quality	Non performing loans				Performing			Total (net exposure) [1]
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(129,249)	(129,249)
Italy	—	—	—	—	X	X	165,202	165,202
Spain	—	—	—	—	X	X	219,896	219,896
Germany	—	—	—	—	X	X	(75,564)	(75,564)
France	—	—	—	—	X	X	(223,950)	(223,950)
Others	—	—	—	—	X	X	(214,833)	(214,833)
2. AFS securities	—	—	—	—	3,272,318	—	3,272,318	3,272,318
Italy	—	—	—	—	1,450,738	—	1,450,738	1,450,738
Germany	—	—	—	—	1,081,683	—	1,081,683	1,081,683
United States	—	—	—	—	386,845	—	386,845	386,845
France	—	—	—	—	201,993	—	201,993	201,993
Spain	—	—	—	—	151,059	—	151,059	151,059
3. Financial assets held to maturity	—	—	—	—	1,870,776	—	1,870,776	1,870,776
Italy	—	—	—	—	1,132,123	—	1,132,123	1,132,123
France	—	—	—	—	353,013	—	353,013	353,013
Spain	—	—	—	—	202,626	—	202,626	202,626
Germany	—	—	—	—	151,006	—	151,006	151,006
Others	—	—	—	—	32,008	—	32,008	32,008
Total at 30/6/18	—	—	—	—	5,143,094	—	5,013,845	5,013,845

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €2.2m.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	157,933	165,202	2.64	2,526,550	2,582,861	2,573,011	2.53
Germany	(74,500)	(75,564)	2.21	1,175,000	1,232,689	1,234,185	4.01
Spain *	203,220	219,896	25.05	350,000	353,685	356,181	3.51
United States	—	—	—	386,001	386,845	386,845	1.76
France	(199,440)	(223,950)	2.71	550,000	555,006	558,249	2.75
Others	(212,827)	(214,833)	—	32,000	32,008	32,381	—
Total at 30/6/18	(125,614)	(129,249)		5,019,551	5,143,094	5,140,852	

* The figure does not include forward sales with a notional amount of €220m.

[1] Does not include sales of €518m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €4m; or sales of €136.8m on the *BPT* future (Italy) with a negative fair value of €3.0m. Net hedge buys of €637m have also not been included (€608m of which on France country risk and €28m on Italy country risk).

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.5m.

A.1.3 Cash and off-balance-sheet exposures: gross/net values

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans	—	—	—	—	X	—	X	—
-of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	20,509,722	X	(1,814)	20,507,908
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	20,509,722	—	(1,814)	20,507,908
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	61,050,474	X	—	61,050,474
Total B	—	—	—	—	61,050,474	—	—	61,050,474
Total (A+B)	—	—	—	—	81,560,196	—	(1,814)	81,558,382

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

A.1.6 Cash and off-balance-sheet exposures to customers: gross/net values length of time past due

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans	1	—	—	3,824	X	(3,825)	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	649,477	—	4,115	—	X	(310,226)	X	343,366
- of which: forborne exposures	*646,502*	—	*4,115*	—	*X*	*(307,946)*	*X*	*342,671*
c) Overdue exposures (NPLs)	104	524	17	93	X	(111)	X	627
- of which: forborne exposures	*86*	—	—	—	*X*	*(8)*	*X*	*78*
d) Overdue exposures (performing)	X	X	X	X	13,592	X	(33)	13,559
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	27,290,150	X	(31,758)	27,258,392
- of which: forborne exposures	*X*	*X*	*X*	*X*	*256,222*	*X*	*(6,090)*	*250,132*
Total A	649,582	524	4,132	3,917	27,303,742	(314,162)	(31,791)	27,615,944
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	13,096	—	—	—	X	(3,830)	X	9,266
b) Performing	X	X	X	X	33,027,471	X	(19,829)	33,007,642
Total B	13,096	—	—	—	33,027,471	(3,830)	(19,829)	33,016,908
Total (A+B)	662,678	524	4,132	3,917	60,331,213	(317,992)	(51,620)	60,632,852

A.1.7 Cash exposures to customers: trends in gross impaired positions/accounts

Descriptions/categories	Bad loans	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at the beginning of the period	—	694,926	—
- of which: exposures sold but not derecognized	—	—	—
B. Increases	3,908	32,572	1,213
B.1 transferred from performing exposures	—	—	884
B.2 transferred from other categories of non-performing exposure	—	—	—
B.3 other increases	3,908	32,572	329
C. Decreases	83	73,906	475
C.1 transferred to performing exposures	—	—	35
C.2 writeoffs	—	—	—
C.3 collections	83	62,995	440
C.4 amounts realized on disposals	—	9,492	—
C.5 losses incurred on disposals	—	1,419	—
C.6 transferred to other categories of non-performing exposure	—	—	—
C.7 other decreases	—	—	—
D. Gross exposure at end of period	3,991	653,592	1,688
- of which: exposures sold but not derecognized	—	—	—

A.1.7bis Cash exposures to customers: trends in gross exposures subject to forbearance measures, by credit quality

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at the beginning of the period	694,419	294,565
- of which: exposures sold but not derecognized	—	—
B. Increases	23,934	44,667
B.1 transferred from performing exposures for which no concessions have been made	—	372
B.2 transferred from performing exposures for which concessions have been made	—	X
B.3 transferred from non-performing exposures for which concessions have been made	X	—
B.4 other increases	24,015	55,342
C. Decreases	67,731	94,057
C.1 transferred to performing exposures for which no concessions have been made	X	25,708
C.2 transferred to performing exposures for which concessions have been made	—	X
C.3 transferred to non-performing exposures for which concessions have been made	X	—
C.4 writeoffs	—	—
C.5 collections	56,820	68,349
C.6 amounts realized on disposals	9,492	—
C.7 losses incurred on disposals	1,419	—
C.8 other decreases	—	—
D. Gross exposure at end of period	650,703	256,222
- of which: exposures sold but not derecognized	—	—

A.1.8 Cash exposures to non-performing customers: trends in collective value adjustments

Descriptions/categories	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	Of which: forborne	Total	Of which: forborne	Total	Of which: forborne
A. Overall adjustments at the beginning of the period	—	—	323,190	323,124	—	—
- of which: exposures sold but not derecognized	—	—	—	—	—	—
B. Increases	3,825	—	10,361	7,657	133	8
B.1 value adjustments	969	—	4,890	4,380	67	—
B.2 losses incurred on disposals	—	—	—	—	—	—
B.3 transferred from other categories of non-performing exposure	—	—	—	—	—	—
B.4 other increases	2,856	—	5,471	3,277	66	8
C. Decreases	—	—	23,325	22,835	22	—
C.1 amounts reversed following changes in valuation	—	—	—	—	3	—
C.2 amounts reversed following collections	—	—	23,325	22,835	19	—
C.3 gains realized on disposals	—	—	—	—	—	—
C.4 writeoffs	—	—	—	—	—	—
C.5 transferred to other categories of non-performing exposure	—	—	—	—	—	—
C.6 other decreases	—	—	—	—	—	—
D. Overall adjustments at end of period	3,825	—	310,226	307,946	111	8
- of which: exposures sold but not derecognized	—	—	—	—	—	—

As at 30 June 2018 non-performing loans net of forborne exposures amounted to €342.7m, with a coverage ratio of 47%, while performing loans qualifying as forborne amounted to €250m with a coverage ratio of 2%. Overall the non-performing forborne positions represent 1.83% of the total customer loan book, and the performing forborne exposures 1.34%.

A.2 Exposures by internal and external ratings

A.2.1 Cash and off-balance-sheet exposures by internal rating category

Exposures	External rating classes						Lower than B-	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. Cash credit exposures	3,018,476	4,132,377	29,546,725	1,073,806	304,841	6,090	10,041,537	48,123,852
B. Derivative contracts	1,603,343	34,503,354	21,467,405	822,073	2,251,715	168,537	16,789,086	77,605,513
B.1 Financial derivative contracts	1,603,343	25,145,046	13,299,182	822,073	2,251,715	168,537	14,841,882	58,131,778
B.2 Credit derivatives [1]	—	9,358,308	8,168,223	—	—	—	1,947,204	19,473,735
C. Guarantees given	—	—	2,797,503	629,320	248,057	—	2,530,112	6,204,992
D. Other commitments to disburse funds	859,688	94,983	5,132,416	760,848	96,781	—	3,312,161	10,256,877
E. Others	—	—	—	—	—	—	—	—
Total	5,481,507	38,730,714	58,944,049	3,286,047	2,901,394	174,627	32,672,896	142,191,234

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

A.2.2 Distribution of cash and off-balance-sheet exposures by internal rating category

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	3,118,271	4,257,594	32,892,299	4,562,494	882,087	485	343,993	2,066,629	48,123,852
B. Derivative contracts	3,203,270	33,000,392	27,447,694	3,859,501	3,628,135	—	—	6,466,521	77,605,513
B.1 Financial derivative contracts	2,858,476	24,012,878	19,187,571	3,859,501	3,628,135	—	—	4,585,217	58,131,778
B.2 Credit derivatives	344,794	8,987,514	8,260,123	—	—	—	—	1,881,304	19,473,735
C. Guarantees given	—	156,435	3,217,917	2,481,020	246,380	—	203	103,037	6,204,992
D. Other commitments to disburse funds	935,688	120,767	6,631,275	1,678,735	253,311	—	9,063	628,038	10,256,877
E. Others	—	—	—	—	—	—	—	—	—
Total	7,257,229	37,535,188	70,189,185	12,581,750	5,009,913	485	353,259	9,264,225	142,191,234

Mediobanca uses the models developed internally in the process of managing credit risk to assign counterparties ratings.

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

A.3 Secured exposures by type of security

A.3.1 Secured cash exposures to banks

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
		Property, Mortgages	Financial leasing property	securities	Other guarantees	CLN	Credit derivatives				Signature loans				
							Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	680,140	—	—	244,992	—	—	—	—	—	—	640	—	—	—	245,632
1.1 totally secured	220,618	—	—	219,978	—	—	—	—	—	—	640	—	—	—	220,618
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	459,522	—	—	25,014	—	—	—	—	—	—	—	—	—	—	25,014
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Secured cash exposures to customers

	Net exposures	Collaterals (1)				Guarantees (2)										Total (1)+(2)
						CLN	Credit derivatives				Signature loans					
							Other derivatives									
		Property, Mortgages	Financial leasing property	securities	Other guarantees		Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities		
1. Secured balance sheet credit exposures	9,070,138	558,853	—	4,388,029	565,461	—	—	—	—	—	37,997	—	1,812	862,390		6,414,542
1.1 totally secured	4,523,575	558,853	—	2,533,831	528,692	—	—	—	—	—	37,997	—	1,812	862,390		4,523,575
- of which impaired	*75,952*	*62,255*	—	*389*	*506*	—	—	—	—	—	—	—	—	*12,802*		*75,952*
1.2 partially secured	4,546,563	—	—	1,854,198	36,769	—	—	—	—	—	—	—	—	—		1,890,967
- of which impaired	*249,479*	—	—	*6,948*	*23,022*	—	—	—	—	—	—	—	—	—		*29,970*
2. Secured off-balance sheet credit exposures	1,381,471	38,810	—	237,676	123,098	—	—	—	—	—	—	—	—	923,060		1,322,644
2.1 totally secured	1,310,586	38,810	—	233,763	122,536	—	—	—	—	—	—	—	—	915,477		1,310,586
- of which impaired	*4,370*	—	—	—	—	—	—	—	—	—	—	—	—	*4,370*		*4,370*
2.2 partially secured	70,885	—	—	3,913	562	—	—	—	—	—	—	—	—	7,583		12,058
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—

B. Loan distribution and concentration

B.1 Cash and off-balance-sheet exposure to customers by sector (book value)

	Governments			Other public entities			Financial companies			Insurances			Non-financial companies			Other parties		
	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments
A. Cash exposures																		
A.1 Bad loans	—	—	X	—	—	X	—	(2,037)	X	—	—	X	—	(1,788)	X	—	—	X
- *of which forborne exposures*	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
A.2 Unlikely to pay	—	—	X	—	—	X	14,772	(7,322)	X	—	—	X	328,594	(302,904)	X	—	—	X
- *of which forborne exposures*	—	—	X	—	—	X	14,075	(5,043)	X	—	—	X	328,594	(302,904)	X	—	—	X
A.3 Past due exposures (NPLs)	—	—	X	—	—	X	21	(29)	X	—	(2)	X	504	(22)	X	102	(58)	X
- *of which forborne exposures*	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	78	(8)	X
A.4 Performing exposures	7,060,951	X	—	558,324	X	—	11,102,617	X	(9,833)	853,678	X	(1,560)	6,739,833	X	(15,161)	956,548	X	(5,237)
- *of which forborne exposures*	—	X	—	—	X	—	214,570	X	(5,322)	—	X	—	26,191	X	(404)	9,371	X	(364)
Total A	7,060,951	—	—	558,324	—	—	11,117,410	(9,388)	(9,833)	853,678	(2)	(1,560)	7,068,931	(304,714)	(15,161)	956,650	(58)	(5,237)
B. Off-balance-sheet exposures																		
B.1 Bad loans	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.2 Unlikely to pay	—	—	X	—	—	X	5,000	(630)	X	—	—	X	4,266	(3,200)	X	—	—	X
B.3 Other non performing exposures	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.4 Performing exposures	1,844,556	X	—	2,645	X	—	15,313,218	X	(4,059)	717,391	X	—	14,828,907	X	(15,770)	300,925	X	—
Total B	1,844,556	—	—	2,645	—	—	15,318,218	(630)	(4,059)	717,391	—	—	14,833,173	(3,200)	(15,770)	300,925	—	—
Total (A+B) 30/6/18	8,905,507	—	—	560,969	—	—	26,435,628	(10,018)	(13,892)	1,571,069	(2)	(1,560)	21,902,104	(307,914)	(30,931)	1,257,575	(58)	(5,237)
Total (A+B) 30/6/17	7,687,295	—	—	290,804	—	—	20,539,088	(16,078)	(17,022)	2,011,638	—	(2,101)	19,638,243	(360,716)	(40,014)	67,227	—	—

B.2 Cash and off-balance-sheet exposures to customers by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	—	(3,825)	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	343,366	(310,226)	—	—	—	—	—	—	—	—
A.3 Past due exposures (NPLs)	627	(111)	—	—	—	—	—	—	—	—
A.4 Performing exposures	19,830,366	(21,953)	6,927,926	(6,653)	491,268	(3,161)	22,391	(24)	—	—
Total A	20,174,359	(336,115)	6,927,926	(6,653)	491,268	(3,161)	22,391	(24)	—	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	9,266	(2,381)	—	(1,449) [1]	—	—	—	—	—	—
B.3 Other non performing exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	10,616,058	(4,972)	20,660,285	(11,838)	1,580,097	(2,555)	151,202	(464)	—	—
Total B	10,625,324	(7,353)	20,660,285	(13,287)	1,580,097	(2,555)	151,202	(464)	—	—
Total A+B 30/6/18	30,799,683	(343,468)	27,588,211	(19,940)	2,071,365	(5,716)	173,593	(488)	—	—
Total A+B 30/6/17	29,464,065	(359,139)	19,910,603	(74,727)	854,703	(2,065)	—	—	4,924	—

[1] This amount refers to a written guarantee issued in favour of a Group company which has been written off in full.

B.3 Cash and off-balance-sheet exposures to banks by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Past due exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	12,172,779	(594)	8,284,399	(1,201)	45,329	(19)	5,400	—	1	—
Total A	12,172,779	(594)	8,284,399	(1,201)	45,329	(19)	5,400	—	1	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
B.3 Other non performing exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	15,600,110	—	45,449,848	—	516	—	—	—	—	—
Total B	15,600,110	—	45,449,848	—	516	—	—	—	—	—
Total A+B 30/6/18	27,772,889	(594)	53,734,247	(1,201)	45,845	(19)	5,400	—	1	—
Total A+B 30/6/17	26,313,179	(2,883)	36,910,408	(1,040)	64,630	(7)	148	—	1	—

B.4 Large exposures

	30/6/18	30/6/17
a) Book value	10,662,567	10,975,849
b) Weighted value	6,801,878	7,733,160
c) No. of exposures	8	9

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (one fewer than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €10.7bn (€6.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2017 (which were €11bn and €7.7bn respectively). In detail the eight exposures are to two industrial groups, one insurance company and five banking groups.

C. Securitizations

QUALITATIVE INFORMATION

The bulk of the portfolio consists of the Group's senior securitizations, with €3,842.3m in Quarzo bonds, with performing Compass receivables as the underlying instrument, and €48.9m in Quarzo CQS notes (which have Futuro salary-backed finance receivables as the underlying instrument).

The Group's portfolio of securities deriving from securitizations by other issuers totalled €181.8m (approx. 90% of which as part of the banking book), down sharply on the €314.3m reported last year, following disposals and redemptions totalling €300m only in part offset by new investments amounting to €161.7m. The portfolio remains concentrated in senior class securities (approx. 95%); also featured is a single mezzanine issue (carried at €6.9m) and a junior security (at €3.2m).

The balance of trading securities totalled €21m (€2.3m), and consists of two issues, including one mezzanine CLO; during the twelve months under review, securities worth a total of some €60m were disposed of, generating gains of €1.1m.

The banking book (not including inter-company deals) reflects a value of €160.8m (€312m) and regards three deals: FINO (originated by Unicredit), the securitization of receivables from Banca Intesa group NPLs, in which Mediobanca acted as arranger with a retention share of 5% of the assets (including the junior note), and a third deal with non-performing loans in respect of Spanish mortgages as the underlying instrument.

In addition to direct exposures, Mediobanca invested €25.8m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Italian Recovery Fund[1], so far drawn as to €28.5m.

QUANTITATIVE INFORMATION

C.2 Banking Group – exposures deriving from main customer securitizations by asset type/exposure

Type of securitized asset/ Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	—	—	—	—	—	—
B. Other receivables	—	—	6,911	(73)	—	—
C. Other receivables held by Group's entities	3,891,353	—	—	—	—	—
D. NPLs Italy	138,908	(52)	—	—	3,166	—
E. NPLs Spain (residential mortgages and real estates)	32,819	—	—	—	—	—
Total 30/6/18	4,063,080	(52)	6,911	(73)	3,166	—
Total 30/6/17	3,010,655	59	24,796	442	4,586	26

C.4 Securitization SPVs not consolidated

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

D. Disclosure on structured entities other than securitization SPVs

QUALITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

[1] A closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four deals (Valentine, Berenice, Cube and Este).

E. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Financial assets sold but not derecognized: book value and full value **

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	
							30/6/18	30/6/17
A. Balance sheet assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,777,691
1. Debt securities	2,053,620	—	1,119,345	382,376	—	—	3,555,341	3,223,812
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	186,663	186,663	264,038
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/18	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	x
of which: impaired	—	—	—	—	—	—	—	x
Total 30/6/17	1,865,882	—	1,122,267	525,504	—	264,038	x	3,777,691
of which: impaired	—	—	—	—	—	—	x	—

* Includes only sold financial assets which are still fully recognized.

E.2 Financial liabilities in respect of financial assets sold but not derecognized: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	165,258	—	402,912	305,531	—	—	873,701
a) Related to fully recognized assets	165,258	—	402,912	305,531	—	—	873,701
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	2,475,359	—	597,457	59,903	—	118,357	3,251,076
a) Related to fully recognized assets	2,475,359	—	597,457	59,903	—	118,357	3,251,076
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/18	2,640,617	—	1,000,369	365,434	—	118,357	4,124,777
Total 30/6/17	1,844,701	—	993,226	497,747	—	220,947	3,556,621

*E.3 Disposals with liabilities referring exclusively to assets sold: fair value * [1]*

Instruments/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments (fair value)	Due from banks (fair value)	Due from customers (fair value)	Total	
							30/6/18	30/6/17
A. Cash assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,791,496
1. Debt securities	2,053,620	—	1,119,345	382,376	—	—	3,555,341	3,237,617
2. Equities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	186,663	186,663	264,038
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,791,496
C. Associated liabilities	2,640,617	—	1,000,369	365,434	—	118,357	X	X
1. Due from customers	165,258	—	402,912	305,531	—	—	X	X
2. Due from banks	2,475,359	—	597,457	59,903	—	118,357	X	X
Total liabilities	2,640,617	—	1,000,369	365,434	—	118,357	4,124,777	3,723,404
Net value 30/6/18	96,551	—	118,976	16,942	—	68,306	300,775	X
Net value 30/6/17	9,378	—	13,161	2,462	—	43,091	X	68,092

* Includes only sold financial assets which are still fully recognized.

[1] The table includes collateralized liability transactions: repos, securities lending and other secured financing transactions.

SECTION 2

Market risks

2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to financial risks on the trading book is measured on a daily basis by calculating the following main indicators:

- Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;
- Value-at-risk calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out daily and monthly on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme but historically accurate changes in market variables.

In addition to these metrics, other complementary but more specific risk indicators are also used in order to capture other risks on trading positions which are not fully measured by VaR and sensitivity analysis more effectively. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

With reference to market risks, the value-at-risk on the trading portfolio ranged from a low of €1.1m (in October 2017) and a high of approx. €7.1m (during June 2018). The average reading for the twelve months was €2.3m, down on the average figure for last year (€3m). The VaR for the trading book stood at around €3.5m at the start of the year, before falling gradually due to the sale of certain directional positions taken at the end of the previous year, reaching its lowest values at the start of October, then rising again with the increase in market volatility and settling from end-November 2017 to early June 2018 at around €2m. The indicator then climbed again to reach a high of €7m, due solely to the addition of an equity position which was subsequently reduced by a significant amount before the reporting date. Indeed, the point-in-time figure observed at end-June 2018 had returned to €2.8m.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €4.5m to €3m, due especially to the reduction in the trading positions during the year.

The results of the daily back-testing based on calculations of theoretical profits and losses, show three events where the notional losses were in excess of the VaR. Two occurred in May 2018 and the other in the month of June, and were due primarily to adverse movements in individual stocks.

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors	**12 mths to 30/6/18**				**12 mths to 30/6/17**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	2,046	248	2,046	559	916
Credit	1,928	317	1,928	784	1,201
Share prices	1,307	807	6,297	1,986	2,006
Exchange rates	733	64	771	320	581
Inflation	45	25	495	161	649
Volatility	691	401	1,395	626	1,394
Diversification effect *	(3,901)	—	—	(2,105)	(3,703)
Total	2,848	1,129	7,109	2,330	3,044
Expected Shortfall	4,065	1,771	8,049	3,080	4,504

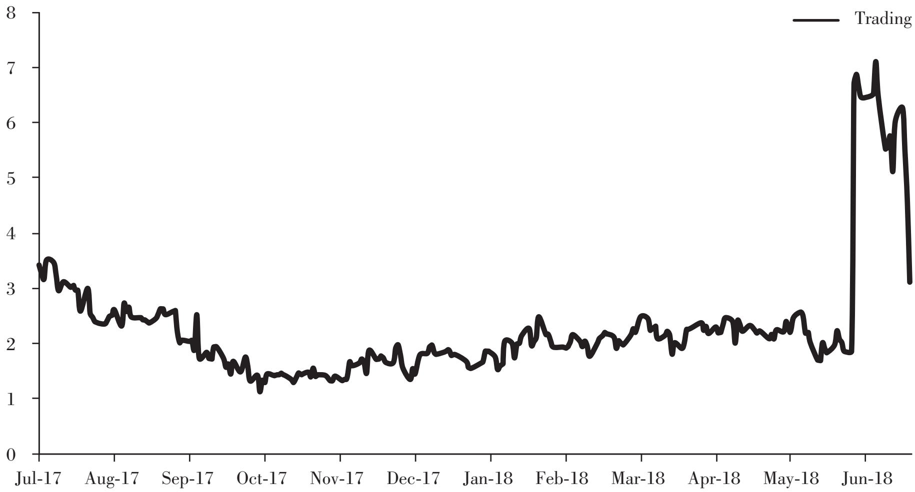
* Due to mismatch between risk factors.

Apart from the overall VaR limit for the trading and General Management books, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks like last year reflect long delta and short vega positions, albeit with a higher exposure to equity markets than last year. The exposure to interest rates ranged from minus €152,000 to €534,000, with an average reading which again was low, at around €30,000 (30/6/17: €36,000). The exchange rate trend reflected an exposure which was higher on average than last year in terms of highs and lows, but with average readings which were in any case low.

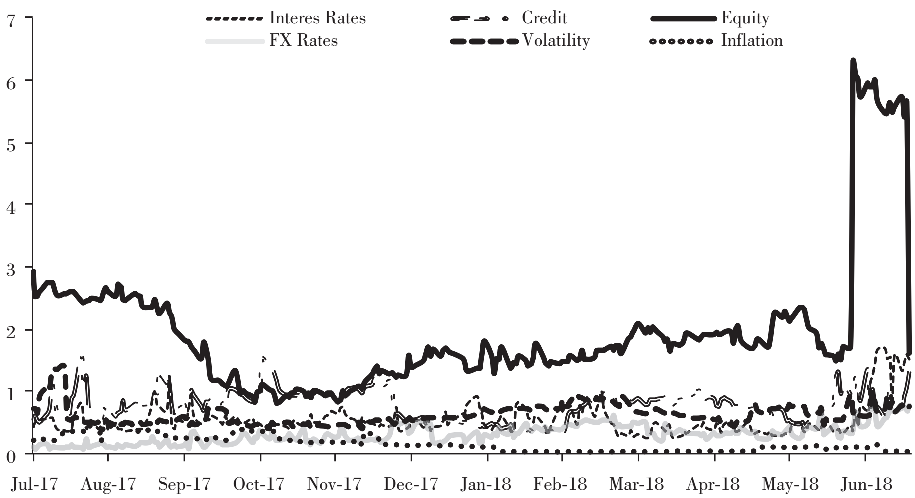
Table 2: Overview of trends in main sensitivities for trading book

Risk factors (€ '000)	**12 mths to 30/6/18**			
	30/6	**Min**	**Max**	**Avg.**
Equity delta (+1%)	741,318	589,715	2,619,223	1,166,546
Equity vega (+1%)	174,068	(856,632)	905,314	(131,505)
Interest rate delta (+1bp)	422,435	(151,749)	533,791	30,265
Inflation delta (+1bp)	4,145	(23,965)	42,125	10,118
Exchange rate delta (+1%)	(1,073,090)	(1,239,569)	1,732,332	295,358
Credit delta (+1bp)	524,814	65,847	565,985	253,825

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
1.1 Debt securities	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
3. Financial derivatives	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	265,000	—	7,710,000	—	—	—
+ short positions	—	—	265,000	—	7,710,000	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	699,545	250,000	300,000	—	104,380	—	—
+ short positions	—	699,545	250,000	300,000	—	104,380	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	18,855,483	29,553,794	874,686	5,810,839	2,013,135	1,518,252	—
+ short positions	—	18,855,483	29,553,794	874,686	5,810,839	2,013,135	1,518,252	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	32,860,444	17,126,845	4,951,646	27,389,916	9,949,085	6,607,259	—
+ short positions	—	29,026,572	20,830,960	3,798,139	27,590,196	10,732,955	6,906,373	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	1,466,238	-	50,145
A.2 Innovative equity instruments	-	-	-
A.3 Other equity instruments	-	-	-
B. UCITS units			
B.1 Italian	-	-	9,343
- harmonized open	-	-	-
- non-harmonized open	-	-	-
- closed	-	-	9,343
- reserved	-	-	-
- speculative	-	-	-
B.2 Other EU states	100,166	-	-
- harmonized	69,085	-	-
- non-harmonized open	-	-	-
- non-harmonized closed	31,081	-	-
B.3 Non-EU states	-	-	-
- open	-	-	-
- closed	-	-	-
Total	1,566,404	-	59,488

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities; over 96% of the next exposure regards other European countries.

2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

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

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

All the scenarios present a floor set by the BCBS at minus 1.5% on the demand maturity with linear progression up to 0% at the 30 year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile.

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the banking book positions at 30 June 2018, net interest income is not expected to be affected by the interest rate scenarios.

With reference to analysis of the discounted value of estimated cash flows on the banking book, a down parallel shock would generate an €8m reduction.

The values obtained in both scenarios continue to remain within the limits set by the regulations on monitoring and operational control, which are respectively 12% (net interest income sensitivity/estimated Group net interest income) and 6.5% (economic value sensitivity/regulatory capital).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Bank seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months)[2].

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by the Bank to hedge fixed-rate transactions involving corporate loans and AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Bank uses the derivative to fix the expected cost of

[2] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Mediobanca also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of cash assets and liabilities

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	3,827,602	23,358,204	4,080,776	1,338,891	9,967,506	1,305,797	401,639	24,665
1.1 Debt securities	—	3,529,420	421,160	682,829	5,815,216	1,000,941	3,265	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	3,529,420	421,160	682,829	5,815,216	1,000,941	3,265	—
1.2 Loans to banks	3,327,466	11,302,737	1,353,042	217,240	2,335,500	194,064	389,740	2,353
1.3 Loans to customers	500,136	8,526,047	2,306,574	438,822	1,816,790	110,792	8,634	22,312
– current accounts	2	—	—	—	173,259	—	—	—
– other loans	500,134	8,526,047	2,306,574	438,822	1,643,531	110,792	8,634	22,312
– with early repayment option	—	—	—	—	—	—	—	—
– others	500,134	8,526,047	2,306,574	438,822	1,643,531	110,792	8,634	22,312
2. Cash liabilities	18,448,983	9,662,115	1,802,923	3,727,529	9,414,810	2,131,623	1,187,886	494
2.1 Due to customers	3,378,198	534,550	147,132	983	—	—	—	494
– current accounts	3,129,360	—	—	—	—	—	—	—
– other amounts due	248,838	534,550	147,132	983	—	—	—	494
– with early repayment option	—	—	—	—	—	—	—	—
– others	248,838	534,550	147,132	983	—	—	—	494
2.2 Due to banks	14,793,268	3,282,128	1,144,037	1,019,099	4,915,232	—	391,850	—
– current accounts	13,320,028	—	—	—	—	—	—	—
– other amounts due	1,473,240	3,282,128	1,144,037	1,019,099	4,915,232	—	391,850	—
2.3 Debt securities	277,517	5,845,437	511,754	2,707,447	4,499,578	2,131,623	796,036	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	277,517	5,845,437	511,754	2,707,447	4,499,578	2,131,623	796,036	—
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	100,000	130,000	—	—	—
+ short positions	—	—	—	100,000	130,000	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions		7,237,830	1,707,500	510,238	5,432,694	3,293,022	777,649	—
+ short positions	—	11,392,764	740,000	100,000	5,011,500	1,687,169	27,500	—
4. Other OTC trades	—	—	—	—	—	—	—	—
+ long positions	—	2,212,360	618,631	337,867	8,494,294	283,578	7,515	—
+ short positions	—	903,627	646,269	453,457	9,767,909	43,898	139,085	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	239,266	—	23,846
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	32,150	—	131,885
- harmonized open	32,150	—	—
- non-harmonized open	—	—	—
- closed	—	—	126,025
- reserved	—	—	—
- speculative	—	—	5,860
B.2 Other EU states	171,361	—	145,021
- harmonized	—	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	171,361	—	145,021
B.3 Non-EU states	—	—	3,318
- open	—	—	—
- closed	—	—	3,318
Total	442,777	—	304,070

[1] Of which 40% Italian and 60% other EU countries.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 478 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Bank's Finance area.

QUANTITATIVE INFORMATION

1. Assets, liabilities and derivatives by currency

Line items	Currency					
	US dollars	**Pounds sterling**	**Japanese yen**	**Canadian dollars**	**Swiss francs**	**Other**
A. Financial assets	3,123,635	2,341,240	37,424	8,193	172,464	95,181
A.1 Debt securities	545,626	617,283	—	—	1,447	—
A.2 Equity securities	117,530	441,292	—	—	2,426	—
A.3 Loans and advances to banks	2,164,729	1,261,276	37,415	1,255	163,461	12,371
A.4 Loans and advances to customers	295,750	21,389	9	6,938	5,130	82,810
A.5 Other financial assets	—	—	—	—	—	—
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	(3,510,421)	(1,913,951)	(30,468)	(26,467)	(173,213)	(17,221)
C.1 Due to banks	(1,889,626)	(1,187,083)	(30,462)	(26,459)	(172,452)	(16,777)
C.2 Due to customers	(97,058)	(2,298)	(6)	(8)	(761)	(3)
C.3 Debt securities	(1,523,737)	(724,570)	—	—	—	(441)
C.4 Other financial liabilities	—	—	—	—	—	—
D. Other liabilities	—	—	—	—	—	—
E. Financial derivative products	349,273	(395,531)	(7,804)	19,432	(7,310)	5,231
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	349,273	(395,531)	(7,804)	19,432	(7,310)	5,231
+ Long positions	3,923,564	577,742	67,010	40,529	319,563	198,568
+ Short positionsw	(3,574,291)	(973,273)	(74,814)	(21,097)	(326,873)	(193,337)
Total assets	7,047,199	2,918,982	104,434	48,722	492,027	293,749
Total liabilities	(7,084,712)	(2,887,224)	(105,282)	(47,564)	(500,086)	(210,558)
Difference (+/-)	(37,513)	31,758	(848)	1,158	(8,059)	83,191

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, directional positions taken on exchange rates at the aggregate initially remained in line with those last year but with more pronounced volatility, generating a higher VaR for the same levels. The positions were then gradually increased from the end of March onwards. The VaR for the forex component at the aggregate level therefore showed an average reading of above €11m, up around 50% on the average reading recorded one year previously. As mentioned previously, the VaR reading was impacted by the increased volatility for this asset class throughout the year as a whole, plus the increase in the positions. The point-in-time reading for VaR as at 30 June 2018 was approx. €13.2m.

2.4 DERIVATIVE FINANCIAL PRODUCTS

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: average and reporting-date notional values

Underlying assets/ Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Controparti Centrali
1. Debt securities and interest rate indexes	109,412,856	41,323,280	94,752,501	31,570,511
a) Options	17,349,836	40,445,401	52,800	30,721,864
b) Swap	89,272,640	—	92,003,701	—
c) Forward	654,380	—	—	—
d) Futures	—	877,879	—	848,647
e) Others	2,136,000	—	2,696,000	—
2. Equity instruments and stock indexes	17,705,052	14,505,823	14,632,399	11,250,774
a) Options	16,625,425	14,108,938	13,644,647	11,011,994
b) Swap	928,224	—	836,349	—
c) Forward	151,403	—	151,403	—
d) Futures	—	396,885	—	238,780
e) Others	—	—	—	—
3. Gold and currencies	16,104,175	—	9,279,363	—
a) Options	6,669,954	—	277,521	—
b) Swap	3,923,649	—	3,670,869	—
c) Forward	5,510,572	—	5,330,973	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	143,222,083	55,829,103	118,664,263	42,821,285

A.2 Banking book: average and reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets/ Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	19,188,933	—	17,784,743	—
a) Options	130,000	—	—	—
b) Swap	18,958,933	—	17,604,743	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	180,000	—
2. Equity instruments and stock indexes	—	—	240,048	—
a) Options	—	—	29	—
b) Swap	—	—	—	—
c) Forward	—	—	240,019	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	19,188,933	—	18,024,791	—

A.2.2 Other derivatives

Underlying assets/ Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	725,509	—	460,974	—
a) Options	—	—	—	—
b) Swap	725,509	—	460,974	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equity instruments and stock indexes	1,435,116	—	1,822,928	—
a) Options	1,419,844	—	1,822,928	—
b) Swap	—	—	—	—
c) Forward	15,272	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,160,625	—	2,283,902	—

A.3 Financial derivatives: gross positive fair value, by product

Portfolios/Types of derivatives	Positive fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	2,808,351	520,282	2,322,734	462,562
a) Options	465,323	518,256	312,589	455,566
b) Interest rate swaps	2,051,341	—	1,674,937	—
c) Cross currency swap	196,992	—	197,844	—
d) Equity Swaps	26,405	—	30,597	—
e) Forward	68,290	—	106,767	—
f) Futures	—	2,026	—	6,996
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	235,591	—	462,596	—
a) Options	4,134	—	—	—
b) Interest rate swaps	231,457	—	462,596	—
c) Cross currency swap	—	—	—	—
d) Equity Swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	71,215	—	310,755	—
a) Options	71,215	—	310,755	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity Swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	3,115,157	520,282	3,096,085	462,562

A.4 Financial derivatives: gross negative fair value, by product

Portfolios/Type of derivatives	Negative fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(1,980,556)	(560,550)	(2,379,946)	(496,834)
a) Options	(448,223)	(543,781)	(313,652)	(492,721)
b) Interest rate swaps	(1,239,216)	—	(1,605,338)	—
c) Cross currency swap	(131,925)	—	(210,103)	—
d) Equity swaps	(1,489)	—	(21,032)	—
e) Forward	(159,703)	—	(229,821)	—
f) Futures	—	(16,769)	—	(4,113)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(220,713)	—	(498,679)	—
a) Options	(1,897)	—	2,452	—
b) Interest rate swaps	(218,816)	—	(460,656)	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	(35,571)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(90,577)	—	(325,650)	—
a) Options	(90,577)	—	(325,650)	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2,291,846)	(560,550)	(3,204,275)	(496,834)

A.5 OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	—	—	—	179,204	—
- positive fair value	—	—	—	—	—	172	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	896	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	150,463	—	29
- positive fair value	—	—	—	—	76	—	—
- negative fair value	—	—	—	—	(72)	—	(1)
- future exposure	—	—	—	—	13,506	—	—
3. Gold and currencies							
- notional amount	—	—	3,093	—	—	102,934	—
- positive fair value	—	—	—	—	—	8,502	—
- negative fair value	—	—	(3)	—	—	—	—
- future exposure	—	—	31	—	—	7,720	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives regulatory trading book: gross fair values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	44,734,429	56,527,705	736,534	7,234,983	—
- positive fair value	—	—	1,654,180	273,808	77,333	210,469	—
- negative fair value	—	—	(970,228)	(425,705)	(41,181)	(30,143)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	9,561,640	4,921,733	1,486,885	1,584,303	—
- positive fair value	—	—	107,398	74,806	2,928	115,093	—
- negative fair value	—	—	(232,439)	(60,663)	(6,333)	(7,500)	—
3. Gold and currencies							
- notional amount	—	—	10,520,079	2,790,896	284,039	2,403,134	—
- positive fair value	—	—	112,732	79,642	7,056	84,156	—
- negative fair value	—	—	(116,878)	(14,410)	(931)	(74,069)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.8 OTC financial derivatives: banking book – notional value, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	**Governments and central banks**	**Other public-sector entities**	**Banks**	**Financial companies**	**Insurance companies**	**Non-financial companies**	**Other entities**
1. Debt securities and interest rate indexes							
- notional amount	—	—	7,596,547	11,242,386	—	350,000	—
- positive fair value	—	—	187,135	48,456	—	—	—
- negative fair value	—	—	(161,408)	(35,867)	—	(23,438)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.9 OTC financial derivatives by outstanding life: notional values

Underlyng/ residual	**Up to 1 year**	**Over 1 year up to 5 year**	**Over 5 year**	**Total**
A. Regulatory trading book	36,685,440	73,772,168	32,764,475	143,222,083
A.1 Financial derivative contracts on debt securities and interest rates	16,101,546	61,788,520	31,522,790	109,412,856
A.2 Financial derivative contracts on equity securities and stock indexes	7,557,966	9,934,747	212,339	17,705,052
A.3 Financial derivative contracts on exchange rates and gold	13,025,928	2,048,901	1,029,346	16,104,175
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	2,658,015	13,786,723	4,904,820	21,349,558
B.1 Financial derivative contracts on debt securities and interest rates	2,620,319	12,389,303	4,904,820	19,914,442
B.2 Financial derivative contracts on equity securities and stock indexes	37,696	1,397,420	—	1,435,116
B.3 Financial derivative contracts on exchange rates and gold	—	—	—	—
B.4 Financial derivative contracts on other values	—	—	—	—
Total 30/6/18	39,343,455	87,558,891	37,669,295	164,571,641
Total 30/6/17	32,088,844	76,097,537	30,786,576	138,972,957

B. CREDIT DERIVATIVES

B.1 Credit derivatives: average and reporting-date notional values

Type of transaction	Regulatory trading portfolio		Banking book	
	with a single counterparty	with more than one counterparty (basket)	with a single counterparty	with more than one counterparty (basket)
1. Protection buyer's contracts				
a) Credit default products	1,071,784	10,993,427	189,090	257,334
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	1,071,784	10,993,427	189,090	257,334
Total 30/6/17	1,643,772	6,413,088	217,900	5,000
2. Protection seller's contracts				
a) Credit default products	2,083,457	12,525,774	14,526	4,969,978
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	2,083,457	12,525,774	14,526	4,969,978
Total 30/6/17	1,328,247	6,692,490	12,649	3,653,007

B.2 OTC credit derivatives: gross positive fair value, by product

Portfolio/Type of derivatives	Positive Fair Value	
	30/6/18	30/6/17
A. Regulatory trading book	191,255	160,171
a) Credit default products	191,255	160,171
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	13,636	12,952
a) Credit default products	13,636	12,952
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	204,891	173,123

B.3 OTC credit derivatives: gross negative fair value, by product

Portfolio/Type of derivatives	Negative fair value	
	30/6/18	**30/6/17**
A. Regulatory trading book	(1,227,705)	(412,051)
a) Credit default products [1]	(1,227,705)	(412,051)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(5,430)	(11,591)
a) Credit default products	(5,430)	(11,591)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(1,233,135)	(423,642)

[1] Of which certificates in an amount of €288,997,000 and €219,804,000 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	500,000	12,251	—	—	—
- positive fair value	—	—	16,934	3,400	—	—	—
- negative fair value [1]	—	—	(288,997)	—	—	—	—
- future exposure	—	—	25,000	613	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

[1] Including certificates amounting to €288,997,000.

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	5,858,131	5,494,829	200,000	—	—
- positive fair value	—	—	6,715	100	2,779	—	—
- negative fair value	—	—	(806,624)	(129,176)	—	—	—
2. Protection sale							
- notional amount	—	—	9,178,944	5,430,286	—	—	—
- positive fair value	—	—	43,673	117,654	—	—	—
- negative fair value	—	—	(2,673)	(235)	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

B.6 Credit derivatives by outstanding duration: notional values

Underlying / Residual	Up to 1 year	From 1 year up to 5 years	Over 5 years	Total
A. Regulatory trading	1,415,201	12,366,905	12,892,336	26,674,442
A.1 Credit derivatives with "qualified" "reference obligation"	208,845	920,689	1,215,645	2,345,179
A.2 Credit derivatives with "not qualified" "reference obligation"	1,206,356	11,446,216	11,676,691	24,329,263
B. Banking portfolio	170,968	2,077,836	3,182,124	5,430,928
B.1 Credit derivatives with "qualified" "reference obligation"	85,190	21,000	459,590	565,780
B.2 Credit derivatives with "not qualified" "reference obligation"	85,778	2,056,836	2,722,534	4,865,148
Total 30/6/18	1,586,169	14,444,741	16,074,460	32,105,370
Total 30/6/17	3,777,094	9,832,887	6,356,172	19,966,153

C. CREDIT AND FINANCIAL DERIVATIVES

*C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty**

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to financial derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to credit derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross product netting agreements							
- positive fair value	—	—	247,814	86,733	84,255	395,177	—
- negative fair value	—	—	(366,696)	(364,836)	(42,828)	(97,300)	—
- future exposure	—	—	848,695	411,752	53,703	191,217	—
- net counterparty risk	—	—	868,852	429,782	71,292	541,736	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €407,683,000, €227,657,000 of which in respect of banks, €68,702,000 of financial companies, €66,666,000 of insurances and €44,658,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €462,856,000 was paid in, €282,145,000 of which in respect of banks, €139,170,000 of financial companies, and €41,541,000 of insurances.

SECTION 3

Liquidity risk

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process.

In defining liquidity risk, a distinction is usually made between risks which refer to the short term (known as "liquidity risk") and risks which refer to the long term ("funding risk"):

– Liquidity risk is the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;
– Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to meet its own financial requirements without incurring an excessive increase in the cost of financing.

Within the Mediobanca Group, liquidity and funding risk is governed by the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. The Regulations set out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system and the Contingency Funding Plan.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated.

The Regulations assign various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The issues most relevant to liquidity risk are discussed by the Group ALM Committee which defines the asset and liability structure and related risk taking, directing management in line with the commercial and financial objectives set in the budget and the Group RAF.

The parent company units responsible for ensuring that the Regulations are applied accurately are:

– Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
– The Accounting and Financial Reporting unit supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management, in compliance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

For a description of the metrics used to monitor short- and medium-/long-term liquidity, reference is made to Part E of the Notes to the Consolidated Accounts.

In accordance with the Regulations, Mediobanca S.p.A assesses the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) regulatory indicators at individual level. Throughout the twelve months under review, the LCR remained above the limits set at all times.

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

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors or from situations which are specific to the Banking Group itself.

To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

- An adequate level of high-quality, highly liquid assets, available to each Group legal entity, to offset any liquidity mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable early warning indicator system.

QUANTITATIVE INFORMATION

1. Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	3,871,022	2,005,726	332,501	833,911	1,655,241	2,814,934	3,007,093	25,699,702	7,092,843	188,180
A.1 Government securities	—	788	—	6,123	111,259	502,327	43,013	4,846,744	1,053,484	—
A.2 Other debt securities	1,165	713	3,296	19,794	79,854	85,039	201,467	6,402,282	917,579	—
A.3 UCITS units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	3,869,857	2,004,225	329,205	807,994	1,464,128	2,227,568	2,762,613	14,450,676	5,121,780	188,180
– to banks	3,360,782	1,700,582	282,550	45,313	493,560	1,459,586	1,134,696	6,328,253	4,363,008	165,868
– to customers	509,075	303,643	46,655	762,681	970,568	767,982	1,627,917	8,122,423	758,772	22,312
Cash liabilities	18,158,238	841,290	198,587	873,186	1,935,152	1,308,267	3,287,958	17,587,963	5,166,032	494
B.1 Deposits and currentaccounts	16,449,390	—	—	—	—	—	—	—	—	—
– to banks	13,320,028	—	—	—	—	—	—	—	—	—
– to customers	3,129,362	—	—	—	—	—	—	—	—	—
B.2 Debt securities	929	228	1,104	10,347	1,363,948	261,305	2,192,479	9,633,338	3,881,268	
B.3 Other liabilities	1,707,919	841,062	197,483	862,839	571,204	1,046,962	1,095,479	7,954,625	1,284,764	494
Off-balance-sheet transactions	—	—	—	—	—	—	—	—	—	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
– long positions	—	836,052	82,189	2,131,580	3,483,624	1,765,912	899,054	1,377,716	550,887	—
– short positions	—	254,133	438,418	2,011,178	2,805,782	602,868	706,278	3,955,635	478,459	—
C.2 Financial derivatives without principal exchange of	—	—	—	—	—	—	—	—	—	—
– long positions	4,180,193	4,619	2,554	4,236	68,948	43,382	69,484	—	—	—
– short positions	3,421,517	5,972	2,424	6,363	25,442	61,154	65,691	—	—	—
C.3 Deposits and loans for collection	—	—	—	—	—	—	—	—	—	—
– long positions	—	589,753	—	21,255	152,144	619,384	177,460	638,379	—	—
– short positions	—	—	—	—	—	189,055	55,723	1,712,118	241,479	—
C.4 Irrevocable commitments to disburse funds *	—	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	6,831	28,627	26,884	58,682	2,515,495	125,855	—
– short positions	—	1,233,493	—	426,102	158,168	403,666	177,000	356,430	7,515	—
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	7,000	32,900	841,326	3,843,552	1,193,923	—
- long positions	—	—	—	—	7,000	22,900	592,480	2,169,323	167,647	—
- short positions	—	—	—	—	—	10,000	248,846	1,674,229	1,026,276	—
C.8 Credit derivatives without exchange of principal	—	—	—	—	—	—	—	—	—	—
- long positions	847,967	—	—	—	—	—	—	—	—	—
- short positions	1,587,480	—	—	—	—	—	—	—	—	—

* This item includes hedge sales perfectly offset by acquisitions for the same amount.

SECTION 4

Operational risks

QUALITATIVE INFORMATION

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirements for operational risk

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement 30 June 2018 was €112.2m (€114.9m).

Risk mitigation

For a more indepth description of the risk mitigation policies in force, reference is made to Part E – Market Risks – Operational Risks in the Notes to the Consolidated Accounts.

Legal risk: risks deriving from litigations pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 432-434.

Other risks

For a more indepth description of the other risks, reference is made to Part E – Market Risks – Other Risks in the Notes to the Consolidated Accounts.

Part F - Information on capital

SECTION 1

Capital of the company

QUANTITATIVE INFORMATION

B.1 Net equity: composition

Net equity constituents	30/6/18	30/6/17
1. Share capital	443,275	440,606
2. Share premium	2,191,743	2,187,580
3. Reserves	2,292,839	2,284,194
- of gains	2,064,659	2,148,015
a) legal	88,124	87,102
b) statutory	1,284,471	1,288,162
c) treasury shares	109,338	197,709
d) others	582,726	575,042
- others	228,180	136,179
4. Equity instruments	—	—
5. (Treasury shares)	(109,338)	(197,709)
6. Valuation reserves:	129,954	285,167
- AFS securities	126,665	312,932
- Property, plant and equipment	—	—
- Intangible assets	—	—
- Foreign investment hedges	—	—
- Cash flow hedges	(2,579)	(33,590)
- Exchange rate difference	—	—
- Non-current assets being sold	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(3,764)	(3,807)
- Share of valuation reserves represented by equity-accounted companies	—	—
- Special valuation laws	9,632	9,632
7. Gain (loss) for the period	337,034	318,326
Total	5,285,507	5,318,164

For further information, please see Section 14 “Capital of the company – Headings 130, 150, 160, 170, 180, 190 and 200”.

B.2 AFS valuation reserves: composition

Assets/amounts	30/6/18		30/6/17	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	63,468	(15,260)	99,936	(3,981)
2. Equity securities	59,555	(5,506)	190,210	(43)
3. UCITS units	28,132	(3,726)	27,217	(406)
4. Loans and advances	—	—	—	—
Total	151,155	(24,492)	317,363	(4,430)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	95,955	190,167	26,811	—
2. Additions	12,852	1,095	8,443	—
2.1 Increases in fair value	12,366	1,095	8,402	—
2.2 Negative reserves charged back to profit and loss as result of	486	—	41	—
– impairment	—	—	—	—
– disposals	486	—	41	—
2.3 Other additions	—	—	—	—
3. Reductions	60,598	137,212	10,848	—
3.1 Reductions in fair value	40,798	19,680	6,880	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	19,800	117,532	3,968	—
3.4 Other reductions	—	—	—	—
4. Balance at end of period	48,209	54,050	24,406	—

SECTION 2

Own funds and supervisory requirements

Since its inception, one of the distinguishing features of Mediobanca has been the solidity of its financial structure, with capital ratios consistently higher than those required by the regulatory guidelines. The surplus capital is justified by the type of operations performed by the Bank on the corporate market.

2.1 Own funds

Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in June 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, Mediobanca has applied the phase-in regime, and in particular, once the requisite clearance was obtained, it proceeded to weight the investment Assicurazioni Generali at 370% as permitted by Article 471 of the CRR.

As from 30 June 2016, authorization to weight the Assicurazioni Generali investment at 370% has been confined to the part required to comply with the concentration limit of 20% of regulatory capital; a level which is met comfortably.

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of capital paid up, reserves (including €126.7m of the positive AFS reserves, €22.2m of which sovereign debt securities) and profit for the period (€337m) net of the dividend for the year (€412.8m), calculated based on a dividend of €0.47 per share. From this amount the following items are deducted: treasury shares (€109.3m), intangible assets (€29.3m), goodwill (€12.5m, arising from the Banca Esperia merger), the other prudential adjustments (€40.4m) in connection with the values of financial instruments (AVAs and DVAs), plus €21.7m in interests in financial companies (banks and insurances) exceeding the limits set under the regime.

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

Tier 2 capital includes the liabilities issued (€1,819.4m) and the surplus of value adjustments over expected losses (€9.7m).

Issue	30/6/18		
	ISIN	Nominal value	Book value *
MB Subordinato Mar 29	XS1579416741	50,000	48,500
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	285,377
MB OPERA 3,75 2026	IT0005188351	299,960	291,450
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	228,804
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	491,436
MB CARATTERE 5.75% 2023 Lower Tier 2	IT0004917842	495,242	473,861
Total subordinated debt securities		**2,354,586**	**1,819,428**

* Book value differ from share of equity calculated because of fair value and amortized cost components and also commitments to buy back securities.

Subordinated liabilities fell from €2,036.4m to €1,819.4m due to movements for the period plus the repayment share (€266.5m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUANTITATIVE INFORMATION

	30/6/18	30/6/17
A. Common equity tier 1 (CET1) prior to application of prudential filters	4,874,074	4,997,939
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(37,858)	(39,877)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	4,836,216	4,958,062
D. Items to be deducted from CET1	(928,616)	(45,508)
E. Phase-in regime - impact on CET1 (+/-)	865,084	(51,063)
F. Total common equity tieer 1 (CET1) (C - D +/- E)	4,772,684	4,861,491
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-)	—	—
L. Total Additional Tier 1 (AT1) gross of items to be deducted and effects of phase-in regime (G - H +/- I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,829,094	2,036,402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(278,715)	(443,914)
O. Phase-in regime - Impact on T2 (+/-)	—	15,943
P. Total T2 (M - N +/- O)	1,550,379	1,608,431
Q. Total own funds (F+L+P)	6,323,063	6,469,922

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

As at 30 June 2018, the Bank's Common Equity Ratio, calculated as Tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.24%, higher than last year (15%) due to the reduction in RWAs (from €29.4bn to €32.4bn), chiefly due to application of the AIRB models to calculate RWAs for the Large Corporate portfolio (translating to a reduction of some €5bn in RWAs). There was also an equivalent rise in the total capital ratio, from 19.97% to 21.51%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/18	30/6/17	30/6/18	30/6/17
A. RISK ASSETS				
A.1 Credit and counterpart risk	60,220,201	59,176,180	25,055,650	28,071,129
1. Standard methodology	45,590,591	58,863,501	16,734,818	27,785,723
2. Internal rating methodology	14,467,969	—	8,192,795	—
2.1 Basic	14,467,969	—	8,192,795	—
2.2 Advanced	—	—	—	—
3. Securitization	161,641	312,679	128,037	285,406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			2,004,452	2,245,690
B.2 Credit valuation risk			51,090	60,262
B.3 Settlement risk			—	—
B.4 Market risk			183,914	171,126
1. Standard methodology			183,914	171,126
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risk			112,157	114,886
1. Basic Indicator Approach (BIA)			112,157	114,886
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			2,351,614	2,591,965
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			29,395,171	32,399,561
C.2 CET 1 capital/risk-weighted assets (CET 1 capital ratio)			16.24%	15.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.24%	15.0%
C.4 Total own funds/risk-weighted assets (Total capital ratio)			21.51%	19.97%

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

On 28 February 2018, Mediobanca S.p.A. completed the acquisition of a 69% stake in RAM AI. The acquisition cost was €143.4m.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%. During the year some extraordinary intragroup transactions were also carried out; the details are listed below .

Following the acquisition of the remaining 50% of Banca Esperia, completed during the previous year (during 1H FY 2017-18), Mediobanca has completed the allocation (PPA) process, recognizing a brand valued at €15.5m and residual goodwill outstanding of €12.5m in its financial statements.

On 1 December 2017, Banca Esperia was merged into Mediobanca with effect in accounting and tax terms from 1 July 2017; and on the same date the new Mediobanca Private Banking was established.

The details of the transaction are as follows.

Table 1 shows the asset and liability situation at the acquisition date based on the book values reported by the former Banca Esperia and the initial recognition (fair) values recorded by Mediobanca S.p.A. in the individual accounts.

Table 1

(€m)

Assets/Liabilities	Carrying Value	*Fair value*
Assets		
Cash	0.1	0.1
Financial assets held for trading	199.5	199.5
Financial assets available for sale	82.8	86.8
Due from banks	654.2	654.2
Due from customers	941.8	933.7
Equity investments	16.4	48.1
Tangible assets	0.5	0.5
Intangible assets	1.3	16.8
Goodwill	—	12.5
Tax assets	13.2	6.2
Other assets	60.3	60.3
Total assets	**1,970.1**	**2,018.7**
Liabilities		
Due to banks	264.8	264.6
Due to customers	1,311.3	1,311.3
Securities in issue	173.0	173.0
Financial liabilities held for trading	6.4	6.4
Tax liabilities	1.8	1.8
Other liabilities	43.9	43.9
Staff severance indemnity provision	1.0	1.0
Provisions	19.1	19.1
Revaluation reserves	1.8	2.3
Reserves	62.5	106.6
Share premium reserve	38.6	38.6
Share capital	63.0	63.0
Profit/loss for the period	(17.1)	(12.9)
Total liabilities	**1,970.1**	**2,018.7**

Table 2 shows the allocation of the various fair values recorded at the acquisition date.

Table 2

	(€m)
Acquisition cost allocation	***Carrying value***
Equity investments, at book value	**195.3**
Shareholders' equity	**(147.0)**
Difference to be allocated	**48.3**
Fair value differences of acquired assets and assumed laibilties	
Due from customers	(8.0)
Other financial assets	4.0
Equity investments	31.8
Brand	15.5
Actuarial reserve	(0.5)
Total of fair value differences recognized at the acquisition date (gross of tax)	**42.8**
Tax effects	(7.0)
Total net plus on assets acquired and assumed liabilities	**35.8**
Goodwill	**12.5**

The subsidiaries owned by Banca Esperia thus came to be controlled directly by Mediobanca S.p.A. (Duemme SGR, renamed Mediobanca SGR, and Duemme International Luxembourg SA, renamed Mediobanca Management Company SA) and their book value has been readjusted to fair value, at €38m and €4m respectively.

Details of the purchase price allocation process for Banca Esperia are provided in section 10 of the Notes to the Accounts.

SECTION 2:

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3:

Retrospective adjustments

No adjustments have been made to the accounts for the year under review in connection with previous business combinations.

Part H - Related party disclosure

1. Board member and senior management remuneration

Remuneration paid to directors, statutory auditors and management with strategic responsibilities

	Compensation			
	Emoluments payable in connection with post	Non-cash benefits*	Bonuses and other incentives	Other compensation
BOARD OF DIRECTORS[1]	2,345.9	1,188.4	3,009.3	5,213.3
of which: management	*332.6*	*1,188.4*	*3,009.3*	*5,013.3*
MANAGEMENT with strategic responsibilities[2]	—	287.1	1,250.4	3,603.4
STATUTORY AUDIT COMMITTEE[3]	424.1	—	—	—

* Includes the value of fringe benefits (according to which items are taxable), including insurance policies and complementary pension schemes, and hence does not include costs in respect of equity payments equal to €2.8m

[1] Includes fourteen directors in office at 30 June 2018

[2] Includes eight strategic managers at 30 June 2018.

[3] Includes three statutory auditors in office at 30 June 2018.

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in May 2018. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

1.1 Regular financial disclosure: most significant transactions

There were no such transactions to report during the financial year under review.

1.2 Quantitative information

The exposure to non-Group companies (representing the sum of assets plus guarantees and commitments) remained unchanged during the year under review, (€1bn) and now represents approx. 1.6% of total assets. Similarly, interest income from such items fell from 3.9% to 2.8% of the profit and loss account.

Situation as at 30 June 2018

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	20,553.0	—	407.4	559.1	21,519.5
of which: other assets	*5,707.1*	—	*212.1*	*372.2*	*6,291.4*
loans and advances	*14,845.9*	—	*195.3*	*186.9*	*15,228.1*
Liabilities	16,529.2	—	0.1	177.6	16,706.9
Guarantees and commitments	10,434.1	—	—	43.0	10,477.1
Interest income	320.5	—	8.8	12.2	341.5
Interest expense	(192.5)	—	—	—	(192.5)
Net fee income	20.9	—	2.7	10.0	33.6
Other income (costs)	2.1	(17.6) [1]	(0.7)	(1.5)	(17.7)

[1] Of which: short-term benefits amounting to €19.7m and performance shares worth €2.8m. The figure refers to the eight staff members included in the definition of management with strategic responsibilities

Situation as at 30 June 2017

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	20,094.7	—	491.3	426.5	21,012.5
of which: other assets	*4,459.4*	—	*291.1*	*194.5*	*4,945.0*
loans and advances	*15,635.3*	—	*200.2*	*232.0*	*16,067.5*
Liabilities	15,352.2	—	—	139.4	15,491.6
Guarantees and commitments	9,167.1	—	—	63.3	9,230.4
Interest income	337.9	—	21.7	10.7	370.3
Interest expense	(207.9)	—	—	(0.2)	(208.1)
Net fee income	23.7	—	4.1	55.6	83.4
Other income (costs)	(110.9) [1]	(17.7) [2]	(10.4)	34.0	(105.0)

[1] Includes €65m in respect of hedge derivatives

[2] Of which: short-term benefits amounting to €15.1m and performance shares worth €2.6m. The figure includes five management staff with strategic responsibilities.

Part I - Share-based payment schemes

QUALITATIVE INFORMATION

1. *Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments*

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved reflect the following situation:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
Stock options schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
of which to directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
Performance Share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,096,209 [3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] Of these, 2,000,000 were granted to one former director.

[3] In respect of awards made in 2014, 2015, 2016 and 2017.

2. *Description of stock option and performance stock option schemes*

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with the dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allotted are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

- Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
- Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued; the 8,714,833 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2017 financial year, a total of 1,579.009 performance shares (were awarded, net of 108,647 recovered); the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches (up to 718,815 in FY 2019-20, up to 439,201 in FY 2020-21, up to 321,368 in FY 2021-22, and up to 99,625 in FY 2022-23).

Beneficiaries were also awarded a total of 1,500,283 shares, 21,725 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015; and a further 135,834 shares were recovered.

Subsequently, as part of staff variable remuneration for the 2018 financial year, a total of 1,639,456 performance shares were awarded, at a notional cost of €11m, in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available in tranches in November 2020 (up to 763,905), November 2021 (up to 451,496), November 2022 (up to 327,600) and November 2023 (up to 96,455).

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/18			30/6/17		
	No. of performance shares	Avg. price	Avg. expiry	No. of performance shares	Avg. price	Avg. expiry
A. Balance at start of period	4,412,500	6.53	August 18	10,097,500	6.55	August 18
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—-	X	—	—	X
C. Reductions						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	3,770,000	6.54	X	5,685,000	6.57	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	642,500	6.51	October 18	4,412,500	6.53	August 18
E. Performance shares exercisable as at reporting date	642,500	6.51	X	4,412,500	6.53	X

2. Changes to performance share scheme during the period

	30/6/18		30/6/17	
	No. of performance shares	Avg. price	*No. of performance shares*	Avg. price
A. Balance at start of period	4,834,282	6.38	7,235,821	5.23
B. Additions				
B.1 New issues	1,687,656	7.92	2,108,818	5.05
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,500,283	7.08	4,457,799	3.91
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	244,481	6.99	52,558	5.10
D. Balance at end of period	4,777,174	6.67	4,834,282	6.38

ANNEXES

Consolidated Balance Sheet/Profit and Loss Accounts Reconciliation between Reclassified Balance Sheet and mandatory Balance Sheet ex. Bank of Italy Circular 262/2005

The Balance Sheet provided on p. 25 reflects the following restatements:

for which regards Assets:

- *Treasury funds* comprises asset headings 10 "Cash and cash equivalents"; current account and demand deposits, repos, as well as other time deposits and other hedging under heading 60 "Due from banks" and 70 "Due from customers"; and also other items under heading 160 "Other assets";
- *Banking book securities* comprises debt securities under heading 40 "Financial assets available-for-sale", heading 50 "Financial assets held-to-maturity", heading 60 "Due from banks" and heading 70 "Due from customers";
- *Loans and advances to customers* comprises heading 60 "Due from banks" and 70 "Due from customers", except for amounts directly reclassified in other headings;
- *Other assets* comprises the entire heading 160 "Other assets", heading 140 "Tax assets", heading 80 "Hedging derivatives" and other debtors under heading 60 "Due from banks" and 70 "Due from customers";

for which regards Liabilities:

- *Funding* comprises heading 10 "Due to banks" and 20 "Due to customers", except from items that are comprised into *Treasury funding* and other creditors which are comprised into *Other liabilities*;
- *Treasury funding* comprises current account and demand deposits, repos, as well as other time deposits and other hedging under heading 10 "Due to banks" and 20 "Due to customers";
- *Other liabilities* comprises other creditors under heading 10 "Due to banks" and 20 "Due to customers", heading 60 "Hedging derivatives", heading 80 "Tax liabilities" and heading 130 "Insurance reserves".

Consolidated Balance Sheet as at 30 June 2018

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,238.0	—	—	—	—	—	—	**1,238.0**
20. Financials assets held for trading	8,204.9	—	—	—	—	—	—	—	**8,204.9**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	772.3	4,949.6	—	—	—	—	**5,721.9**
50. Financial assets held-to-maturity	—	—	—	2,595.8	—	—	—	—	**2,595.8**
60. Due from banks	—	6,226.0	—	—	1,321.8	—	—	5.2	**7,553.0**
70. Due from customers	—	880.0	—	199.3	39,806.1	—	—	92.5	**40,977.9**
80. Hedging derivatives	—	—	—	—	—	—	—	225.8	**225.8**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,210.8	—	—	**3,210.8**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	287.8	—	**287.8**
130. Intangible assets	—	—	—	—	—	—	739.9	—	**739.9**
140. Tax assets	—	—	—	—	—	—	—	816.5	**816.5**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	14.2	—	—	—	—	—	714.0	**728.2**
Total assets	**8,204.9**	**8,358.2**	**772.3**	**7,744.7**	**41,127.9**	**3,210.8**	**1,027.7**	**1,854.0**	**72,300.5**

Consolidated Balance Sheet as at 30 June 2018

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	7,996.4	4,261.5	—	5.6	—	—	**12,263.5**
20. Due to customers	20,288.3	1,028.9	—	2.8	—	—	**21,320.0**
30. Debt securities in issue	20,608.5	—	—	—	—	—	**20,608.5**
40. Trading liabilities	—	—	6,462.4	—	—	—	**6,462.4**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	233.1	—	—	**233.1**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	531.6	—	—	**531.6**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	760.4	—	—	**760.4**
110. Staff severance indemnity provision	—	—	—	—	27.5	—	**27.5**
120. Provisions	—	—	—	—	185.5	—	**185.5**
130. Insurance reserves	—	—	—	175.8	—	—	**175.8**
140. Revaluation reserves	—	—	—	—	—	764.3	**764.3**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,490.4	**5,490.4**
180. Share premium reserve	—	—	—	—	—	2,191.7	**2,191.7**
190. Share capital	—	—	—	—	—	443.3	**443.3**
200. Treasury shares	—	—	—	—	—	(109.3)	**(109.3)**
210. Minority interest	—	—	—	—	—	87.9	**87.9**
220. Profit for the period	—	—	—	—	—	863.9	**863.9**
Total liabilities and net equity	**48,893.2**	**5,290.4**	**6,462.4**	**1,709.3**	**213.0**	**9,732.2**	**72,300.5**

Consolidated Balance Sheet as at 30 June 2017

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangiible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,330.2	—	—	—	—	—	—	**1,330.2**
20. Financials assets held for trading	7,833.9	—	—	—	—	—	—	—	**7,833.9**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	786.1	5,606.6	—	—	—	—	**6,392.7**
50. Financial assets held-to-maturity	—	—	—	2,400.2	—	—	—	—	**2,400.2**
60. Due from banks	—	6,883.0	—	—	1,066.6	—	—	10.3	**7,959.9**
70. Due from customers	—	1,207.6	—	350.9	37,124.3	—	—	80.3	**38,763.1**
80. Hedging derivatives	—	—	—	—	—	—	—	462.3	**462.3**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,036.5	—	—	**3,036.5**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	305.6	—	**305.6**
130. Intangible assets	—	—	—	—	—	—	552.2	—	**552.2**
140. Tax assets	—	—	—	—	—	—	—	847.4	**847.4**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	14.3	—	—	—	—	—	547.2	**561.5**
Total assets	**7,833.9**	**9,435.1**	**786.1**	**8,357.7**	**38,190.9**	**3,036.5**	**857.8**	**1,947.5**	**70,445.5**

Consolidated Balance Sheet as at 30 June 2017

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	9,423.9	3,263.4	—	2.3	—	—	**12,689.6**
20. Due to customers	19,588.0	773.8	—	4.2	—	—	**20,366.0**
30. Debt securities in issue	20,108.7	—	—	—	—	—	**20,108.7**
40. Trading liabilities	—	—	5,920.6	—	—	—	**5,920.6**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	341.2	—	—	**341.2**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	560.0	—	—	**560.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	846.2	—	—	**846.2**
110. Staff severance indemnity provision	—	—	—	—	29.8	—	**29.8**
120. Provisions	—	—	—	—	225.8	—	**225.8**
130. Insurance reserves	—	—	—	166.0	—	—	**166.0**
140. Revaluation reserves	—	—	—	—	—	871.4	**871.4**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,056.8	**5,056.8**
180. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
190. Share capital	—	—	—	—	—	440.6	**440.6**
200. Treasury shares	—	—	—	—	—	(197.7)	**(197.7)**
210. Minority interest	—	—	—	—	—	82.7	**82.7**
220. Profit for the period	—	—	—	—	—	750.2	**750.2**
Total liabilities and net equity	**49,120.6**	**4,037.2**	**5,920.6**	**1,919.9**	**255.6**	**9,191.6**	**70,445.5**

Reconciliation between Reclassified Profit and Loss and mandatory Profit and Loss ex. Bank of Italy Circular 262/2005

The Profit and Loss provided on p. 24 reflects the following restatements:

– *Net interest margin* comprises heading 10 “Interest and similar income”, heading 20 “Interest expenses and similar charges”, hedging derivatives differentials related to held-for-trading securities of heading 80 “Net trading income” and the net result from hedging activities of loans to customers and of funding of heading 90 “Net hedging income (expense)”;

– *Treasury income* comprises heading 70 “Dividends and similar income”, heading 80 “Net trading income” (except for the amount under the *net margin interest*), the result of the *banking book securities* included in heading 100 “Gain (loss) on disposal/repurchase” and the share of repos in headings 40 “Fee and commission income” and 50 “Fee and commission expense”;

– *Net fee and commission income* comprises heading 60 “Net fee and commission income”, the operating incomes of heading 220 “Other operating income (expenses)” and the reversal on purchased NPL exposures of heading 130 “Adjustments for impairment”;

– *Loan loss provisions* comprise heading 130 “Adjustments for impairment” (apart from NPL write-backs) and the losses on credit disposal included in the heading 100 “Gain (loss) on disposal/repurchase ”;

– *Other profits (losses)* comprise the non-recurring costs of heading 180 “Administrative costs”, especially the contributes to the SRF and the DGS, the provisions for restructuring and impairment of tangible and intangible assets.

Consolidated Profit and Loss for the 12 mths ended 30 June 2018

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,896.8	—	—	—	—	—	—	—	—	—	—	1,896.8
20. Interest expense and similar charges	(530.8)	—	—	—	—	—	—	—	—	—	—	(530.8)
30. Net interest income	**1,366.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,366.0**
40. Fee and commission income	—	10.0	580.6	—	—	—	—	—	—	—	—	590.6
50. Fee and commission expense	—	(4.4)	(129.9)	—	—	—	—	—	—	—	—	(134.3)
60. Net fee and commission income	**—**	**5.6**	**450.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**456.3**
70. Dividends and similar income	—	84.3	—	—	—	—	—	—	—	—	—	84.3
80. Net trading income	(9.5)	48.2	—	—	—	—	—	—	—	—	—	38.7
90. Net hedging income (expense)	2.9	—	—	—	—	—	—	—	—	—	—	2.9
100. Gain (loss) on disposal/repurchase	—	19.3	—	—	—	98.3	(12.6)	—	—	—	—	105.0
120. Total income	**1,359.4**	**157.4**	**450.7**	**—**	**—**	**98.3**	**(12.6)**	**—**	**—**	**—**	**—**	**2,053.2**
130. Adjustments for impairment	—	—	24.2	—	—	—	(234.6)	(1.7)	—	—	—	(212.1)
140. Net income from financial operations	**1,359.4**	**157.4**	**474.9**	**—**	**—**	**98.3**	**(247.2)**	**(1.7)**	**—**	**—**	**—**	**1,841.1**
150. Net premium earned (net)	—	—	57.9	—	—	—	—	—	—	—	—	57.9
160. Other income (net) from insurance activities	—	—	(9.0)	—	—	—	—	—	—	—	—	(9.0)
170. Net profit from financial and insurance activities	**1,359.4**	**157.4**	**523.8**	**—**	**—**	**98.3**	**(247.2)**	**(1.7)**	**—**	**—**	**—**	**1,890.0**
180. Administrative expenses	—	—	—	—	(1,125.9)	—	—	—	(46.3)	—	—	(1,172.2)
190. Net transfers to provisions	—	—	—	—	(14.6)	—	—	—	(12.1)	—	—	(26.7)
200. Net adjustment to tangible assets	—	—	—	—	(16.0)	—	—	—	—	—	—	(16.0)
210. Net adjustment to intangible assets	—	—	—	—	(27.9)	—	—	—	—	—	—	(27.9)
220. Other operating income (expenses)	—	—	98.4	—	69.5	—	—	—	—	—	—	167.9
230. Operating costs	**—**	**—**	**98.4**	**—**	**(1,114.9)**	**—**	**—**	**—**	**(58.4)**	**—**	**—**	**(1,074.9)**
240. Gain (loss) on equity investments	—	—	—	280.3	—	—	—	—	—	—	—	280.3
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	0.4	—	—	—	0.4
280. Profit (loss) on ordinary activity before tax	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**—**	**—**	**1,095.8**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(228.1)	—	(228.1)
300. Profit (loss) on ordinary activities after tax	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**—**	**867.7**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**—**	**867.7**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(3.8)	(3.8)
340. Net profit (loss) for the period attributable to Mediobanca	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**(3.8)**	**863.9**

Consolidated Profit and Loss for the 12 mths ended 30 June 2017

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,916.4	—	—	—	—	—	—	—	—	—	—	1,916.4
20. Interest expense and similar charges	(638.9)	—	—	—	—	—	—	—	—	—	—	(638.9)
30. Net interest income	**1,277.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,277.5**
40. Fee and commission income	—	4.6	477.9	—	—	—	—	—	—	—	—	482.5
50. Fee and commission expense	—	(3.9)	(100.7)	—	—	—	—	—	—	—	—	(104.6)
60. Net fee and commission income	**—**	**0.7**	**377.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**377.9**
70. Dividends and similar income	—	81.4	—	—	—	—	—	—	—	—	—	81.4
80. Net trading income	(5.5)	39.7	—	—	—	—	—	—	—	—	—	34.2
90. Net hedging income (expense)	15.8	—	—	—	—	—	—	—	—	—	—	15.8
100. Gain (loss) on disposal/repurchase	—	(0.5)	—	—	—	168.6	(11.7)	—	—	—	—	156.4
120. Total income	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(11.7)**	**—**	**—**	**—**	**—**	**1,943.2**
130. Adjustments for impairment	—	—	—	—	—	—	(287.5)	(6.2)	—	—	—	(293.7)
140. Net income from financial operations	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,649.6**
150. Net premium earned (net)	—	—	52.3	—	—	—	—	—	—	—	—	52.3
160. Other income (net) from insurance activities	—	—	(14.4)	—	—	—	—	—	—	—	—	(14.4)
170. Net profit from financial and insurance activities	**1,287.8**	**121.3**	**415.1**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,687.5**
180. Administrative expenses	—	—	—	—	(1,028.2)	—	—	—	(189.8)	—	—	(1,218.0)
190. Net transfers to provisions	—	—	—	—	(3.9)	—	—	—	(12.5)	—	—	(16.4)
200. Net adjustment to tangible assets	—	—	—	—	(17.6)	—	—	—	—	—	—	(17.6)
210. Net adjustment to intangible assets	—	—	—	—	(27.0)	—	—	—	—	—	—	(27.0)
220. Other operating income (expenses)	—	—	107.5	—	53.0	—	(17.6)	—	100.4	—	—	243.3
230. Operating costs	**—**	**—**	**107.5**	**—**	**(1,023.7)**	**—**	**(17.6)**	**—**	**(101.9)**	**—**	**—**	**(1,035.7)**
240. Gain (loss) on equity investments	—	—	—	263.9	—	—	—	(0.4)	—	—	—	263.5
270. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	(1.3)	—	—	—	(1.3)
280. Profit (loss) on ordinary activity before tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**—**	**—**	**914.0**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(171.7)	—	(171.7)
300. Profit (loss) on ordinary activities after tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	7.9	7.9
340. Net profit (loss) for the period attributable to Mediobanca	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**7.9**	**750.2**

Mediobanca S.p.A.: reconciliation of Financial Statements

Mediobanca S.p.A: Balance sheet/Profit and loss Account Reconciliation between reclassified Balance Sheet* and mandatory Balance Sheet ex Bank of Italy circular 262/2005

Mediobanca S.p.A. Balance Sheet as at 30 June 2018

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,173.2	—	—	—	—	—	—	**1,173.2**
20. Financial assets held for trading	8,211.9	—	—	—	—	—	—	—	**8,211.9**
40. Financial assets available-for-sale	—	—	746.8	4,419.6	—	—	—	—	**5,166.4**
50. Financial assets held-to-maturity	—	—	—	2,595.1	—	—	—	—	**2,595.1**
60. Due from banks	—	5,981.7	—	386.0	13,176.8	—	—	8.9	**19,553.4**
70. Due from customers	—	2,081.1	—	4,054.2	12,568.3	—	—	22.4	**18,726.0**
80. Hedging derivatives	—	—	—	—	—	—	—	235.6	**235.6**
100. Equity investments	—	—	—	—	—	3,084.2	—	—	**3,084.2**
120. Property, plant and equipment	—	—	—	—	—	—	116.8	—	**116.8**
130. Intangible assets	—	—	—	—	—	—	38.6	—	**38.6**
140. Tax assets	—	—	—	—	—	—	—	236.3	**236.3**
150. Other assets	—	—	—	—	—	—	—	96.9	**96.9**
Total assets	**8,211.9**	**9,236.0**	**746.8**	**11,454.9**	**25,745.1**	**3,084.2**	**155.4**	**600.1**	**59,234.4**

Mediobanca S.p.A. Balance Sheet as at 30 June 2018

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	19,252.3	6,258.4	—	8.5	—	—	**25,519.2**
20. Due to customers	3,093.7	1,029.0	—	1.5	—	—	**4,124.2**
30. Debt securities in issue	16,827.0	—	—	—	—	—	**16,827.0**
40. Trading liabilities	—	—	6,510.5	—	—	—	**6,510.5**
60. Hedging derivatives	—	—	—	220.7	—	—	**220.7**
80. Tax liabilities	—	—	—	363.9	—	—	**363.9**
100. Other liabilities	—	—	—	277.9	—	—	**277.9**
110. Staff severance indemnity provision	—	—	—	—	7.7	—	**7.7**
120. Provisions	—	—	—	—	97.8	—	**97.8**
130. Revaluation reserves	—	—	—	—	—	130.0	**130.0**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,292.8	**2,292.8**
170. Share premium reserve	—	—	—	—	—	2,191.7	**2,191.7**
180. Share capital	—	—	—	—	—	443.3	**443.3**
190. Treasury shares (-)	—	—	—	—	—	(109.3)	**(109.3)**
200. Profit for the period (+/-)	—	—	—	—	—	337.0	**337.0**
Total liabilities and net equity	**39,173.0**	**7,287.4**	**6,510.5**	**872.5**	**105.5**	**5,285.5**	**59,234.4**

* Reported at p. 307.

Mediobanca S.p.A. Balance Sheet as at 30 June 2017

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,255.6	—	—	—	—	—	—	**1,255.6**
20. Financial assets held for trading	7,271.3	—	—	—	—	—	—	—	**7,271.3**
40. Financial assets available-for-sale	—	—	659.5	5,004.9	—	—	—	—	**5,664.4**
50. Financial assets held-to-maturity	—	—	—	2,394.9	—	—	—	—	**2,394.9**
60. Due from banks	—	6,272.6	—	287.8	13,832.1	—	—	16.2	**20,408.7**
70. Due from customers	—	2,503.6	—	3,076.7	11,394.6	—	—	16.4	**16,991.3**
80. Hedging derivatives	—	—	—	—	—	—	—	462.6	**462.6**
100. Equity investments	—	—	—	—	—	3,057.0	—	—	**3,057.0**
120. Property, plant and equipment	—	—	—	—	—	—	118.1	—	**118.1**
130. Intangible assets	—	—	—	—	—	—	14.2	—	**14.2**
140. Tax assets	—	—	—	—	—	—	—	207.5	**207.5**
150. Other assets	—	—	—	—	—	—	—	63.3	**63.3**
Total assets	**7,271.3**	**10,031.8**	**659.5**	**10,764.3**	**25,226.7**	**3,057.0**	**132.3**	**766.0**	**57,908.9**

Mediobanca S.p.A. Balance Sheet as at 30 June 2017

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	20,562.2	3,676.8	—	3.9	—	—	**24,242.9**
20. Due to customers	1,573.4	774.4	—	2.5	—	—	**2,350.3**
30. Debt securities in issue	18,902.6	—	—	—	—	—	**18,902.6**
40. Trading liabilities	—	—	5,859.2	—	—	—	**5,859.2**
60. Hedging derivatives	—	—	—	498.7	—	—	**498.7**
80. Tax liabilities	—	—	—	412.8	—	—	**412.8**
100. Other liabilities	—	—	—	218.5	—	—	**218.5**
110. Staff severance indemnity provision	—	—	—	—	8.9	—	**8.9**
120. Provisions	—	—	—	—	96.8	—	**96.8**
130. Revaluation reserves	—	—	—	—	—	285.2	**285.2**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,284.2	**2,284.2**
170. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
180. Share capital	—	—	—	—	—	440.6	**440.6**
190. Treasury shares (-)	—	—	—	—	—	(197.7)	**(197.7)**
200. Profit for the period (+/-)	—	—	—	—	—	318.3	**318.3**
Total liabilities and net equity	**41,038.2**	**4,451.2**	**5,859.2**	**1,136.4**	**105.7**	**5,318.2**	**57,908.9**

Reconciliation between reclassified Profit and loss Account* and mandatory Profit and Loss ex Bank of Italy circular 262/2005

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 2018

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	762.7	—	—	—	—	—	—	—	—	—	—	762.7
20. Interest expense and similar cherges	(667.6)	—	—	—	—	—	—	—	—	—	—	(667.6)
30. Net interest income	**95.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**95.1**
40. Fee and commission income	2.6	10.1	272.0	—	—	—	—	—	—	—	—	284.7
50. Fee and commission expense	—	(5.6)	(20.5)	—	—	—	—	—	—	—	—	(26.1)
60. Net fee and commission income	**2.6**	**4.5**	**251.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**258.6**
70. Dividend and similar income	—	84.1	—	177.5	—	—	—	—	—	—	—	261.6
80. Net trading income	(3.4)	40.3	—	—	—	—	—	—	—	—	—	37.0
90. Net hedging income (expense)	0.8	—	—	—	—	—	—	—	—	—	—	0.8
100. Gain (loss) on disposal/repurchase	—	17.9	—	—	—	96.3	(1.4)	—	—	—	—	112.8
120. Total income	**95.1**	**146.8**	**251.5**	**177.5**	**—**	**96.3**	**(1.4)**	**—**	**—**	**—**	**—**	**765.9**
130. Adjustment for impairment	—	—	—	—	—	—	45.7	1.1		—	—	46.8
140. Net income from financial operations	**95.1**	**146.8**	**251.5**	**177.5**	**—**	**96.3**	**44.3**	**1.1**	**—**	**—**	**—**	**812.7**
150. Administrative expenses	—	—	—	—	(399.5)	—	—	—	—	(30.7)	—	(430.2)
160. Net transfers to provisions	—	—	—	—	3.0	—	—	—	—	(2.0)	—	1.0
170. Net adjustments to tangible assets	—	—	—	—	(3.5)	—	—	—	—	—	—	(3.5)
180. Net adjustments to intangible assets	—	—	—	—	(8.3)	—	—	—	—	—	—	(8.3)
190. Other operating income (expenses)	—	—	19.2	—	(6.5)		—	—	—	—	—	12.7
200. Operating costs	**—**	**—**	**19.2**	**—**	**(414.8)**	**—**	**—**	**—**	**—**	**(32.7)**	**—**	**(428.3)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(0.3)	—	—	(0.3)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**—**	**384.0**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(47.0)	(47.0)
270. Profit (loss) on ordinary activities after tax	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**(47.0)**	**337.0**
290 Net profit (loss) for the period	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**(47.0)**	**337.0**

* Reported at p. 307.

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 2017

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	813.1	—	—	—	—	—	—	—	—	—	—	813.1
20. Interest expense and similar cherges	(742.0)	—	—	—	—	—	—	—	—	—	—	(742.0)
30. Net interest income	**71.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**71.1**
40. Fee and commission income	5.4	4.8	208.9	—	—	—	—	—	—	—	—	219.1
50. Fee and commission expense	—	(4.3)	(12.6)	—	—	—	—	—	—	—	—	(16.9)
60. Net fee and commission income	**5.4**	**0.5**	**196.3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**202.2**
70. Dividend and similar income	—	81.0	—	162.2	—	—	—	—	—	—	—	243.2
80. Net trading income	(2.6)	44.0	—	—	—	—	—	—	—	—	—	41.4
90. Net hedging income (expense)	10.7	—	—	—	—	—	—	—	—	—	—	10.7
100. Gain (loss) on disposal/repurchase	—	(9.2)	—	—	—	161.6	—	—	—	—	—	152.4
120. Total income	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**—**	**—**	**—**	**—**	**—**	**721.0**
130. Adjustment for impairment	—	—	—	—	—	—	13.1	(4.1)		—	—	9.0
140. Net income from financial operations	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**13.1**	**(4.1)**	**—**	**—**	**—**	**730.0**
150. Administrative expenses	—	—	—	—	(334.0)	—	—	—	—	(62.8)	—	(396.8)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	15.0	—	15.0
170. Net adjustments to tangible assets	—	—	—	—	(3.5)	—	—	—	—	—	—	(3.5)
180. Net adjustments to intangible assets	—	—	—	—	(8.7)	—	—	—	—	—	—	(8.7)
190. Other operating income (expenses)	—		15.4	—	(2.2)		—	—	—	—	—	13.2
200. Operating costs	**—**	**—**	**15.4**	**—**	**(348.4)**	**—**	**—**	**—**	**—**	**(47.8)**	**—**	**(380.8)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(0.9)	—	—	(0.9)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**—**	**348.3**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(30.0)	(30.0)
270. Profit (loss) on ordinary activities after tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**
290 Net profit (loss) for the period	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**

Table A

Asset Revaluation Statement

(€)

Revalued assets	Original revaluation	Decrease due to disposal or writedown	Current revaluation
– property in Piazzetta Enrico Cuccia 1 (formerly Via Filodrammatici 6-8-10)			
revaluation effected under Law no. 576 of 2 december 1975	2,609,651.24	—	2,609,651.24
revaluation effected under Law no. 72 of 19 march 1983	11,620,280.23	—	11,620,280.23
revaluation effected under Law no. 413 of 30 december 1991	4,174,707.04	—	4,174,707.04
			18,404,638.51
– property in Piazza Paolo Ferrari 6			
revaluation effected under Law no. 72 of 19 march 1983	815,743.67	—	815,743.67
			815,743.67

Balance sheets and profit and loss accounts of investments in Group undertakings (including indirect investments)

Banks (IAS/IFRS)

Table B

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	2,597	60,798	1,430
20.	Financial assets held for trading	41,292	—	—
40.	AFS securities	469,719	103,273	1,728
60.	Due from banks	1,955,260	11,199,490	43,304
70.	Due from customers	1,287,103	8,424,473	11,274,655
80.	Hedging derivatives	1,030	27,542	—
100.	Equity investments	648	68	103,681
110.	Property, plant and equipment	16,936	5,528	13,739
120.	Intangible assets	10,615	18,457	354,198
	of which: goodwill	—	—	354,033
130.	Tax assets	—	37,554	463,896
	- Current	—	*4,720*	*16,100*
	- Advance	—	*32,834*	*447,796*
	- of which pursuant to Italian Law 214/11	—	*20,719*	436,917
150.	*Other assets*	21,530	281,199	146,834
	TOTAL ASSETS	**3,806,730**	**20,158,382**	**12,403,465**
	LIABILITIES			
10.	**Due to banks**	19,505	5,340,387	10,310,635
20.	Due to customers	2,983,543	14,162,996	22,979
40.	Financial liabilities	3,919	—	—
60.	Hedging derivatives	—	13,370	12,647
80.	Tax liabilities	—	7,765	32,908
	- Current	—	*2,180*	*30,182*
	- Deferred	—	*5,585*	*2,726*
100.	*Other liabilities*	20,556	211,987	171,317
110.	Staff severance indemnity provision	—	2,074	8,440
120.	Provisions	4,568	58,973	*9,741*
	- post-employment and similar benefits	—	—	—
	- other provisions	*4,568*	*58,973*	*9,741*
130.	*Valuation reserves*	(3,131)	(2,691)	(14,566)
140.	Redeemable shares	—	—	—
150.	Equity instruments (-)	—	—	—
160.	Reserves	627,146	(115,478)	1,009,034
170.	Share premium reserve	4,573	233,750	—
180.	Share capital	111,110	226,250	587,500
190.	Treasury shares (-)	—	—	—
200.	Profit (loss) for the period	34,941	18,999	252,830
	TOTAL LIABILITIES AND NET EQUITY	**3,806,730**	**20,158,382**	**12,403,465**

* Table compiled in accordante with the regulation provided under the Article 15 of CONSOB Market Regulation and Article 2, 6, 2 Italian stock exchange regulation (pro-forma, as at 30 June 2018, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
	(€/000)	**(€/000)**	**(€/000)**
10. Interest and similar income	41,924	324,762	969,756
20. Interest and similar expense	(6,896)	(115,582)	(163,583)
30. Net interest income	**35,028**	**209,180**	**806,173**
40. Fee and commission income	46,385	99,917	51,296
50. Fee and commission expense	(7,645)	(21,066)	(49,807)
60. Net fee and commission income	**38,740**	**78,851**	**1,489**
70. Dividends and similar income	5,014	55	7
80. Net trading income (expense)	9,559	578	—
90. Net hedging income (expense)	—	2,796	—
100. Gain (loss) on repurchase (disposal) of:	3,116	163	(11,080)
a) loans and advances	—	—	*(11,080)*
b) AFS securities	*3,116*	*163*	—
c) financial assets held to maturity	—	—	—
d) financial liabilities	—	—	—
110. Net income from financial assets and liabilities recognized at fair value	—	—	—
120. Total income	**91,457**	**291,623**	**796,589**
130. Value adjustments for impairment of:	288	(19,329)	(225,925)
a) loans and advances	*288*	*(16,521)*	*(225,924)*
b) AFS securities	—	*(2,808)*	—
c) financial assets held to maturity	—	—	—
d) other financial assets	—	—	*(1)*
140. Net income from financial operations	**91,745**	**272,294**	**570,664**
150. Administrative expenses	(53,309)	(268,999)	(294,871)
- labour costs	*(33,640)*	*(102,592)*	*(90,904)*
- other administrative expenses	*(19,669)*	*(166,407)*	*(203,967)*
160. Net transfers to provisions	101	(11,923)	(7,651)
170. Net adjustments on tangible assets	(2,052)	(989)	(2,044)
180. Net adjustments on intangible assets	(2,597)	(6,231)	(1,650)
190. Other operating incomes (expenses)	5,044	43,578	110,641
200. Operating costs	**(52,813)**	**(244,564)**	**(195,575)**
210. Gairn (loss) on equity investments	—	—	—
220. Net result of fair value recognition of tangible and intangible assets	—	—	—
230. Goodwill write-offs	—	—	—
240. Gain (loss) on disposal of investments	4	—	—
250. Profit (loss) on ordinary activity before tax	**38,936**	**27,730**	**375,089**
260. Income tax on ordinary activity	(3,995)	(8,731)	(122,259)
270. Profit (loss) on ordinary activity after tax	**34,941**	**18,999**	**252,830**
280. Gain (loss) on groups of assets being sold	—	—	—
290. Net profit (loss) for the period	**34,941**	**18,999**	**252,830**

* Table compiled in accordante with the regulation provided under the Article 15 of CONSOB Market Regulation and Article 2, 6, 2 Italian stock exchange regulation (pro-forma, as at 30 June 2018, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG)
		(€/000)
	ASSETS	
10.	Cash and cash equivalents	18,992
20.	Financial assets held for trading	22,426
50.	Financial assets held to maturity	10,001
60.	Due from banks	2,774,877
70.	Due from customers	4,090,381
80.	Hedging derivatives	1,689
100.	Equity investments	4,150
110.	Property, plant and equipment	11
120.	Intangible assets	—
130.	Tax assets	—
	- Current	—
	- Advance	—
	- of which pursuant to Italian Law 214/11	—
150.	Other assets	91,808
	TOTAL ASSETS	**7,014,335**
	LIABILITIES	
10.	Due to banks	2,180,326
20.	Due to customers	792,710
30.	Debt securities in issue	3,652,741
40.	Financial liabilities	19,050
60.	Hedging derivatives	11,122
80.	Tax liabilities	11,167
	- Current	*10,387*
	- Deferred	*780*
100.	Other liabilities	6,292
110.	Staff severance indemnity provision	—
120.	Provisions	—
	- post-employment and similar benefits	—
	- other provisions	—
130.	Valuation reserves	—
160.	Reserves	318,553
170.	Share premium reserve	—
190.	Treasury shares (-)	10,000
200.	Profit (loss) for the period	12,374
	TOTAL LIABILITIES AND NET EQUITY	**7,014,335**

PROFIT AND LOSS ACCOUNTS

	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
10. Interest and similar income	**92,596**
20. Interest and similar expense	(69,322)
30. Net interest income	**23,274**
40. Fee and commission income	19,376
50. Fee and commission expense	(14,135)
60. Net fee and commission income	**5,241**
70. Dividends and similar income	—
80. Net trading income (expense)	(2,060)
90. Net hedging income (expense)	(120)
100. Gain (loss) on repurchase (disposal) of:	(495)
a) loans and advances	*133*
b) AFS securities	—
c) financial assets held to maturity	—
d) financial liabilities	*(628)*
110. Net income from financial assets and liabilities recognized at fair value	—
120. Total income	**25,840**
130. Value adjustments for impairment of:	(170)
a) loans and advances	*(121)*
b) AFS securities	—
c) financial assets held to maturity	—
d) other financial assets	*(49)*
140. Net income from financial operations	**25,670**
150. Administrative expenses	(9,079)
- labour costs	*(1,576)*
- other administrative expenses	*(7,503)*
160. Net transfers to provisions	—
170. Net adjustments on tangible assets	(6)
180. Net adjustments on intangible assets	—
190. Other operating incomes (expenses)	196
200. Operating costs	**(8,889)**
210. Gairn (loss) on equity investments	—
240. Gain (loss) on disposal of investments	—
250. Profit (loss) on ordinary activity before tax	**16,781**
260. Income tax on ordinary activity	(4,407)
270. Profit (loss) on ordinary activity after tax	**12,374**
280. Gain (loss) on groups of assets being sold	—
290. Net profit (loss) for the period	**12,374**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
	ASSETS		
10.	Cash and cash equivalents	1	1
20.	Financial assets held for trading	—	—
30.	*Financial assets recognized at fair value*	—	—
40.	AFS securities	—	—
50.	Financial assets held to maturity	—	603
60.	Amounts receivables	1,699,424	294,947
70.	Hedging derivatives	750	—
90.	Equity investments	9	—
100.	Property, plant and equipment	25	171
110.	Intangible assets	97	547
120.	Tax assets	5,543	14,720
	- Current	*2,312*	*2,280*
	- Advance	*3,231*	*12,440*
	- of which pursuant to Italian Law 214/11	*1,752*	*11,578*
140.	Other assets	7,153	16,347
	TOTAL ASSETS	**1,713,002**	**327,336**
	LIABILITIES		
10.	Amounts payable	1,551,251	173,711
20.	Debt securities in issue	—	—
30.	Trading liabilities	—	—
40.	*Financial liabilities designated at fair value*	—	—
50.	Hedging derivatives	3,814	—
70.	Tax liabilities	3,880	2,423
	- Current	*3,690*	*2,423*
	- Deferred	*190*	—
90.	Other liabilities	22,162	10,323
100.	Staff severance indemnity provision	144	3,918
110.	Provisions	1,268	2,352
	- post-employment and similar benefits	—	—
	- other provisions	*1,268*	*2,352*
120.	Share capital	14,800	32,500
130.	Treasury shares (-)	—	—
140.	Equity instruments (-)	—	—
150.	Share premium reserve	—	—
160.	Reserves	95,072	85,370
170.	Valuation reserves	(1,799)	(446)
180.	Profit (loss) for the period	22,410	17,185
	TOTAL LIABILITIES AND NET EQUITY	**1,713,002**	**327,336**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
10.	Interest and similar income	87,852	30,131
20.	Interest and similar expense	(27,721)	(1,470)
	Net interest income	**60,131**	**28,661**
30.	Fee and commission income	1,956	26,769
40.	Fee and commission expense	(5,833)	(7,644)
	Net fee and commission income	**(3,877)**	**19,125**
50.	Dividends and similar income	—	—
60.	Net trading income (expense)	—	(24)
70.	Net hedging income (expense)	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—
	a) financial assets	—	—
	b) financial liabilities	—	—
	Total income	**56,254**	**47,762**
100.	Value adjustments for impairment of:	(4,877)	13,800
	a) financial assets	*(4,835)*	*13,800*
	b) other financial operations	*(42)*	—
110.	Administrative expenses	(15,808)	(35,920)
	- labour costs	*(4,907)*	*(13,682)*
	- other administrative expenses	*(10,901)*	*(22,238)*
120.	Net adjustments on tangible assets	(17)	(55)
130.	Net adjustments on intangible assets	(134)	(628)
140.	Net result of fair value recognition of tangible and intangible assets	—	—
150.	Net transfers to provisions	(335)	(181)
160.	Other operating incomes (expenses)	(1,751)	692
	Operating profit (loss)	**33,332**	**25,470**
170.	Gairn (loss) on equity investments	—	—
180.	Gain (loss) on disposal of investments	—	—
	Profit (loss) on ordinary activity before tax	**33,332**	**25,470**
190.	Income tax on ordinary activity	(10,922)	(8,285)
	Profit (loss) on ordinary activity after tax	**22,410**	**17,185**
200.	Gain (loss) on groups of assets being sold	—	—
	Net profit (loss) for the period	**22,410**	**17,185**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		SELMABIPIEMME LEASING (€/000)
	ASSETS	
10.	Cash and cash equivalents	6
20.	Financial assets held for trading	—
30.	Financial assets recognized at fair value	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	2,174,386
70.	Hedging derivatives	—
90.	Equity investments	3
100.	Property, plant and equipment	57,682
110.	Intangible assets	689
120.	Tax assets	37,055
	- Current	*1,360*
	- Advance	*35,695*
	- of which pursuant to Italian Law 214/11	*27,034*
140.	Other assets	54,713
	TOTAL ASSETS	**2,324,534**
	LIABILITIES	
10.	Amounts payable	2,051,693
20.	Debt securities in issue	—
30.	Trading liabilities	426
40.	Financial liabilities designated at fair value	—
50.	Hedging derivatives	11,707
70.	Tax liabilities	10,796
	- Current	*2,411*
	- Deferred	*8,385*
90.	Other liabilities	21,941
100.	Staff severance indemnity provision	2,048
110.	Provisions	9,400
	- post-employment and similar benefits	—
	- other provisions	*9,400*
120.	Share capital	41,305
130.	Treasury shares (-)	—
140.	Equity instruments (-)	—
150.	Share premium reserve	4,620
160.	Reserves	169,944
170.	Valuation reserves	(7,438)
180.	Profit (loss) for the period	8,092
	TOTAL LIABILITIES AND NET EQUITY	**2,324,534**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		SELMABIPIEMME LEASING
		(€/000)
10.	Interest and similar income	57,723
20.	Interest and similar expense	(12,342)
	Net interest income	**45,381**
30.	Fee and commission income	1,400
40.	Fee and commission expense	(1,276)
	Net fee and commission income	**124**
50.	Dividends and similar income	—
60.	Net trading income (expense)	68
70.	Net hedging income (expense)	(84)
80.	Net income from financial assets and liabilities recognized at fair value	—
90.	Gain (loss) on repurchase (disposal) of:	—
	a) financial assets	—
	b) financial liabilities	—
	Total income	**45,489**
100.	Value adjustments for impairment of:	(7,282)
	a) financial assets	*(7,282)*
	b) other financial operations	—
110.	Administrative expenses	(22,752)
	a) labour costs	*(13,799)*
	b) other administrative expenses	*(8,953)*
120.	Net adjustments on tangible assets	(1,820)
130.	Net adjustments on intangible assets	(3)
140.	Net result of fair value recognition of tangible and intangible assets	—
150.	Net transfers to provisions	(7,119)
160.	Other operating incomes (expenses)	5,063
	Operating profit (loss)	**11,576**
170.	Gairn (loss) on equity investments	(10)
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**11,566**
190.	Income tax on ordinary activity	(3,474)
	Profit (loss) on ordinary activity after tax	**8,092**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**8,092**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

	PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. *
	(€/000)	(€/000)	(€/000)	(£/000)	(£/000)
ASSETS					
10. Cash and cash equivalents	—	—	208	—	—
20. Financial assets held for trading	—	—	—	—	—
30. Financial assets recognized at fair value	—	—	—	—	—
40. AFS securities	—	—	—	1,761	—
50. Financial assets held to maturity	—	—	—	—	—
60. Amounts receivables	771	131	310,062	1,532	1,342
70. Hedging derivatives	—	—	—	—	—
90. Equity investments	—	—	—	—	—
100. Property, plant and equipment	—	1,776	—	189	1
110. Intangible assets	—	—	—	—	—
120. Tax assets	72	8	1	203	—
- Current	*72*	*8*	—	*203*	—
- Advance	—	—	*1*	—	—
- of which pursuant to Italian Law 214/11	—	—	—	—	—
140. Other assets	30	12	283	8,009	—
TOTAL ASSETS	**873**	**1,927**	**310,554**	**11,694**	**1,343**
LIABILITIES					
10. Amounts payable	2,802	173	—	1,000	—
20. Debt securities in issue	—	—	310,062	—	—
30. Trading liabilities	—	—	—	40	—
40. Financial liabilities designated at fair value	—	—	—	—	—
50. Hedging derivatives	—	—	—	—	—
70. Tax liabilities	1	3	5	1,143	—
- Current	*1*	*3*	*5*	*979*	—
- Deferred	—	—	—	*164*	—
80. Passività associate ad attività in via di dismissione	—	—	—	—	—
90. Other liabilities	2,129	6	56	740	105
100. Staff severance indemnity provision	—	—	—	—	—
110. Provisions	—	—	—	—	—
- post-employment and similar benefits	—	—	—	—	—
- other provisions	—	—	—	—	—
120. Share capital	743	40	431	—	3,000
130. Treasury shares (-)	—	—	—	—	—
140. Equity instruments (-)	—	—	—	—	—
150. Share premium reserve	—	—	—	5,000	—
160. Reserves	(3,741)	1,650	—	4,596	(1,648)
170. Valuation reserves	—	—	—	144	—
180. Profit (loss) for the period	(1,061)	55	—	(969)	(114)
TOTAL LIABILITIES AND NET EQUITY	**873**	**1,927**	**310,554**	**11,694**	**1,343**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. *
	(€/000)	(€/000)	(€/000)	(£/000)	(£/000)
10. Interest and similar income	—	—	2,627	7	—
20. Interest and similar expense	(16)	(11)	(2,627)	—	—
Net interest income	**(16)**	**(11)**	**—**	**7**	**—**
30. Fee and commission income	151	—	—	17,328	—
40. Fee and commission expense	(82)	(5)	—	—	—
Net fee and commission income	**69**	**(5)**	**—**	**17,328**	**—**
50. Dividends and similar income	—	—	—	145	—
60. Net trading income (expense)	—	—	—	(53)	—
70. Net hedging income (expense)	—	—	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—	—	—
a) financial assets	—	—	—	—	—
b) financial liabilities	—	—	—	—	—
Total income	**53**	**(16)**	**—**	**17,427**	**—**
100. Value adjustments for impairment of:	—	—	—	(2)	—
a) financial assets	—	—	—	—	—
b) other financial operations	—	—	—	*(2)*	—
110. Administrative expenses	(1,189)	(12)	(206)	(18,415)	(95)
a) labour costs	*(649)*	—	—	*(11,434)*	—
b) other administrative expenses	*(540)*	*(12)*	*(206)*	*(6,981)*	*(95)*
120. Net adjustments on tangible assets	—	(79)	—	(130)	(11)
130. Net adjustments on intangible assets	—	—	—	—	(16)
140. Net result of fair value recognition of tangible and intangible assets	—	—		—	—
150. Net transfers to provisions	—	—		—	—
160. Other operating incomes (expenses)	75	164	211	(13)	8
Operating profit (loss)	**(1,061)**	**57**	**5**	**(1,133)**	**(114)**
170. Gairn (loss) on equity investments	—	—	—	—	—
180. Gain (loss) on disposal of investments	—	—	—	—	—
Profit (loss) on ordinary activity before tax	**(1,061)**	**57**	**5**	**(1,133)**	**(114)**
190. Income tax on ordinary activity	—	(2)	(5)	164	—
Profit (loss) on ordinary activity after tax	**(1,061)**	**55**	**—**	**(969)**	**(114)**
200. Gain (loss) on groups of assets being sold	—	—	—	—	—
Net profit (loss) for the period	**(1,061)**	**55**	**—**	**(969)**	**(114)**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE GESTION *	RAM ACTIVE INVESTMENTS S.A. *	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. *
		(€/000)	(CHF/000)	(CHF/000)
	ASSETS			
10.	Cash and cash equivalents	—	—	—
20.	Financial assets held for trading	—	326	—
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	405	—	—
50.	Financial assets held to maturity	—	—	—
60.	Amounts receivables	7,764	2,478	2,487
70.	Hedging derivatives	—	—	—
90.	Equity investments	—	793	—
100.	Property, plant and equipment	—	136	—
110.	Intangible assets	—	42	—
120.	Tax assets	—	1,739	—
	- Current	—	*1,545*	—
	- Advance	—	*194*	—
	- of which pursuant to Italian Law 214/11	—	—	—
140.	Other assets	3,372	17,117	5,205
	TOTAL ASSETS	**11,541**	**22,631**	**7,692**
	LIABILITIES			
10.	Amounts payable	—	—	—
20.	Debt securities in issue	—	—	—
30.	Trading liabilities	—	—	—
40.	*Financial liabilities designated at fair value*	—	—	—
50.	Hedging derivatives	—	—	—
70.	Tax liabilities	—	194	*1,407*
	- Current	—	*194*	1,407
	- Deferred	—	—	—
80.	Passività associate ad attività in via di dismissione	—	—	—
90.	Other liabilities	9,712	9,950	3,957
100.	Staff severance indemnity provision	—	—	—
110.	Provisions	—	—	—
	- post-employment and similar benefits	—	—	—
	- other provisions	—	—	—
120.	Share capital	600	1,000	782
130.	Treasury shares (-)	—	(4,198)	—
140.	Equity instruments (-)	—	500	—
150.	Share premium reserve	—	—	—
160.	Reserves	(2,293)	9,567	853
170.	Valuation reserves	5	—	(34)
180.	Profit (loss) for the period	3,517	5,618	727
	TOTAL LIABILITIES AND NET EQUITY	**11,541**	**22,631**	**7,692**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

PROFIT AND LOSS ACCOUNTS

		COMPAGNIE MONEGASQUE DE GESTION (*)	RAM ACTIVE INVESTMENTS S.A. (*)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. (*)
		(€/000)	**(CHF/000)**	**(CHF/000)**
10.	Interest and similar income	—	—	—
20.	Interest and similar expense	(2)	(7)	(7)
	Net interest income	**(2)**	**(7)**	**(7)**
30.	Fee and commission income	15,166	19,878	5,022
40.	Fee and commission expense	(7,110)	(3,528)	(3,195)
	Net fee and commission income	**8,056**	**16,350**	**1,827**
50.	Dividends and similar income	—	—	—
60.	Net trading income (expense)	—	(76)	8
70.	Net hedging income (expense)	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—	—
	a) financial assets	—	—	—
	b) financial liabilities	—	—	—
	Total income	**8,054**	**16,267**	**1,828**
100.	Value adjustments for impairment of:	—	—	—
	a) financial assets	—	—	—
	b) other financial operations	—	—	—
110.	Administrative expenses	(2,779)	(8,777)	(809)
	a) labour costs	*(2,026)*	*(6,952)*	*(542)*
	b) other administrative expenses	*(753)*	*(1,825)*	*(267)*
120.	Net adjustments on tangible assets	—	(13)	(2)
130.	Net adjustments on intangible assets	—	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—	—
150.	Net transfers to provisions	—	—	—
160.	Other operating incomes (expenses)	—	13	—
	Operating profit (loss)	**5,275**	**7,490**	**1,017**
170.	Gairn (loss) on equity investments	—	—	—
180.	Gain (loss) on disposal of investments	—	—	—
	Profit (loss) on ordinary activity before tax	**5,275**	**7,490**	**1,017**
190.	Income tax on ordinary activity	(1,758)	(1,872)	(290)
	Profit (loss) on ordinary activity after tax	**3,517**	**5,618**	**727**
200.	Gain (loss) on groups of assets being sold	—	—	—
	Net profit (loss) for the period	**3,517**	**5,618**	**727**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	1	4	1
20.	Financial assets held for trading	—	—	—
40.	AFS securities	—	—	—
50.	Financial assets held to maturity	—	2	—
60.	Amounts receivables	1,872,692	22,099	871
70.	Hedging derivatives	—	—	—
90.	Equity investments	—	20,973	—
100.	Property, plant and equipment	20	22	—
110.	Intangible assets	—	7,657	74
120.	Tax assets	772	1,576	99
	- Current	*767*	*508*	—
	- Advance	*5*	*1,068*	*99*
	- of which pursuant to Italian Law 214/11	—	—	—
140.	Other assets	263	4,138	34
	TOTAL ASSETS	**1,873,748**	**56,471**	**1,079**
	LIABILITIES			
10.	Amounts payable	1,728,886	7	—
20.	Debt securities in issue	—	—	—
30.	Trading liabilities	—	—	—
40.	Financial liabilities designated at fair value	—	—	—
70.	Tax liabilities	4,219	—	22
	- Current	*4,207*	—	*22*
	- Deferred	*12*	—	—
90.	Other liabilities	4,317	6,204	344
100.	Staff severance indemnity provision	163	913	42
110.	Provisions	50	—	—
	- post-employment and similar benefits	—	—	
	- other provisions	*50*	—	
120.	Share capital	120,000	6,100	1,000
150.	Share premium reserve	—	3,500	—
160.	Reserves	2,627	39,382	(271)
170.	Valuation reserves	(14)	(74)	—
180.	Profit (loss) for the period	13,500	439	(58)
	TOTAL LIABILITIES AND NET EQUITY	**1,873,748**	**56,471**	**1,079**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
10.	Interest and similar income	41,384	122	—
20.	Interest and similar expense	(2,406)	—	—
	Net interest income	**38,978**	**122**	**—**
30.	Fee and commission income	5,786	9,935	1,324
40.	Fee and commission expense	(1,824)	(1,276)	—
	Net fee and commission income	**3,962**	**8,659**	**1324**
50.	Dividends and similar income	—	—	—
60.	Net trading income (expense)	(16)	—	—
70.	Net hedging income (expense)	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	(9)	—
	a) financial assets	—	*(9)*	—
	b) financial liabilities	—	—	—
	Total income	**42,924**	**8,772**	**1324**
100.	Value adjustments for impairment of:	(15,177)	(293)	—
	a) financial assets	*(15,177)*	*(293)*	—
	b) other financial operations	—	—	—
	Net income from financial operations	**27,747**	**8,479**	**1324**
110.	Administrative expenses	(7,942)	(8,748)	(1,337)
	a) labour costs	*(2,672)*	*(5,563)*	*(978)*
	b) other administrative expenses	*(5,270)*	*(3,185)*	*(359)*
120.	Net adjustments on tangible assets	(7)	(9)	—
130.	Net adjustments on intangible assets	—	(263)	(18)
150.	Net transfers to provisions	34	—	—
160.	Other operating incomes (expenses)	**200**	**1,170**	**—**
	Operating profit (loss)	**20,032**	**629**	**(31)**
170.	Gairn (loss) on equity investments	**—**	**—**	**—**
	Profit (loss) on ordinary activity before tax	**20,032**	**629**	**(31)**
190.	Income tax on ordinary activity	**(6,532)**	**(190)**	**(27)**
	Profit (loss) on ordinary activity after tax	**13,500**	**439**	**(58)**
200.	Gain (loss) on groups of assets being sold	—	—	—
	Net profit (loss) for the period	**13,500**	**439**	**(58)**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MEDIOBANCA SGR S.p.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	2
20.	Financial assets held for trading	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	22,778
	a) for asset management	*7,564*
	b) other receivables	*15,214*
70.	Hedging derivatives	—
90.	Equity investments	—
100.	Property, plant and equipment	4
110.	Intangible assets	—
120.	Tax assets	70
	- Current	—
	- Advance	*70*
	- of which pursuant to Italian Law 214/11	*62*
140.	Other assets	8,751
	TOTAL ASSETS	**31,605**
	LIABILITIES	
10.	Amounts payable	1,632
20.	Debt securities in issue	—
30.	Trading liabilities	—
40.	Financial liabilities designated at fair value	—
70.	Tax liabilities	1,062
	- Current	*1,036*
	- Deferred	*26*
90.	Other liabilities	4,093
100.	Staff severance indemnity provision	408
110.	Provisions	297
	- post-employment and similar benefits	—
	- other provisions	*297*
120.	Share capital	10,330
160.	Reserves	9,348
170.	Valuation reserves	2
180.	Profit (loss) for the period	4,433
	TOTAL LIABILITIES AND NET EQUITY	**31,605**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MEDIOBANCA SGR S.p.A.
		(€/000)
10.	Fee and commission income	19,304
20.	Fee and commission expense	(1,744)
	Net fee and commission income	**17,560**
40.	Interest and similar income	—
50.	Interest and similar expense	—
	Total income	**17,560**
100.	Value adjustments for impairment of:	—
	a) financial assets	—
	b) other financial operations	—
110.	Administrative expenses	(11,132)
	- labour costs	*(6,561)*
	- other administrative expenses	*(4,571)*
120.	Net adjustments on tangible assets	(14)
130.	Net adjustments on intangible assets	(13)
160.	Other operating incomes (expenses)	105
	Risultato della gestione operativa	**6,506**
170.	Gairn (loss) on equity investments	—
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**6,506**
190.	Income tax on ordinary activity	(2,073)
	Profit (loss) on ordinary activity after tax	**4,433**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**4,433**

Other financial companies (IAS/IFRS)

BALANCE SHEETS

	MEDIOBANCA COVERED BOND	QUARZO	QUARZO CQS	QUARZO MB
	(€/000)	(€/000)	(€/000)	(€/000)
ASSETS				
10. Cash and cash equivalents	—	—	—	—
20. Financial assets held for trading	—	—	—	—
40. AFS securities	—	—	—	—
50. Financial assets held to maturity	—	—	—	—
60. Amounts receivables	100	10	10	52
70. Hedging derivatives	—	—	—	—
90. Equity investments	—	—	—	—
100. Property, plant and equipment	—	—	—	—
110. Intangible assets	—	—	—	—
120. Tax assets	—	—	—	—
- Current	—	—	—	—
- Advance	—	—	—	—
- of which pursuant to Italian Law 214/11	—	—	—	—
140. Other assets	375	466	328	—
TOTAL ASSETS	**475**	**476**	**338**	**52**
LIABILITIES				
10. Amounts payable	—	—	—	—
20. Debt securities in issue	—	—	—	—
30. Trading liabilities	—	—	—	—
40. *Financial liabilities designated at fair value*	—	—	—	—
50. Hedging derivatives	—	—	—	—
70. Tax liabilities	—	—	—	—
- Current	—	—	—	—
- Deferred	—	—	—	—
90. Other liabilities	399	463	328	48
100. Staff severance indemnity provision	—	—	—	—
110. Provisions	—	—	—	—
120. Share capital	100	10	10	30
160. Reserves	(24)	3	—	—
170. Valuation reserves	—	—	—	—
180. Profit (loss) for the period	—	—	—	(26)
TOTAL LIABILITIES AND NET EQUITY	**475**	**476**	**338**	**52**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	MEDIOBANCA COVERED BOND (€/000)	QUARZO (€/000)	QUARZO CQS (€/000)	QUARZO MB (€/000)
10. Interest and similar income	—	—	—	—
20. Interest and similar expense	—	—	—	—
Net interest income	**—**	**—**	**—**	**—**
30. Fee and commission income	—	—	—	—
40. Fee and commission expense	—	—	—	—
Net fee and commission income	**—**	**—**	**—**	**—**
50. Dividends and similar income	—	—	—	—
60. Net trading income (expense)	—	—	—	—
70. Net hedging income (expense)	—	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—	—
a) financial assets	—	—	—	—
b) financial liabilities	—	—	—	—
Total income	**—**	**—**	**—**	**—**
100. Value adjustments for impairment of:	—	—	—	—
a) financial assets	—	—	—	—
b) other financial operations	—	—	—	—
110. Administrative expenses	(75)	(148)	(85)	(25)
a) labour costs	—	*(13)*	*(10)*	*(9)*
b) other administrative expenses	*(75)*	*(135)*	*(75)*	*(16)*
120. Net adjustments on tangible assets	—	—	—	—
130. Net adjustments on intangible assets	—	—	—	—
150. Net transfers to provisions	—	—	—	—
160. Other operating incomes (expenses)	75	148	85	(1)
Operating profit (loss)	**—**	**—**	**—**	**(26)**
Profit (loss) on ordinary activity before tax	**—**	**—**	**—**	**(26)**
190. Income tax on ordinary activity	—	—	—	—
Profit (loss) on ordinary activity after tax	**—**	**—**	**—**	**(26)**
200. Gain (loss) on groups of assets being sold	—	—	—	—
Net profit (loss) for the period	**—**	**—**	**—**	**(26)**

Banks

continued **Table B**

BALANCE SHEETS

		COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2017
		(€/000)
	ASSETS	
10.	Cash and cash equivalents	32,423
20.	Financial assets held for trading	35,682
30.	Financial assets recognized at fair value	—
40.	AFS securities	525,166
50.	Financial assets held to maturity	—
60.	Due from banks	2,328,515
70.	Due from customers	1,201,489
80.	Hedging derivatives	—
100.	Equity investments	7,921
110.	Property, plant and equipment	226,209
120.	Intangible assets	8,122
130.	Tax assets	—
	- Current	—
	- Advance	—
140.	Non current assets and groups of assets being sold	—
150.	Other assets	17,382
	TOTAL ASSETS	**4,382,909**
	LIABILITIES	
10.	Due to banks	9,450
20.	Due to customers	3,358,875
30.	Debt securities in issue	—
40.	Financial liabilities	—
50.	Financial liabilities designated at fair value	—
60.	Hedging derivatives	—
80.	Tax liabilities	—
	- Current	—
	- Deferred	—
90.	Liabilities associated with assets being sold	—
100.	Other liabilities	47,809
110.	Staff severance indemnity provision	—
120.	Provisions	25,936
	- post-employment and similar benefits	—
	- other provisions	*25,936*
130.	Valuation reserves	—
140.	Redeemable shares	—
150.	Equity instruments (-)	—
160.	Reserves	811,523
170.	Share premium reserve	4,573
180.	Share capital	111,110
190.	Treasury shares (-)	—
200.	Profit (loss) for the period	13,633
	TOTAL LIABILITIES AND NET EQUITY	**4,382,909**

PROFIT AND LOSS ACCOUNTS

		COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2017 (€/000)
10.	Interest and similar income	33,599
20.	Interest and similar expense	(9,341)
30.	**Net interest income**	**24,258**
40.	Fee and commission income	51,809
50.	Fee and commission expense	(3,687)
60.	**Net fee and commission income**	**48,122**
70.	Dividends and similar income	1,014
80.	Net trading income (expense)	14,043
90.	Net hedging income (expense)	—
100.	Gain (loss) on repurchase (disposal) of:	5,629
	a) loans and advances	*5,629*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) financial liabilities	—
110.	Net income from financial assets and liabilities recognized at fair value	—
120.	**Total income**	**93,066**
130.	Value adjustments for impairment of:	(207)
	a) loans and advances	*(207)*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) other financial assets	—
140.	**Net income from financial operations**	**93,273**
150.	Administrative expenses	(46,371)
	- labour costs	*(29,698)*
	- other administrative expenses	*(16,673)*
160.	Net transfers to provisions	2,250
170.	Net adjustments on tangible assets	(6,163)
180.	Net adjustments on intangible assets	(19,052)
190.	Other operating incomes (expenses)	(3,866)
200.	**Operating costs**	**(73,202)**
210.	Gairn (loss) on equity investments	(548)
220.	Net result of fair value recognition of tangible and intangible assets	—
230.	Goodwill write-offs	—
240.	Gain (loss) on disposal of investments	—
250.	**Profit (loss) on ordinary activity before tax**	**19,523**
260.	Income tax on ordinary activity	(5,890)
270.	**Profit (loss) on ordinary activity after tax**	**13,633**
280.	Gain (loss) on groups of assets being sold	—
290.	**Net profit (loss) for the period**	**13,633**

Financial companies

BALANCE SHEETS

	MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
ASSETS		
10. Cash and cash equivalents	1	6,069
20. Financial assets held for trading	260	—
30. Financial assets recognized at fair value	—	—
40. AFS securities	—	—
50. Financial assets held to maturity	—	—
60. Amounts receivables	4,272	273
70. Hedging derivatives	—	—
90. Equity investments	—	—
100. Property, plant and equipment	23	56
110. Intangible assets	—	—
120. Tax assets	880	262
140. Other assets	148	49
TOTAL ASSETS	**5,584**	**6,709**
LIABILITIES		
10. Amounts payable	134	—
20. Debt securities in issue	14	—
30. Trading liabilities	—	—
40. Financial liabilities designated at fair value	—	—
50. Hedging derivatives	—	—
70. Tax liabilities	327	—
90. Other liabilities	30	1,205
100. Staff severance indemnity provision	—	—
110. Provisions	—	—
120. Share capital	22,040	2,250
160. Reserves	(12,156)	2,401
180. Profit (loss) for the period	(4,805)	853
TOTAL LIABILITIES AND NET EQUITY	**5,584**	**6,709**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
10.	Interest and similar income	684	—
20.	Interest and similar expense	—	—
	Net interest income	**684**	**—**
30.	Fee and commission income	216	4,229
40.	Fee and commission expense	—	—
	Net fee and commission income	**216**	**4,229**
50.	Dividends and similar income	—	—
60.	Net trading income (expense)	—	—
70.	Net hedging income (expense)	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—
	a) financial assets	—	—
	b) financial liabilities	—	—
	Total income	**900**	**4,229**
100.	Value adjustments for impairment of:	—	—
	a) financial assets	—	—
	b) other financial operations	—	—
110.	Administrative expenses	(5,754)	(2,706)
	a) labour costs	*(4,095)*	*(1,657)*
	b) other administrative expenses	*(1,659)*	*(1,049)*
120.	Net adjustments on tangible assets	(11)	—
130.	Net adjustments on intangible assets	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—
150.	Net transfers to provisions	—	—
160.	Other operating incomes (expenses)	60	—
	Operating profit (loss)	**(4,805)**	**1,523**
170.	Gairn (loss) on equity investments	—	—
180.	Gain (loss) on disposal of investments	—	—
	Profit (loss) on ordinary activity before tax	**(4,805)**	**1,523**
190.	Income tax on ordinary activity	—	(670)
	Profit (loss) on ordinary activity after tax	**(4,805)**	**853**
200.	Gain (loss) on groups of assets being sold	—	—
	Net profit (loss) for the period	**(4,805)**	**853**

BALANCE SHEETS

	SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2017 (€/000)	CMB ASSET MANAGEMENT S.A.M. 31.12.2017 (€/000)	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2017 (€/000)
ASSETS			
10. Cash and cash equivalents	493	728	7,072
20. Financial assets held for trading	—	—	—
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	—	—	399
50. Financial assets held to maturity	—	—	—
60. Amounts receivables	—	—	—
70. Hedging derivatives	—	—	—
90. Equity investments	—	—	—
100. Property, plant and equipment	—	—	—
110. Intangible assets	—	—	—
120. Tax assets	437	193	—
- Current	*437*	*193*	—
- Advance	—	—	—
140. Other assets	15	—	5,781
TOTAL ASSETS	**945**	**921**	**13,252**
LIABILITIES			
10. Amounts payable	—	—	—
20. Debt securities in issue	—	—	—
30. Trading liabilities	—	—	—
40. Financial liabilities designated at fair value	—	—	—
50. Hedging derivatives	—	—	—
70. Tax liabilities	—	96	1,554
- Current	—	*96*	*1,554*
- Deferred	—	—	—
80. Passività associate ad attività in via di dismissione	—	—	—
90. Other liabilities	42	602	6,739
100. Staff severance indemnity provision	—	—	—
110. Provisions	—	—	—
- post-employment and similar benefits	—	—	—
- other provisions	—	—	—
120. Share capital	775	150	600
130. Treasury shares (-)	—	—	—
140. Equity instruments (-)	—	—	—
150. Share premium reserve	—	—	—
160. Reserves	(276)	66	283
170. Valuation reserves	—	—	—
180. Profit (loss) for the period	404	7	4,076
TOTAL LIABILITIES AND NET EQUITY	**945**	**921**	**13,252**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2017	CMB ASSET MANAGEMENT S.A.M. 31.12.2017	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2017
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	4
20. Interest and similar expense	—	—	(3)
Net interest income	**—**	**—**	**1**
30. Fee and commission income	—	2,984	15,381
40. Fee and commission expense	—	—	—
Net fee and commission income	**—**	**2,984**	**15,381**
50. Dividends and similar income	—	—	—
60. Net trading income (expense)	—	—	
70. Net hedging income (expense)	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—
a) financial assets	—	—	—
b) financial liabilities	—	—	—
Total income	**—**	**2,984**	**15,382**
100. Value adjustments for impairment of:	—	—	—
a) financial assets	—	—	—
b) other financial operations	—	—	—
110. Administrative expenses	(1,040)	(2,972)	(9,271)
a) labour costs	—	*(2,723)*	*(1,528)*
b) other administrative expenses	*(1,040)*	*(249)*	*(7,743)*
120. Net adjustments on tangible assets	—	—	—
130. Net adjustments on intangible assets	—	—	—
140. Net result of fair value recognition of tangible and intangible assets	—	—	—
150. Net transfers to provisions	—	—	—
160. Other operating incomes (expenses)	1,444	(1)	3
Operating profit (loss)	**404**	**11**	**6,114**
170. Gairn (loss) on equity investments	—	—	—
180. Gain (loss) on disposal of investments	—	—	—
Profit (loss) on ordinary activity before tax	**404**	**11**	**6,114**
190. Income tax on ordinary activity	—	(4)	(2,038)
Profit (loss) on ordinary activity after tax	**404**	**7**	**4,076**
200. Gain (loss) on groups of assets being sold	—	—	—
Net profit (loss) for the period	**404**	**7**	**4,076**

Financial companies

continued **Table B**

BALANCE SHEETS

	CAIRN CAPITAL GROUP LTD 31.12.2017 (£/000)	CAIRN CAPITAL LTD 31.12.2017 (£/000)
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	200	—
Equity interests	3,651	—
Total non-current assets	**3,851**	**—**
Current assets		
Trade receivables	5,498	8,852
Cash and liquid assets	3,056	3,120
Financial assets/liabilities	—	—
Total current assets	8,554	11,972
TOTAL ASSETS	**12,405**	**11,972**
LIABILITIES		
Share capital	—	1,200
Share premium reserve	5,000	—
Legal reserve	—	—
Other reserves	—	—
Gains (losses) carried forward	236	2,926
Gain (loss) for the period	(83)	1,010
Total net equity	**5,153**	**5,136**
Trade payable	7,084	5,836
Financial liabilities	—	1,000
Provisions	168	—
Total current liabilities	**7,252**	**6,836**
TOTAL LIABILITIES AND NET EQUITY	**12,405**	**11,972**

PROFIT AND LOSS ACCOUNTS

	CAIRN CAPITAL GROUP LTD 31.12.2017 (£/000)	CAIRN CAPITAL LTD 31.12.2017 (£/000)
Commission income	1,723	19,116
Dividends and similar income	146	—
Revenues	**1,869**	**19,116**
Administrative expenses	(1,981)	(17,918)
a) personnel costs	*(1,526)*	—
b) other administrative expenses	*(447)*	*(17,847)*
Other operating gains and losses	(72)	142
Net adjustments to tangible assets	(7)	(71)
Operating result	**(184)**	**1,340**
Interest and similar income	117	3
Interest expense and similar charges	—	(100)
Gain (loss) for the period before tax	**(67)**	**1,243**
Income tax	(16)	(233)
Gain (loss) for the period after tax	**(83)**	**1,010**

Financial companies

BALANCE SHEETS

	RAM ACTIVE INVESTMENTS S.A. 31.12.2017 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31.12.2017 (CHF/000)
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	68	3
Equity interests	16,373	—
Total non-current assets	**16,441**	**3**
Current assets		
Trade receivables	23,104	3,775
Cash and liquid assets	21,109	—
Financial assets/liabilities	1,947	5,338
Total current assets	**46,160**	**9,113**
TOTAL ASSETS	**62,601**	**9,116**
LIABILITIES		
Share capital	1,000	782
Share premium reserve	500	—
Treasury shares	(4,448)	—
Revaluation reserve	—	(34)
Legal reserve	—	120
Other reserves	—	420
Gains (losses) carried forward	12,930	9
Gain (loss) for the period	24,950	1,023
Total net equity	**34,932**	**2,320**
Trade payable	3,116	1,903
Financial liabilities	—	3,317
Provisions	3,560	—
Other liabilities	20,993	1,576
Total current liabilities	**27,669**	**6,796**
TOTAL LIABILITIES AND NET EQUITY	**62,601**	**9,116**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	RAM ACTIVE INVESTMENTS S.A. 31.12.2017	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31.12.2017
	(CHF/000)	(CHF/000)
Revenues	60,393	14,116
Personnel costs	(27,306)	(1,243)
Other administrative expenses	(5,925)	(11,546)
Operating result	**27,162**	**1,327**
Net adjustments to tangible assets	(39)	(48)
Interest and similar income	4,905	179
Interest expense and similar charges	(467)	(10)
Non-operational income	122	7
Extraordinary costs	—	(27)
Gain (loss) for the period before tax	**31,683**	**1,428**
Income tax	(6,733)	(405)
Gain (loss) for the period after tax	**24,950**	**1,023**

BALANCE SHEETS

		CMB WEALTH MANAGEMENT LTD. 31.12.2017 (£/000)
	ASSETS	
10.	Cash and cash equivalents	1,358
20.	Financial assets held for trading	—
30.	Financial assets recognized at fair value	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	—
70.	Hedging derivatives	—
90.	Equity investments	—
100.	Property, plant and equipment	14
110.	Intangible assets	—
120.	Tax assets	—
	- *Current*	—
	- *Advance*	—
140.	Other assets	7
	TOTAL ASSETS	**1,379**
	LIABILITIES	
10.	Amounts payable	1
20.	Debt securities in issue	—
30.	Trading liabilities	—
40.	*Financial liabilities designated at fair value*	—
50.	Hedging derivatives	—
70.	Tax liabilities	—
	- *Current*	—
	- *Deferred*	—
80.	Passività associate ad attività in via di dismissione	—
90.	Other liabilities	83
100.	Staff severance indemnity provision	—
110.	Provisions	—
	- *post-employment and similar benefits*	—
	- *other provisions*	—
120.	Share capital	3,000
130.	Treasury shares (-)	—
140.	Equity instruments (-)	—
150.	Share premium reserve	—
160.	Reserves	(1,605)
170.	Valuation reserves	—
180.	Profit (loss) for the period	(100)
	TOTAL LIABILITIES AND NET EQUITY	**1,379**

Financial companies

PROFIT AND LOSS ACCOUNTS

		CMB WEALTH MANAGEMENT LTD. 31.12.2017 (£/000)
10.	Interest and similar income	8
20.	Interest and similar expense	—
	Net interest income	**8**
30.	Fee and commission income	21
40.	Fee and commission expense	—
	Net fee and commission income	**21**
50.	Dividends and similar income	—
60.	Net trading income (expense)	—
70.	Net hedging income (expense)	—
80.	Net income from financial assets and liabilities recognized at fair value	
90.	Gain (loss) on repurchase (disposal) of:	—
	a) financial assets	—
	b) financial liabilities	—
	Total income	**29**
100.	Value adjustments for impairment of:	—
	a) financial assets	—
	b) other financial operations	—
110.	Administrative expenses	(129)
	- labour costs	—
	- other administrative expenses	*(129)*
120.	Net adjustments on tangible assets	—
130.	Net adjustments on intangible assets	—
140.	Net result of fair value recognition of tangible and intangible assets	—
150.	Net transfers to provisions	—
160.	Other operating incomes (expenses)	—
	Operating profit (loss)	**(100)**
170.	Gairn (loss) on equity investments	—
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**(100)**
190.	Income tax on ordinary activity	—
	Profit (loss) on ordinary activity after tax	**(100)**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**(100)**

Non-financial undertakings

continued **Table B**

BALANCE SHEETS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
ASSETS					
Non-current assets					
Intangible assets	—	19,390	12,714	—	5
Tangible assets	—	33,755	65	—	6
Other non-current financial assets	—	—	—	—	—
Advance tax assets	—	250	—	—	—
Total non-current assets	**—**	**53,395**	**12,779**	**—**	**11**
Current assets					
Trade receivables	14	—	—	—	—
Other receivables	8	5,875	11,324	557	7,563
Sundry receivables and other current assets	490	22,846	726	8	29
Curret tax assets	—	573	—	100	—
Other current financial assets	—	—	—	—	—
Cash and liquid assets	845	39	4,335	864	7,909
Total current assets	**1,357**	**29,333**	**16,385**	**1,529**	**15,501**
TOTAL ASSETS	**1,357**	**82,728**	**29,164**	**1,529**	**15,512**
LIABILITIES					
Shareholders' equity					
Share capital	100	35,000	14,500	500	500
Reserves	—	—	—	—	1,235
Share premium reserve	—	—	4,495	—	—
Gains (losses) carried forward	—	2,531	(213)	672	1,065
Legal reserve	3	—	33	44	50
Gain (loss) for the period	—	2	(1,708)	110	2,996
Total shareholders' equity	**103**	**37,533**	**17,107**	**1,326**	**5,846**
Non-current liabilities					
Provisions	—	450	—	—	599
Staff severance	364	1,188	387	39	—
Deferred tax liabilities	—	—	—	—	3,494
Other non-current liabilities	—	—	—	—	—
Total non-current liabilities	**364**	**1,638**	**387**	**39**	**4,093**
Current liabilities					
Due to banks	—	—	—	—	—
Trade payables	16	6,019	8,363	39	2,126
Trattamento di fine rapporto	—	2,221	—	5	—
Current tax liabilities	38	219	—	58	—
Current financial liabilities	84	34,443	—	—	—
Other current liabilities	752	655	3,307	62	3,447
Total current liabilities	**890**	**43,557**	**11,670**	**164**	**5,573**
TOTAL LIABILITIES AND NET EQUITY	**1,357**	**82,728**	**29,164**	**1,529**	**15,512**

Non-financial undertakings

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
Revenues	2,217	78,553	18,155	*865*	25,522
Costi della produzione	(372)	(47,329)	(15,700)	(477)	(18,304)
Employees' costs	(1,814)	(13,425)	(2,374)	(232)	(942)
Other operating costs	—	(9,243)	—	—	(6)
Sundry costs	(18)	—	—	—	(2,410)
Amortizations of intangible assets	—	(6,136)	(2,408)	—	—
Depreciations of tangible assets	(1)	(3,869)	(14)	—	—
Operating result	**12**	**(1,449)**	**(2,341)**	**156**	**3,860**
Financial gains	—	—	—	5	—
Financial expenses	—	(2)	—	—	—
Other gains	—	279	—	—	29
Other expenses	—	—	(1)	(3)	—
Profit (loss) before taxes	**12**	**(1,172)**	**(2,342)**	**158**	**3,889**
Fiscal gain (expense)	(12)	1,174	634	(48)	(893)
Taxes for the period	(12)	510	634	(46)	(893)
Deffered and advance taxes	—	664	—	(2)	—
Net profit (loss) for the period	**—**	**2**	**(1,708)**	**110**	**2,996**

BALANCE SHEETS

	COMPASS RE S.A. (€/000)
ASSETS	
A) Amounts due from shareholderes by way of unpaid amounts on capital call	**—**
B) Intangible assets	**—**
C) Fixed assets	**304,619**
I) Lands and PPEs	—
II) Investments in affiliated undertakings and partecipating interests	
3) Loans to enterprises	256,369
a) parent company	*80,000*
e) others	*176,369*
III) Other financial investments	48,250
6) Banks deposits	*48,250*
D) Investments for the benefit of insured parties (life)	**—**
E) Receivables	**12,451**
II Receivables arising out of reinsurance operations	12,407
III Other receivables	44
F) Other assets	**15,676**
II Cash at bank and in hand	15,676
G) Accrued income and deferred expenses	**17,726**
1. Due to interests	2,888
3. Others	14,838
TOTAL ASSETS	**350,472**
LIABILITIES	
A) Shareholders' equity	**47,364**
I Share capital	15,000
IV Legal reserve	1,500
VIII Gains (losses) carried forward	5,298
IX Net gain (loss) for the period	25,566
B) Subordinated liabilities	**—**
C) Technical reserves	**294,334**
I Non-life business	
1. Premiums reserve	*165,751*
2. Claims reserve	*10,102*
3. Equalization reserve	*118,481*
D) Tchnical reserves where risk is borne by insured party	**—**
E) Provisions	**35**
2) Taxation-related provisions	35
F) Deposits received from reinsurers	**—**
G) Payables and other liabilities	**8,413**
VII Other payables	
3. Due to social agencies	*8,413*
H) Accrued income and deferred expenses	**326**
3. Others accruals and deferrals	326
TOTAL LIABILITIES AND NET EQUITY	**350,472**

Insurance companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	COMPASS RE S.A. (€/000)
I) TECHNICAL ACCOUNT	
Gross premiums written	72,812
Change in the gross provision for unearned premiums	(14,945)
Total net premiums written	**57,867**
Gains arising from non-technical accounts investments	—
1) TOTAL REVENUES	**57,867**
Claims incurred, net of reinsurance (Gross amount)	(8,094)
Change in the provision for claims (Gross amount)	5,066
Acquisition costs	(5,563)
Change in deferred acquisition costs	(398)
Administrative expenses	(718)
2) TOTAL COSTS	**(9,707)**
Change in deferred acquisition costs	(12,928)
Technical-account profit (loss)	**35,232**
II) NON-TECHNICAL ACCOUNT	
Income form other investments	4,399
Gains on the realisation of investments	—
Investment management charges, including interest	(342)
Value adjustments on investments	(3,930)
Losses on the realisation of investments	(531)
Underwriting profit (loss)	**(404)**
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX	**34,828**
Income taxes for the period	(9,102)
Other taxes not shown under the preceding items	(160)
NET PROFIT (LOSS) FOR THE PERIOD	**25,566**

Associate companies

Table C

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017
	(€/000)
ASSETS	
A) Subscribed capital unpaid	—
B) Total intangible assets	30,127
C) Investments	
I) Land and buildings (total)	106,613
II) Investments in Group and other undertakings (total)	31,395,352
III) Other financial investments	
1) Shares and stock units	33,670
2) Mutual fund units	40,314
3) Bonds and other fixed-income securities	1,999,312
4) Loans	2,905
6) Deposits with banks	128,800
7) Other financial investments	9,990
Total other financial investments	2,214,991
IV) Deposits with reinsurers	6,927,863
Total investments (C)	40,644,819
D) Investments for the benefit of life policyholders who carry the risk and deriving from pension fund management (total)	3,268,077
Dbis) Reinsurers' share of technical reserves	
I) General business (total)	857,954
II) Life business (total)	420,541
Total reinsurers' share of technical reserves (Dbis)	1,278,495
E) Accounts receivable	
I) Amounts due in respect of primary insurances (total)	220,986
II) Amount due in respect of reinsurances (total)	494,997
III) Other accounts receivable	1,133,568
Total accounts receivable (E)	1,849,551
F) Other assets	
I) Tangible assets and inventories (total)	4,343
II) Cash (total)	744,169
IV) Other assets (total)	253,501
Total other assets (F)	1,002,013
G) Accruals and prepayments (total)	181,912
TOTAL ASSETS (B+C+D+Dbis+E+F+G)	**48,254,994**

Associate companies

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017 (€/000)
LIABILITIES AND SHAREHOLDERS' EQUITY	
A) Shareholders' equity	
I) Share capital or equivalent fund	1,561,808
II-VII) Reserves (total)	11,862,256
IX) Profit (loss) for year	1,404,459
X) Riserva negativa per azioni proprie in portafoglio	(3,040)
Total shareholders' equity (A)	**14,825,483**
B) Subordinated liabilities	7,051,952
C) Technical reserves	
I) General business (total)	2,297,906
II) Life business (total)	8,391,312
Total technical reserves (C)	**10,689,218**
D) Technical reserves where investment risk is carried by policyholders and reserves arising from pension fund management (total)	3,265,804
E) Provisions for risks and charges (total)	102,421
F) Deposits received from reinsurers	331,210
G) Accounts payable and other liabilities	
I) Amounts payable in respect of primary insurances	19,048
II) Amounts payable in respect of reinsurance	268,727
III) Bond issues	3,191,654
IV) Amounts payable to banks and financial institutions	1,188,706
VI) Loans and other debt	3,811,359
VII) Staff termination indemnity provision	4,746
VIII) Other accounts payable	2,648,529
IX) Other liabilities	552,029
Total accounts payable and other liabilities (G)	**11,684,798**
H) Accruals and deferrals (total)	304,108
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G+H)	**48,254,994**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS (non-technical account)

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017 (€/000)
1) Underwriting profit (loss) from general business	222,924
2) Underwriting profit (loss) from life business	448,130
3) Investment income in general business	
a) Dividends	980,537
b) Other investment income (total)	96,034
c) Writebacks in book value of investments	6,905
d) Gain on disposal of investments	36,869
Total investment income in general business	1,120,345
4) (+) Portion of investment income transferred from technical accounts of life business	729,570
5) Operating and financial expenses in general business (3)	
a) Investment management expenses and interest paid	31,656
b) Writedowns to investments	36,893
c) Loss on disposal of investments	10,099
Total operating and financial expenses in general business (5)	78,648
6) Portion of investment income transferred from technical accounts of general business	137,629
7) Other income	398,403
8) Other expenditure	1,631,104
9) Profit (loss) on ordinary operations	1,071,991
10) Extraordinary income	254,534
11) Extraordinary expenditure	43,557
12) Net extraordinary income (expenditure) (10-11)	210,977
13) Earnings before tax	1,282,968
14) Taxation for the year	(121,491)
15) Profit (loss) for the year (13-14)	**1,404,459**

Associate companies

continued **Table C**

BALANCE SHEETS

	BURGO GROUP S.P.A. 31.12.2017 (€/000)
ASSETS	
Non-current assets	**1,014,272**
Tangible assets	**500,392**
Property, plant and equipment	499,988
Real-estate investments	404
Intangible assets	**22,176**
Goodwill and other long-term intangible assets	20,691
Other intangible assets with defined life	1,485
Investments in subsidiaries, associates and other non-current	**422,105**
Investments in subsidiaries	412,443
Investments in associates	—
Other investments	9,662
Other non-current financial assets	**5,162**
Financial receivables from subsidiaries	2,968
Non-current financial receivables	2,194
Anticipated-taxes assets	**64,437**
Current assets	**448,368**
Inventories	104,099
Trade receivables	207,035
Sundry receivables and other current assets	32,470
Available-for-sale financial assets	994
Other current financial assets	33,321
Cash and liquid assets	70,449
TOTAL ASSETS	**1,462,640**
LIABILITIES	
Shareholders' equity	**389,054**
Share capital	20,000
Reserves	349,635
Gains (losses) carried forward	16,729
Gain (loss) for the period	2,690
Non-current liabilities	**629,012**
Non-current financial liabilities	563,749
Severance provision and other employees-related provisions	31,205
Provisions	28,527
Non-current trade payable	5,531
Current liabilities	**444,574**
Financial current liabilities	71,367
Trade payables	342,114
Current-taxes liabilities	3,980
Other payables and other current liabilities	27,113
TOTAL LIABILITIES AND NET EQUITY	**1,462,640**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	BURGO GROUP S.P.A. 31.12.2017 (€/000)
Revenues	1,201,050
Other gains	50,491
Total revenues and operating gains	**1,251,541**
Raw-materials and services-related costs	1,076,251
Employees costs	99,969
Other operating costs	13,920
Variation in inventories (±)	(773)
Costs for improvements, capitalized	(865)
Total operating costs	**1,188,502**
Earnings before depreciations, amortizations and non-recurring restructuring expenses	**63,039**
Depreciations	61,033
Amortizations of intangible assets with defined life	16,000
Write-offs (write-backs) on tangible assets	33
Proceeds from sale of plants and equipments	6,291
Net non-recurring expenses	2,342
Operating result before financial items	**(10,012)**
Financial expenses	26,311
Proceeds from investments	33,744
Gain (loss) before taxes	**(2,579)**
Taxes	5,269
Gain (loss) for the period	**2,690**

Associate companies

continued **Table C**

BALANCE SHEETS

	GB HOLDING S.R.L. 31.12.2017 (€/000)
ASSETS	
B) Fixed assets:	
I) Intangible	—
II) Tangible	—
III) Financial	6,269
Total B	**6,269**
C) Current assets:	
II) Receivables:	
Due w/i 12 months	3
Total receivables	3
IV) Cash and liquid assets	1
Total C	**4**
TOTAL ASSETS	**6,273**
LIABILITIES	
A) Shareholders' equity:	
I) Share capital	97
II) Share-premium reserve	8,684
IV) Legal reserve	20
VII) Other reserves	—
IX) Gain (loss) for the period	(2,530)
Total A	**6,271**
D) Payables:	
Due w/i 12 months	2
Total D	**2**
TOTAL LIABILITIES AND NET EQUITY	**6,273**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	GB HOLDING S.R.L. 31.12.2017 (€/000)
A) Revenues:	
Other gains	—
Total revenues and other gains (A)	**—**
B) Production costs:	
7) Services-related	8
Total production costs (B)	**8**
Operating result (A-B)	**8**
C) Financial gains (expenses)	
15) Proceeds from investments	—
16) Interest and similar income	—
17) Interest expense and similar charges	1
Total financial gains (expenses) (C)	**(1)**
D) Writedowns on financial assets	
19) Writedowns	
on investments	2,521
Total writedowns on financial assets (D)	**2,521**
Gain (loss) before taxes (A - B ± C ± D)	**(2,530)**
Gain (loss) for the period	**(2,530)**

Associate companies

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
ASSETS	
A) SUBSCRIBED CAPITAL UNPAID	—
B) FIXED ASSETS	
I - INTANGIBLE ASSETS	
3) Industrial patents right-of-use	—
4) Concessions, licences, brands and similar rights	1,730
6) Work-in-progress investments and advances	1,755
7) Others	348
TOTAL INTANGIBLE ASSETS	**3,833**
II - TANGIBLE ASSETS	
1) Lands and buildings	21,285
2) Plants and equipments	5,956
3) Industrial and commercial machineries	22,032
4) Other goods	4,522
5) Work-in-progress investments and advances	2,040
TOTAL TANGIBLE ASSETS	**55,835**
III - FINANCIAL ASSETS	
1) Investments in:	
a) Subsidiaries	48,159
d-bis) Others	347
Total investments	48,506
2) Receivables	
d-bis) Others	951
Total receivables	951
TOTAL FINANCIAL ASSETS	**49,457**
TOTAL INVESTMENTS (B)	**109,125**
C) CURRENT ASSETS	
I - INVENTORIES	
1) Raw-materials and consumable goods	7,221
TOTAL INVENTORIES	**7,221**
II - RECEIVABLES	
1) From customers	46,817
2) From subsidiaries	237
3) From associates	156
5-bis) Tax-related receivables	2,219
5-quater) From others	5,123
TOTAL RECEIVABLES	**54,552**
III - NON-FIXED FINANCIAL ASSETS	
6) Other securities	**5,704**
TOTAL NON-FIXED FINANCIAL ASSETS	**5,704**
IV - CASH AND LIQUID ASSETS	
1) Bank and postal deposits	35,398
3) Cash in hands	115
TOTAL CASH AND LIQUID ASSETS	**35,513**
TOTAL CURRENT ASSETS (C)	**102,990**
D) Prepaid income and deferred expenses	
Prepaid income	1,557
Deferred expenses	2,093
TOTAL PREPAID INCOME AND DEFERRED EXPENSES (D)	**3,650**
TOTAL ASSETS (B + C + D)	**215,765**

Associate companies

continued **Table C**

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
LIABILITIES	
A) SHAREHOLDERS' EQUITY	
I - Share capital	80,579
IV - Legal reserve	5,124
V - Statutory reserve	
- Research and development allowance	24,922
IX - Gain (loss) for the period	5,975
TOTAL SHAREHOLDERS' EQUITY (A)	**116,600**
B) PROVISIONS	
- Insurance-risks provision	4,640
- SSN-receivable provision	4,956
- Provision for other risks	202
TOTAL PROVISIONS (B)	**9,798**
EMPLOYEES SEVERANCE PROVISION (C)	**5,947**
D PAYABLES	
7) To suppliers	42,711
9) To subsidiaries	95
10) To associates	59
12) Fiscal liabilities	3,012
13) To social-securities entities and other social entities	4,745
14) Other payables	16,179
TOTAL PAYABLES (D)	**66,801**
E) DEFERRED INCOME AND ACCRUED EXPENSES	
Deferred income	59
Accrued expenses	16,560
TOTAL DEFERRED INCOME AND ACCRUED EXPENSES (E)	**16,619**
TOTAL LIABILITIES AND NET EQUITY (A + B + C + D + E)	**215,765**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
A) REVENUES	
1) Revenues from sales and services	195,860
5) Other gains:	
- Sums received for research programmes	22,210
- Other proceeds	13,054
TOTAL REVENUES (A)	**231,124**
B) PRODUCTION COSTS	
6) Raw-materials and other goods	49,111
7) Services-related	52,730
8) Third-parties goods and services	9,045
9) Employees costs:	
a) Remunerations	66,389
b) Social costs	14,361
c) Staff-severance	3,480
e) Other costs	502
10) Depreciations, amortizations and writedowns:	
a) Amortizations	784
b) Depreciations	9,153
d) Writedowns of current financial assets and other liquid assets	995
11) Variations of inventory for raw-materials, consumables and other goods (±)	(305)
12) Contributions to provisions	4,947
14) Other operating expenses	16,647
TOTAL OPERATING COSTS (B)	**227,839**
OPERATING RESULT (A - B)	**3,285**
C) FINANCIAL GAINS (EXPENSES)	
16) Other financial gains	
d) gains other than preceding	
- interests on current accounts and other deposits	76
17) Interests and other financial expenses	
- others	117
17-bis) Gains and expenses on foreign exchange rates (±)	(13)
TOTAL FINANCIAL GAINS (EXPENSES) (C)	**(54)**
D) WRITEDOWNS ON FINANCIAL ASSETS	
18) Writebacks:	
a) on investments	3,599
19) Writedowns:	
a) on investments	172
TOTAL WRITEDOWNS (D)	**3,427**
GAIN (LOSS) BEFORE TAXES (A - B +/- C +/- D +/- E)	**6,658**
22) Taxes for the period (current, deferred and advance)	
- Current taxes	683
GAIN (LOSS) FOR THE PERIOD	**5,975**

Table D

FEES PAID FOR AUDITING AND SUNDRY OTHER SERVICES
(pursuant to Article 149-*duodecies* of Consob resolution 11971/99)

(€/000)

Type of service	Mediobanca		Group companies *	
	Pricewaterhouse Coopers S.p.A.	**Pricewaterhouse Coopers S.p.A. network**	**Pricewaterhouse Coopers S.p.A.**	**Pricewaterhouse Coopers S.p.A. network**
Auditing	585			
Statements	218	—	38	119
Other services	—	33	—	—
-Observation and analysis of the administrative/accounting internal control system	—	—	—	—
– Other	—	*33*	—	—
Total	803	33	570	498

* Group companies and other companies consolidated line-by-line.

Figures shown above do not include VAT, expenses and the supervisory contribution paid to Consob.

MEASURES REQUIRED UNDER ARTICLE 15 OF THE COMPANY'S ARTICLES OF ASSOCIATION: APPOINTMENT OF TWO NEW DIRECTORS

Dear shareholders,

As you are aware, on 8 March and on 25 July 2018 respectively, César Alierta and Massimo Tononi, who had been appointed to the Board of Directors from the majority list submitted ahead of the annual general meeting held on 28 October 2017, resigned from their positions as Directors of Mediobanca.

At a Board meeting held on 20 September 2018, the Directors of Mediobanca, as permitted under Article 15 of the Bank's Articles of Association, to co-opt, pursuant to Article 2386 of the Italian Civil Code, at the Appointments Committee's proposal and with the approval of the Statutory Audit Committee, to appoint Maximo Ibarra and Vittorio Pignatti-Morano to replace César Alierta and Massimo Tononi respectively. The new Directors have profiles which are similar to those of the Directors who have left office, as the Board has set itself the objective *inter alia* of retaining the composition considered to be optimal in qualitative and quantitative terms.

Maximo Ibarra, 49 years of age, is currently Chief Executive Officer or Royal KPN, the leading telecommunications company in the Netherlands. Between 2004 and 2017 he took on roles of increasing responsibility in the Wind group, eventually becoming Chief Executive Officer.

Vittorio Pignatti-Morano, 61 years of age, has around thirty years' experience in the investment banking industry, working mostly for the Paribas and Lehman Brothers groups. Since 2008 he has been co-founder and Executive Chairman of Trilantic Europe, a leading private equity player.

The Board of Directors has checked that the co-opted Directors possess the requisite professional and personal qualifications, are fit and proper to hold such office and qualify also as independent (cf. below) under Italian and European regulations, and subsequently its own overall adequacy, inter alia with reference to the Report on the qualitative and quantitative composition of the Board of Directors approved last year. The Board continues to reflect an adequate combination of skills and professional expertise, having consolidated its international dimension and capabilities in the IT area.

By law, the co-opted Directors remain in office until the annual general meeting held subsequent to their having been co-opted. Accordingly, you are invited to restore the Board of Directors to its full complement, bearing in mind that at the annual general meeting held on 28 October 2017, the shareholders of Mediobanca established that the Board should consist of 15 (fifteen) Directors, and also that, pursuant to Article 15 of the Articles of Association, such appointment shall be made without application of the voting list mechanism, but rather on a relative majority basis for the proposals submitted.

The Board of Directors, having received a favourable opinion from the Appointments Committee, resolved accordingly to propose to the shareholders in general meeting that Maximo Ibarra and Vittorio Pignatti-Morano be confirmed in their positions as Directors of Mediobanca.

The documentation for the candidates includes the following:

– CV;
– ECB “Fit & Proper” questionnaire;
– Declaration stating that the candidates accept their respective posts, under their own responsibility, that no grounds exist that would render them ineligible or otherwise incompatible to hold office, and that they are duly in possession of the requisites stipulated by the law and regulations in force and by the company’s Articles of Association, as well as whether or not they qualify as independent according to the definitions provided in Article 148, para. 3, of Italian Legislative Decree 58/98 and Article 19 of the Articles of Association.

The above documentation is available for consultation on the Bank’s website at www.mediobanca.com in the section entitled Corporate Governance/AGM 2018.

In order to facilitate the proceedings at the annual general meeting and to ensure that the candidacies are adequately publicized, having regard in particular to market practice, shareholders are invited to file any alternative proposals they may have for appointments at the company’s head offices in good time, i.e. around twenty days prior to the date set for the meeting itself. Candidacies must be accompanied by a declaration from the candidates themselves stating that they accept the position, and under their own responsibility, that no grounds exist that would render them ineligible or otherwise incompatible to hold office, and that they are duly in possession of the requisites stipulated by the law and regulations in force, and whether or not they qualify as independent according to the definitions provided in Article 148, para. 3, of Italian Legislative Decree 58/98 and Article 19 of the Articles of Association, in addition to a CV containing exhaustive information on the candidates' personal and professional qualifications, highlighting in particular the experience they have acquired in sectors of relevance to banking services, plus a list of the management and supervisory positions held by them in other companies. Candidates must also complete the ECB "Fit & Proper" questionnaire provided in Annex 2 of the "Report on the qualitative and quantitative composition of the Board of Directors". A facsimile of the declaration for candidates accepting their position and their CV, along with the ECB "Fit & Proper" questionnaire, are attached to the "Report on the qualitative and quantitative composition of the Board of Directors: recommendations to shareholders and the new Board of Directors", which is available for consultation on the Bank's website at www.mediobanca.com in the section entitled Corporate Governance/AGM 2018.

In this connection, shareholders are invited to consider the considerations illustrated in the "Report on the qualitative and quantitative composition of the Board of Directors: recommendations to shareholders and the new Board of Directors" published in June 2017 which among other things defines the qualitative and quantitative profile which the Directors are required to reflect collegiately and the requisites stipulated by the applicable regulatory provisions in force. The need for the candidates to qualify as independent under the definition provided in Article 19 of the Articles of Association in particular should be emphasized, in order to maintain the number of independent Directors stipulated in the Report referred to above. It should also be remembered that the Articles of Association establish that persons of more than seventy-five years of age may not be appointed as Board members.

Without prejudice to the need to read the entire document with due care and attention, we would draw attention to the following points in particular:

i) Professional qualifications in terms of:
   - Basic knowledge of the banking sector in the following areas: financial markets; regulatory framework and legal requirements; strategic planning, and an understanding of a credit institution's business strategy or business plan and implementation thereof; risk management and monitoring (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution); accounting and auditing; assessing the effectiveness of a credit institution's arrangements, ensuring effective governance, oversight and controls; and Interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures;
   - Knowledge and experience in at least one of the following areas of expertise: businesses in which the Mediobanca Group operates (Corporate Investment Banking, Wealth Management, Consumer Banking); financial accounting and reporting; macroeconomics/international economics; risk management, compliance

and internal audit; information technology and security; Legal and regulatory frameworks; and managerial capabilities and entrepreneurial experience;

ii) Need to ensure that the candidates have the appropriate amount of time available to be able to perform the duties required of them properly, taking into consideration the possibility of taking part in Board committees as well as the Board itself. In FY 2017-18, the following were held:
   – Eleven meetings of the Board of Directors;
   – Twelve meetings of the Executive Committee;
   – Twelve meetings of the Risks Committee;
   – Eight meetings of the Remunerations Committee;
   – Nine meetings of the Appointments Committee;
   – Twelve meetings of the Related Parties Committee;
   – Fourteen induction/training sessions for Directors and Statutory Auditors, including those newly-appointed;

iii) The personal characteristics and qualifications, along with the Fit and Proper Assessment questionnaire, described in more detail in the Report on the qualitative and quantitative composition of the Board of Directors;

iv) Careful assessment of the potential conflicts of interest which could compromise the Directors' independence.

Proposals received will be published on the Bank's website at mediobanca.com, in the section entitled Corporate Governance/AGM2018.

In view of the foregoing, the Board of Directors invites shareholders to adopt the following resolution:

"The shareholders of Mediobanca, gathered in ordinary general meeting, having reviewed the report and proposal presented by the Board of Directors,

Hereby resolve to

appoint Maximo Ibarra and Vittorio Pignatti-Morano as Directors, to remain in office throughout the mandate of the current Board of Directors, whose term of office is due to expire with the annual general meeting to be held to approve the financial statements for the financial year ending 30 June 2020."

Milan, 20 September 2018

The Board of Directors

REPORT ON REMUNERATION SUBMITTED TO APPROVAL OF SHAREHOLDERS IN ANNUAL GENERAL MEETING ON 27 OCTOBER 2018

Dear Shareholders,

We have called you together in general meeting to:

A) Report on the remuneration policies adopted for the twelve months ended 30 June 2018 and;

B) Submit the Mediobanca Group's new remuneration and incentivization policies, approved by the Board of Directors on 20 September 2018, to your approval.

This report incorporates the disclosure requirements established by both the Bank of Italy and Consob.

SECTION 1

Staff remuneration and incentivization policies for FY 2017-18

Introduction

The Mediobanca Group delivered record results in the twelve months ended 30 June 2018, measured by revenues, GOP and profit. The main highlights were as follows:

– Total revenues up 10%, to €2.4bn, with net interest income up 6% and fee income up 19%
– Net profit up 15%, to €864m
– ROTE 10%
– GOP up 24%, to €1,057m (meaning the 2019 strategic plan target has already been reached)
– CET1 ratio 14.2%, total capital ratio 18.1%
– Dividend per share: up 27%, to €0.47 (payout ratio 48%).

The results reflect a healthy performance by all business divisions:

– Wealth management, with AUM/AUA rising to €37.3bn and revenues up 14.5% to reach €526m, driven by fee income (up 27.4%) which at end-June accounted for over 40% of the Group total; ROAC 13%;
– Consumer Banking delivered record results: revenues up 6% to €996.2m, net profit up 22% to €315m, ROAC 30%;
– Corporate & Investment Banking enhanced its positioning and diversified its revenues, with lower capital absorption and ROAC at 14%.

The decisions regarding staff remuneration have been taken in view of a business scenario which increasingly requires the contribution of high-quality professional skills.

Governance

The governing bodies and company units have governed the entire process of applying the remunerations policies.

In particular, as described *inter alia* in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions, and the meetings on average lasted around 1 hour and 45 minutes. The Committee is made up of four non-executive members, a majority of whom qualify as independent under Article 19 of the Bank's Articles of Association. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in the case of two meetings) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer and the head of Human Resources also took part as guests, along with other members of the Group's staff.

The main items discussed in Committee meetings, in addition to this report, are as follows: formulation of proposals to the Board of Directors regarding the variable remuneration of the Chief Executive Officer and General Manager (defining and marking their scorecards); decisions made by the Chief Executive Officer regarding the variable remuneration of the other staff; review of the internal processes and procedures adopted in connection with the remuneration system; review of developments in the regulatory framework, with a particular focus on the remuneration of financial advisors and of staff working in the Asset Management area; analysis of the Bank of Italy consultation document on changes to the supervisory instructions regarding remuneration and incentivization policies and practices, in view of the Italian regulations' imminent alignment with the EBA Guidance issued in December 2015 and in force since January 2017; and analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; application of the severance policy. Specific training and induction sessions were also held on these issues.

Group HR has provided full support for all activities, co-ordinating the process of formulating the proposals and resolutions, and executing them. The services of leading external consultants have also been used in the course of various activities, in particular market benchmark analysis and finalizing the remunerations new policies.

The Compliance unit has issued the report stating that the remunerations policies conform to the Bank of Italy and internal regulations, and the Group Audit Unit checked that they were implemented correctly. The Risk Management unit, too, has been involved in the activity of ascertaining that the gateways have been met. The Planning, Accounting and Financial Reporting areas also provided the data for determining the business areas' performances and gateways.

Incentivization system: determination of variable remuneration and allocation using risk-adjusted metrics based on sustainable results over time

Variable remuneration is paid to “identified staff” at each of the Group’s organizational divisions only if the following conditions, by shareholders at the last general meeting are met:

a) Capital adequacy and liquidity requirements [1] adopted in the Risk Appetite Framework [2] approved by the Board of Directors;

b) Positive operating profit delivered at Group level [3].

For the Wholesale Banking division [4] (the area in which the highest number staff with the potential to impact on Mediobanca’s risk profile are employed), the Mediobanca S.p.A. Chief Executive Officer identifies the share of the Economic Profit earned by the division to be earmarked for variable remuneration. For the individual business areas, it is calculated on the basis of scorecards which generally use Economic Profit as their primary metric as well as other secondary quantitative and qualitative metrics, whereas individual awards are made on the basis of overall assessment of personal performance, with particular attention being paid to reputational and compliance issues as well. For the new Mediobanca Private Banking division, following the merger of Banca Esperia into Mediobanca S.p.A., the variable remuneration is determined on the basis of gross profit. The variable component for staff employed by the control units and staff and support areas is established based on qualitative criteria, to limit the correlation with the Bank’s results and so guarantee the role’s independence. The Chief Executive Officer’s decisions are illustrated to the Remunerations Committee and the Board of Directors. The remuneration paid to the head of company financial reporting and the heads of the control units is approved by

[1] CET 1 ratio > 8,75% (SREP), Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio ≥ 100%, Net Stable Funding Ratio ≥ 100%, Retail funding ratio

[2] The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

[3] Operating profit is defined as total income less operating costs and loan loss provisions, as shown in the restated financial statements.

[4] Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division’s cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.

the Board. For the other divisions and/or business lines (Consumer, and Wealth Management Affluent/Premier, CMB and the other entities which perform asset management activities, and Specialty Finance), the amounts are decided by the CEOs of the relevant legal entities, after consulting with the General Manager and Group HR of Mediobanca S.p.A.

The Group's results for the year ended 30 June 2018 were as follows:

– Stronger capital solidity indicators (CET1 >14%) despite the RAM acquisition;
– Growth in gross operating profit to €1.6bn, up 247% on last year and 17% over budget. Revenues were up 10% to €2.4bn, with net interest income rising despite the market interest rates continuing to be negative. Fee income also performed well, up 19%, as did trading (up 30% year-on-year), with the cost of risk declining (from €317m to €247m) for the fourth year running;
– Profit before tax up 20%.

The Wholesale Banking division's results in the twelve months ended 30 June 2018 reflect a gross operating profit of €347m, substantially unchanged and confirming its position of market leadership. CIB Client in particular delivered the following results:

– Economic Profit up 7%, from €233m to €253m;
– Investment banking revenues showed strong growth in Corporate Finance and Debt Capital Markets (the former up 37%, the latter up 47%), low capital-absorption products with higher pay-outs consistent with market practice, and growth in Capital Market Solutions business. The overall figure was penalized by the downturn in lending activity, where revenues were down 13% in a difficult market scenario, driving a 6% reduction in total revenues overall;
– Administrative expenses and fixed labour costs were down slightly, due to improvements in efficiency made in certain teams and the favourable GBP/EUR exchange rate;
– Loan loss provision figures positive following writebacks credited to profit and loss account.

For Mediobanca Private Banking, the results were as follows:

– GOP of €14.1m, up 19%;
– Significant improvement in the quality of revenues, with recurrent fees (management and banking) up from 81% to 85%. AUM/AUA stood at €14.5bn, versus €13.7bn last year, on net new money of approx. €0.6bn.

For the Consumer Banking division (Compass and Futuro):

– Revenues up 6%, and above budget, on resilient returns and volumes, with the cost/income ratio stable;
– Further improvement in asset quality drove a reduction in loan loss provisions, from €276m to €242m, on the back of effective risk-taking policies and recovery action;
– Non-recurring items include the €6.7m contribution to a solidarity fund.

With regard to the Wealth Management – Affluent / Premier division (CheBanca!):

– Growth of 22% in gross profit (from €33m to €41m), which soars to 223% net of the PPA process release;
– Positive, 6.5% growth in revenues, translating to 96% of the budget due primarily to a delay in asset management fees; AUM rose from €20.4bn to €22.6bn, on indirect funding up from €7bn to €8.4bn.

Principal Investing delivered a high net profit of €374m with a ROAC at 15%.

All the Group's gateways for the year ended 30 June 2018 were thus met: consolidated gross operating profit €1,057m; CET 1 ratio 14.2%; leverage ratio 8.8%; AFR/ECAP 181.37%; liquidity coverage ratio 186%; retail funding ratio 62.9%; net stable funding ratio 108%. For the individual Group companies which adopt their own RAF on an individual basis (Compass, CB! and Mediobanca International), in the course of the twelve months their risk profile remained consistent with the objectives and limits set, with no breaches of the thresholds recorded.

The Economic Profit earned by the Wholesale Banking division as stated in the accounts, which is not one of the gateways but is used as a risk-adjusted indicator in assessing the variable WB component, totalled €261m, some 7% higher than in 2017 due to the positive trend in investment banking fees, the cost of risk and to lower capital absorption attributable to use of the AIRB models. From a qualitative standpoint, Mediobanca confirmed its position of leadership in M&A and ECM, with a growing role in DCM as well. Economic Profit on the proprietary trading portfolio was also positive.

The other quantitative and qualitative metrics were also met, in the sense that the Group's results reflected the required risk/return balance, in compliance with all the objectives set in the Risk Appetite Framework. From a qualitative perspective, Mediobanca confirmed its positioning and market share in a difficult market scenario.

Having therefore ascertained that all the conditions precedent to the distribution of the variable component had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer, after consulting with the General Manager, Group HR and the control units, thus established the overall amount for distribution to the Mediobanca S.p.A. divisions at €74.4m (30/6/17: €67.3m). The increase is chiefly due to the addition of the former Banca Esperia employees plus the centralization of certain staffing functions. Variable remuneration for the WB division was set at €47.7m (€48.8m), of which €7.2m (€46m) for CIB Client, corresponding to a payout ratio of 19% (21%) and 18% (21%) of the Economic Profit respectively. The variable remuneration for Private Banking totalled €6.6m, for a payout ratio of 30%.

These amounts include the variable remuneration reserved to the Chief Executive Officer and the General Manager. The variable/fixed remuneration ratio for WB division staff was 101%, compared with 99% in 2017, and 44% in Private Banking. The ratio rises to 135% (compared 124% for WB and 174% for PB in 2017), if only identified staff members are considered. Considering the headcount as a whole for Mediobanca, the ratio is 67%, compared to 75% in 2017.

One of the main objectives in making the award of the variable remuneration was to maintain a competitive compensation package for younger and business staff from a talent retention perspective. Group HR and the Compliance unit reviewed potentially relevant instances in connection with application of the compliance breach mechanism.

The amount of the variable remuneration for the Consumer division and CheBanca! reflect excellent earnings results, including on a risk-adjusted basis. The total variable remuneration awarded to the Consumer division was approx. €7.5m, compared with €6.8m in 2017, with Compass's commercial network, like in the previous two years, reaching the cap instituted as part of the incentivization system. For CheBanca! the increase from €10.2m to €11.5m reflects the new business and organizational structure, featuring attractive incentivization forms for specialist figures in the Wealth Management segment. The cost/income and compensation/income ratios were stable for Compass and improved for CheBanca!

The variable/fixed ratio for identified staff in the Consumer division was around 54% of the fixed remuneration, compared with 57% in 2017, and around 51% (53%) for CheBanca! identified staff. Considering for the headcount as a whole for the Consumer division, the ratio was stable at 10%, as in 2017, and 15% for CheBanca! (19%).

As at 30 June 2018 management with strategic responsibilities other than the executive directors and referred to in the Consob resolution issued in 2011, consisted of eight persons: the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and the Wealth Management/Affluent-Premier business line, plus the two co-heads of the Corporate and Investment Banking division. Their remuneration package reflects the provisions of the Remuneration policies, based on the individual category of identified staff to which they belong.

Variable remuneration of the Chief Executive Officer and General Manager of Mediobanca S.p.A.

This reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. In general terms, if the quantitative objectives are met, the amount of the variable remuneration payable to the CEO and the General Manager may be between 50% and 180% of their gross annual salary. This amount may be adjusted by the BoD according to whether or not qualitative objectives have also been met (without prejudice to the 2:1 cap).

The quantitative performance indicators assigned for the financial year ended 30 June 2018 were for the CEO as follows:

Objective	**Weighting**	**Reached**
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by Wealth Management division (with focus on growing the division)	30%	Partially achieved
iii) Group Return on Assets (ROA) (to maximize asset profitability)	25%	Comfortably exceeded
iv) CET 1 Ratio (to preserve capital adequacy)	15%	Comfortably exceeded

For the General Manager, the following objectives were assigned:

Objective	**Weighting**	**Reached**
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by the Private Banking business line (with focus on growing Private Banking)	30%	Partially achieved
iii) Result before tax posted by Holding Functions (to optimize management of holding functions)	20%	Comfortably exceeded
iv) Group cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%	Comfortably exceeded

For the CEO the qualitative objectives involved management of initiatives related to organizational climate analysis in progress at the Group and those in the area of Corporate Social Responsibility; and for the General Manager, reorganization of the former Banca Esperia scope of operations, and implementation of organizational projects to improve the Group's efficiency, with particular attention to the Operations & IT area. In both cases the objectives were held to have been achieved.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of €2,484,000 to the CEO (€2,700,000 in 2017) and of €2,070,000 to the General Manager (the same as last year), equal in both cases to 138% of their fixed salaries, compared with 150% and 1380% awarded last year. Contributions to the complementary pension scheme are also paid on the upfront cash component only. Of the variable remuneration awarded, half in cash and half shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a two-year holding period.

Means of distributing the variable component

The means of distribution are as provided in the remuneration policies.

The equity component ("performance shares") to be paid to identified staff are equal to approx. €15m which in part will be booked to the accounts over the next five financial years under the accounting standards currently in force. Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,871,084 performance shares [5] (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €8.22 per share) including those awarded to identified staff employed at Group companies. For identified staff employed in the asset management area (Mediobanca SGR), the financial instruments component was awarded in cash linked to an index representative of the SGR funds' stock units, as permitted by the sector regulations in force.

[5] Of these, 150,981 were awarded to the CEO and 125,818 to the General Manager. The total also includes 126,415 performance shares already awarded to the Group's identified staff under recruitment/severance agreements in the period from October 2017 – April 2018 and CMB for the year ended 31 December 2017.

SECTION 2

New staff remuneration and incentivization policies

Introduction

As in the past, the new policies:

- Comply with all the applicable regulations;
- Allow areas of the Bank which create value to be incentivized, using objective measurement criteria;
- Enable the Group to attract and retain staff with the professional skills and capabilities required to meet its needs;
- Are in line with the policies adopted by leading national and international operators.

The cap of 200% of fixed remuneration has been adopted on the variable component continues to be adopted.

Governance

The governance process for the Group remuneration and incentivization policy is structured across two levels: corporate and organizational.

a) Corporate governance

Under the current Articles of Association:

- Shareholders in general meeting establish the annual fixed fee payable to members of the Board of Directors when they are appointed, and for the entire duration of their term of office, to be allocated among the individual members based on the Board's own decision. Directors who are not members of the Group's senior management are entitled to refunds on expenses incurred by them in the performance of their duties.
- Shareholders in general meeting, within the terms set by the regulations in force at the time, approve the remuneration and incentivization policies and compensation schemes based on financial instruments for Group directors,

staff and collaborators, and set the criteria for establishing compensation to be agreed in the event of a beneficiary leaving the company or office.

- At the Board of Directors' proposal, shareholders in general meeting may, with the requisite majorities, establish the variable remuneration of Group staff and collaborators up to the limit of 200% of their fixed salaries or any other limit set by the regulations in force at the time.
- The Board of Directors institutes the committees envisaged by the regulations in force from among its own number, including the Remunerations Committee, establishing their composition and powers.

Under the regulations in force:

- The Remunerations Committee consists of between three and five members, all non-executive directors, the majority of whom qualify as independent and from among whose number a chairman is appointed. The Committee's duties include proposing compensation for staff whose remuneration and incentivization systems are decided by the Board of Directors; it serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff; it monitors application of the rules governing the remuneration of the heads of the company's control units, working closely with the Statutory Audit Committee in this area. It also prepares the documentation to be submitted to the Board of Directors for the relevant decisions; works together with the other internal committees, in particular the Risks Committee; and ensures the involvement of all relevant company units in compiling and checking the remuneration and incentivization policies and practices. It also gives its opinion, based inter alia on the information received from the relevant company units, on whether the performance objectives to which the incentivization schemes are linked have been reached and ascertains whether or not the other conditions precedent to payment of compensation have been met; it provides feedback on the activities performed to the governing bodies. To be able to perform its activities effectively and responsibly, the Remunerations Committee has access to company information relevant to such ends, is endowed with sufficient funds to guarantee it is independent in operational terms, and may call on the services of experts, including from outside the company, on matters for which it is responsible. The Committee is regularly constituted at meetings where a majority of the directors in office are in attendance, and adopts resolutions on the basis of the majority of those present voting in favour. Minutes of Committee meetings are taken and kept in separate registers.

– The Risks Committee ascertains whether the incentives provided by the remuneration system take adequate account of the Group's risks and comply with the minimum capital and liquidity requisites at consolidated level, liaising with the Remunerations Committee.

– The Chief Executive Officer presents the proposed Group staff remuneration and incentivization policies to the governing bodies, is responsible for staff management, and after consulting with the General Manager, determines the variable remuneration based on the criteria established by the Board of Directors and then distributes it.

b) Organizational governance

– Group HR directs and governs the entire remuneration and incentivization process, involving the governing bodies, control units and other teams responsible for verifying the Group's earnings and financial data.

– The Planning, Accounting and Financial Reporting area provides the data for ascertaining that the gateways have been met and for determining the business areas' and divisions' performances based on the results achieved.

– The Group Risk Management unit helps in defining the metrics to be used to calculate the risk-adjusted company performance, in validating the results and the gateways, and in checking that these are consistent with the provisions of the Risk Appetite Framework.

– The Compliance unit carries out an annual assessment of the remuneration policies' compliance with the sector regulatory framework. It is also responsible, after consulting with the other control units, for checking whether or not any compliance breaches have been committed with relevance for purposes of assessing the performance and award of the variable remuneration component. The Compliance unit is involved in the processes of revising, adapting and managing the remuneration systems to ensure these are in line with the regulations in force at the time, including in terms of establishing the identified staff, analysing the metrics adopted, and the practice in cases where the beneficiary has left the company.

– The Group Audit unit makes a statement declaring that the staff remuneration and incentivization policy adopted by the Bank complies with the Instructions. It also carries out annual controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

All activities are documented appropriately to ensure that they may be fully tracked over time.

Definition of "identified staff"

The criteria adopted to identify relevant staff with a substantial impact on the Mediobanca Group's risk profile and the processes adopted in order to assess them are as provided under the regulations in force. The assessments are:

– Qualitative, linked to the role covered within the company organization (including non-executive directors), relevant business units, control and staff units;

– Quantitative, based on total overall remuneration received in the previous financial year[6].

Mediobanca regularly carries out analysis of the Group's organizational structure via a documented process. At 30 June 2018 the Group's "identified staff" (including non-executive directors) broke down as follows:

[6] Mediobanca may also decide that individual staff members do not impact on the Group's risk profile despite receiving total remuneration ≥ €500,000, as permitted by the regulations in force. For the twelve months ended 30 June 2018, a total of four such staff members were identified, employed in asset management in the United Kingdom, with overall remuneration in the previous year in excess of €500,000, for who the notification process for exclusion from the definition of identified staff has been launched.

Cluster	Definition	EBA regulations	PPR # 2017
1) Non-executive directors	• Non-executive members of BoD, including Chairman	Art. 3. 2	1 (+11)
2) Directors with executive duties	• Management who are members of Executive Committee	Art. 3. 1	2
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	• Co Head CIB Client/Head Madrid • Co Head CIB/ Head Corporate Finance • AD Compass/ CB! • Head Principal Investing • Head MB Private Banking • Head Governance & Treasury • Head Equity Capital Markets • Head Debt Capital Markets • Head Lending and Structured Finance • Head Capital Markets Solutions • Head Equity Markets • Head Global Coverage • Head Frankfurt • Head MB Turkey • CEO CMB	Art. 3. 3 Art. 3.5 Art. 3.6	15
4) Heads and senior staff of internal control units	• Compliance & Group AML • Group Risk Management • Group Audit	Art. 3. 4 Art.3.7 Art. 3.15	16
5) Staff with managerial responsibilities in relevant business units	• Heads of trading desks, liquidity and trading origination • Staff with significant responsibility in the business areas and other heads of product areas (Equity Research) • General and Commercial Managers, Compass and CB! • CEOs of SelmaBPM, Spafid, MB SGR and MBFacta	Art. 3.8 Art. 3.15	23
6) Heads and senior staff in Staff and support units	• Group HR • Head of company financial reporting • Planning and control • Legal counsel • Macroeconomic strategist • COO • CIO	Art. 3. 9 Art. 3.15	8
7) Quantitative criteria	Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above	Art. 4	23
	TOTAL as at 30/6/18[7]	**88 (99)**	
	% of total Mediobanca S.p.A. staff	**9%**	
	% of total Mediobanca Group staff	**1.86%**	

Management with strategic responsibilities as defined in the Consob resolution issued in 2011 other than directors (i.e. the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and Wealth Management/Affluent-Premier business line, and the two co-heads of the Corporate and Investment Banking division) are all included in the definition of identified staff.

[7] As at 30 June 2017 the Mediobanca Group had a total of 79 (92) identified staff, representing 1.65% of the total Group headcount and 10.4% of that of Mediobanca S.p.A.

Pay mix

The Mediobanca Group Remuneration and incentivization policy is intended to attract and retain highly qualified professional and ethical staff members, who are suited to the complexity, increasing internationalization and specialization of its businesses, based on a rationale of prudent management and sustainability of costs and results over time. The structure of the Group's staff remuneration is based on various components, with the objective of: balancing the fixed and variable parts over time (pay mix), implementing a flexible approach to remuneration, and helping to gear compensation towards performance in view of the significance of role within the company without encouraging risky and/or short-term behaviour. Each year the staff compensation package's positioning is assessed relative to its reference market, including with the assistance of outside advisors.

a) *Remuneration structure for non-executive directors*

The non-executive directors' emolument is fixed by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors are covered by a D&O insurance policy which has also been extended to cover the directors of all Group companies.

b) *Remuneration structure for the CEO and General Manager*

The remuneration of the CEO and the General Manager is regulated by individual agreements approved by the Board of Directors. Their remuneration structure comprises:

1) A fixed salary;
2) A variable annual component (or short-term incentive) which only accrues if the gateways stipulated in these policies are met (see below the section entitled "Determination of variable remuneration and correlation between risks and performance"), commensurate with the quantitative/financial and qualitative/non-financial performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being reached.

The scorecards provide for performance objectives for each individual manager's sphere of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to them by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the quantitative/financial objectives are met, this triggers the payment of a variable bonus ranging from 50% (or 40% if the minimum target is only partially met, i.e. at least 85%) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 180% in the event of particularly positive performances. Regarding the qualitative objectives, the variable component deriving from the quantitative objectives may be adjusted by the Board of Directors based on the degree to which the non-financial objectives have been reached, in a range from -10% to +15%. The qualitative objectives are considered as having equal weighting, and are to be assessed individually. The 200% cap applies in all cases.

Of the variable component, 50% is paid in cash and 50% in equity, and 60% is deferred over a five-year time horizon. All the deferred items are subject to the performance and malus conditions stipulated in these Policies (see below the section entitled "Performance conditions, malus condition and clawback").

For the financial year ending 30 June 2019, the Chief Executive Officer has been assigned the following quantitative objectives:

Objective	**Weighting**
i) RWA density: RWA/total assets (to focus on asset quality)	25%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	25%
iii) Group ROTE (to ensure optimal use of overall capital)	25%
iv) Growth in Total Financial Assets - AUM/AUA/direct funding (with focus in growth in assets in WM division)	25%

The General Manager has been assigned the following objectives

Objective	Weighting
i) Loans/funding ratio (to ensure effective balance between deposits and applications of funds)	20%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	30%
iii) Banking activities cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%
iv) Net New Money in Private Banking business line (focus on growth in Private Banking)	30%

With reference to the non-financial objectives for the financial year ending on 30 June 2019, the following have been assigned: for the CEO, management of Corporate Social Responsibility initiatives, and activities geared towards growing the Group's management, in relation to the succession planning; and for the General Manager, the Data Quality project and implementation of the new governance/organizational structure for the Wealth Management division.

3) Upon the approval of a long-term Group strategic plan, the Board of Directors may choose to adopt a long-term incentivization scheme conditional upon the objectives set out in the plan itself being reached (long-term incentives). In such cases, the short-term scheme described under the previous point will be linked to the provisions of the long-term scheme, without prejudice to the 200% cap on variable remuneration, which must be complied with in each financial year. Like the short-term incentive scheme, the long-term incentive scheme will have specific quantitative/financial and qualitative/non-financial objectives linked to the scheme's time horizon, and will be subject to gateways. Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component referred to above, unless provided otherwise by the Board of Directors, having consulted with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes, including any specific resolutions to be adopted in general meetings. In addition to the executive directors, other Group senior representatives may be included in the long-term incentivization scheme, with a specific pay mix identified for them between short- and long-term variable components. At present no such long-term incentivization scheme is in force.

The Chairman receives only a fixed salary. However, the Board of Directors may assess, having consulted with the Remunerations Committee and within the limits set by the regulations, the possibility of also paying him a variable component, on an exceptional basis, to be distributed in accordance with the regulations set forth in this policy.

The Chief Executive Officer and General Manager also receive their emoluments as directors, but not those due in respect of participation in committees. An insurance policy is available to cover them for third-party liability, and they also benefit from participation in the complementary pension and welfare schemes operated for Mediobanca Group management staff.

The Chief Executive Officer is required to hold a number of Mediobanca shares equal in value to twice the amount of his fixed remuneration, and the General Manager one time, even after the shares deriving from the award of the variable component have actually been assigned, until the respective vesting/holding periods expire. The equivalent amount of shares, to be delivered in a timespan of five years from the date of their first award, must be held throughout the duration of their terms of office, to ensure their actions are aligned with the interests of creating value over the medium/long term [8].

c) Compensation structure for staff employed in control units and staff and support areas

The remuneration package for the Group's identified staff in the control units (Group Audit, Compliance and Risk Management), Human Resources and the Head of Company Financial Reporting is structured so that the fixed component represents the majority, with a smaller variable component assigned annually based on qualitative and efficiency criteria. The variable component has a maximum limit of 33% of the fixed component, while that of the heads of unit is set annually by the Board of Directors with the Remunerations Committee in favour.

The remuneration of staff employed in the staff and support areas is normally determined on the basis of positioning vis-à-vis the reference market, which varies according to the value of the individual employee, their role, the quality of their performance and the retention strategies in place. For such staff the variable component, usually limited, is not related to the Group's earnings results but to the quality of the individual's performance.

[8] At 30 June 2018, the Chief Executive Officer held 2,724,500 Mediobanca shares and the General Manager 1,028,500 Mediobanca shares, equal to approx. 12x and approx. 5.5x their fixed remuneration.

d) Remuneration structure for other "identified staff"

– Fixed salary: this reflects technical, professional and managerial capabilities, and the related responsibilities. Mediobanca devotes continuous attention to the value of the fixed salaries it pays, which are monitored in relation to its competitors and adapted to changes in the market scenario from time to time, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.

– Variable remuneration: this is the incentivizing component which functions as recognition and reward for the results achieved and objectives met, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking, Private Banking and Wealth Management divisions in particular) may form a significant portion of their annual pay, in line with reference market practice, without prejudice to the cap and to the other conditions established by the regulations in force.
  The variable remuneration is paid in cash and equity instruments, in part upfront and in part in subsequent years, subject to performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes. The section entitled "Variable component structure" describes the criteria and means of deferral in more detail.

– Benefits: in line with the market, compensation package is completed by a series of fringe benefits which are evidence of the ongoing attention paid by Mediobanca to the personal needs and welfare of its own staff, even after retirement. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes can be distinguished by families of professionals and geographical areas, but do not make provision for individual discretionary systems. The Bank's supplementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company. Company cars are provided only for the most senior figures.

e) Other information on remuneration structure

Under the terms of tax legislation and other relevant applicable regulations, company welfare systems may be implemented for all staff or like-for-like staff clusters. Such systems consist of the provision of non-cash services and instruments (such as training activities, education and study programmes, or care services), which the Group companies make available to employees and their families. Productivity and/or performance bonuses linked to complementary company contracts may be used to this end, or other amounts earmarked for welfare purposes for like-for-like categories of staff.

Buyout, sign-on and entry bonuses may be awarded to staff with particularly important profiles but only at the recruitment stage, and for the first year of their employment by the company, as per the regulations in force. They also include bonuses awarded upon recruitment to compensate for any loss in earnings from previous jobs, in accordance with sector practice. Such bonuses are decided and paid in accordance with the policies and regulations in force.

For specific categories of staff and/or on an individual basis, in cases which involve ongoing employment or its termination, contracts may be signed with minimum guaranteed duration clauses (sometimes referred to as stability pacts), or non-competition agreements or other arrangements as permitted under the applicable employment law and other regulations.

Any compensation paid to Group management for positions held on behalf of Mediobanca in Group or investee companies is paid to Mediobanca itself.

Staff members are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the company's risk. The control units carry out checks to this end.

Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to avoid the regulatory provisions.

Limit on variable remuneration

Subject to approval by shareholders in general meeting, and in accordance with the national and supranational regulations, the upper limit on the variable remuneration for all staff belonging to the Mediobanca Group [9] and hence for all identified staff has been set at 200% the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units, Human Resources and the Head of company financial reporting) [10].

The reasons justifying this proposed limit are primarily:

– The need to attract and retain the most talented staff, in investment banking especially, by aligning the Bank's practice with that of its competitors;

– The need to maintain the appropriate operating flexibility, minimizing the risks that would be associated with increasing the fixed labour cost component excessively;

– To ensure that the remuneration policy is consistent with incentives which seek to promote virtuous conduct in the pursuit of business objectives and value creation;

– To align the Bank with the policies adopted by the leading Italian and international banks;

– The increasing presence of competitors in sectors (financial institutions which are not banks, private equity, hedge funds) or geographies (United States, Far East) with a liberalized regulatory framework;

– The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

The sustainability of this limit is guaranteed by the provisions of the remunerations policies regarding the determination of the variable component, the correlation between risk and performance, and the performance conditions, malus conditions and clawback provisions.

[9] With the exception of staff not included in the definition of identified staff employed in business areas governed by sector regulations where there is no cap on variable remuneration under the present regulatory framework and in the absence of specific guidance from the supervisory authorities in this area.

[10] As at 30 June 2018, the Group's headcount comprised 4,717 staff made up as follows: 587 in Corporate & Investment Banking (with 41 qualifying as identified staff), 1,888 in Wealth Management (11 identified staff), 1,429 in Consumer Banking (3 identified staff), 801 in Holding Functions (32 identified staff), and 12 in Principal Investing (1 identified staff)..

Incentivization system: determination of variable remuneration and correlation between risks and performance

Determination of the variable remuneration and the correlation between risks and performance is achieved via a process which has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, in accordance with the risk profile defined in the Risk Appetite Framework (RAF), from the perspective of business continuity and sustainable results over the long term.

In more detail:

a) Gateways

Distribution of the variable remuneration earmarked for the remuneration of the "identified staff" in each Group organizational division only takes place if the following indicators or "gateways" are met:

a) Capital adequacy and liquidity requirements [11] indicated by the risk metrics adopted in the Risk Appetite Framework [12] approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP;

b) Positive operating profit delivered at Group level [13].

b) Budgeting phase

Under the process for defining the incentivization system and subsequently determining the divisional variable remuneration, in preparing the budget approved by the Board of Directors, the cost of labour is calculated for the financial year to come, including the amount of variable component, determined on the basis of the all the Mediobanca Group divisions' expected earnings performance targets, the market scenario and historical pay trends.

[11] CET 1 ratio, Leverage ratio, AFR/ECAP, liquidity coverage ratio, net stable funding ratio.

[12] The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

[13] Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

c) Determination of divisional variable remuneration

Once the final results have been closed, the variable remuneration payable to the Group's business divisions, including the share attributable to identified staff, is calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC and/or other risk-adjusted metrics) and on other secondary quantitative and qualitative objectives.

For the Wholesale Banking division[14], (the area in which the highest number of staff with a substantial impact on Mediobanca's risk profile are employed), the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit to be used for the variable remuneration. The amount determined is related to the results of the scorecards for the individual business units, which may be fine-tuned to ensure that overall sustainability is maintained. The aggregate amount also reflects assessment of other quantitative parameters (Group results, Risk Appetite Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual budget objectives and the three-year business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and market share, retention of key staff, need to recruit new professional talent).

For the Private Banking division, the Chief Executive Officer of Mediobanca identifies the share of ordinary gross operating profit, net of the cost of risk, to be set aside as variable remuneration. To determine this amount, other secondary quantitative metrics, such as inter-company cross-selling, cash/AUA transformation to AUM, and operational risk assessment) and qualitative metrics (management of resources, compliance with regulations) are also used.

For the other divisions and business lines (Consumer, Wealth Management Affluent/Premier, CMB and the entities performing asset management activities, Specialty Finance), the amounts are determined by the Chief Executive Officers of the relevant related legal entities, who to this end liaise with the General Manager and Human Resources department of Mediobanca S.p.A. (see section entitled "Remuneration policies for staff employed at Group companies").

[14] Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.

The variable remuneration to be allocated to staff employed in the Holding Functions and the Principal Investing division is established by the Chief Executive Officer of Mediobanca, on the basis – for the former – of general earnings sustainability with limited correlation to the Group's results, and – for the latter – of qualitative criteria and specific qualitative and quantitative performance indicators.

d) Distribution and allocation of variable remuneration

The variable remuneration for the individual business units of the Wholesale Banking division and the Group Treasury and Strategic Portfolio units included in the Holding Functions are calculated on the basis of scorecards which use Economic Profit or other risk-adjusted metrics depending on the nature of the business and activity, and other secondary quantitative metrics (such as reference to budget objectives and historical results performances) and qualitative metrics with the institution of a cap.

For the other divisions (see section entitled "Remuneration policies for staff employed at Group companies"), the variable remuneration is allocated based on internal organizational structure: for senior management, on the basis inter alia of individual scorecards; for the commercial branch network and credit management, based on reaching specific business indicators applicable individually or collectively by organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

e) Exceptions (variable remuneration for retention purposes and floors)

The Board of Directors, at the Chief Executive Officer's proposal and with the Remunerations Committee in favour, may authorize payment of variable remuneration for identified staff for retention purposes even if the gateways have not been met. The possibility of paying variable remuneration for retention purposes is assessed in the light of the causes for the individual gateways not being met, and the impact of the individual indicator on the Group's capital adequacy, liquidity and profitability, including through assessment of the causal link with the Group's various divisions. The scope of the staff and the amount involved is based mainly on the following criteria: the contribution of the individual beneficiary to the overall results of the division and the Group, the importance of the profile to the sustainability of future results, benchmark analysis of the market and competitive scenario, the need to ensure business continuity, and consistency with the succession planning policy.

Furthermore, if the gateways are met but an Economic Profit or other divisional indicator is delivered which is negative or small, the Chief Executive Officer may also propose a variable remuneration floor pool for identified staff, agreeing the rationale for distributing the proceeds with the governing bodies based on the individual contributions of the business activities to the company's results.

f) Assessment of individual quantitative and qualitative performance in the award of the variable remuneration

The individual incentivization system and assignment of variable remuneration to individual beneficiaries are established via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed, the variable remuneration may either not be paid or may be reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary fully maintaining their status as an employees of the Mediobanca Group throughout the assessment period and still being in the company's employment at the actual date of distribution and/or not serving a period of notice for resignation or dismissal. The remuneration may not be split over fractions of years, hence if the employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the performance assessments are ratified individually by the Chief Executive Officer and General Manager of Mediobanca with the support of Group HR.

Mediobanca valorizes its staff on a meritocratic basis, developing their professional capabilities and career opportunities in accordance with the

[15] The other contractual forms provided for by the regulations apart from full employment contracts (e.g. collaboration or employment agency contracts) are considered equivalent

principle of equal opportunities and in line with the Bank's own strategic, organizational and business choices. Professional development is facilitated through the provision of the appropriate training, practical work experience under the leadership of line managers, mobility across different positions, assessment of performance, and ultimately the career advancement and promotion process.

At the start of the year the professional, personal and company objectives for each staff member are assigned and discussed with the respective line manager. Such objectives are meant to be achievable, challenging and weighted according to the priority assigned to each staff member. Particular attention is paid to proper individual conduct in accordance with the provisions of the Code of ethics, Organizational model and Business conduct policy, and in general terms with the principles established by the laws, regulations, operational rules and internal procedures, with reference in particular to those considered to be most relevant in terms of reputational risk.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Interim feedback throughout the year also allows the line managers and staff to agree on the extent to which the objectives have been met, as part of objective discussion of individual performances. In this way the organization is able to reach its objectives while respecting its corporate values, and transparency is assured in the area of training opportunities, professional development and assessment criteria.

For staff belonging to the business units, the assessment reflects:

– Earnings results achieved, e.g. reaching or not reaching budget targets and objectives in terms of improvement from the previous year, with reference to the risk/return and cost/income ratios;
– Qualitative criteria: development of product offering, professional conduct and reliability, quality in terms of customer relationships, technical and analytical skills in the field of finance, ability to control costs, importance placed on achieving operating efficiency, and co-operation with other areas of the Bank, reputational and compliance issues, and adherence to the Bank's values.

For all the other units, the main aspects of assessment are based on qualitative objectives and a broader appraisal regarding compliance with regulations, control of costs and efficient management of resources. In particular, for staff employed in the accounting, planning and control areas the following aspects are considered: all obligatory, supervisory and market disclosure requirements being complied with, all the accounting processes, related electronic procedures and tax requirements being managed efficiently and accurately. For staff employed in the internal control units, i.e. Group Audit, Compliance and Risk Management, continuous monitoring and control of the Bank's processes and operations, carried out independently and autonomously to prevent risk situations developing and ensure irregular behaviour or events is picked up swiftly; continuous assessment of compliance with the regulations in the form of appropriate audit plans, updates to internal guidance, training of internal units; correct development of models, methodologies and metrics with which to measure market, credit and operational risks, producing adequate reporting for monitoring processes and accurate analysis of new products and their risk profiles.

In close relation to the valuation process, staff may also be involved in a career advancement pathway, which may involve covering new organizational roles, promotion to a new contractual level or being assigned a new corporate title based on the experience acquired and results achieved. Promotions are proposed by the head of the business unit concerned, agreed with Human Resources and approved by the General Manager and/or the Chief Executive Officer (for middle management). For higher levels (senior management or equivalent), the process involves specific appraisal of the candidate concerned, including by other senior Bank staff from a variety of different professional backgrounds, experience and roles. The process is closely linked to that of succession planning which involves researching, identifying and managing individual candidates for senior positions (specifically executive directors, including in cases where such figures have to be replaced ahead of the scheduled expiry of their term of office, in view of the fact that under Mediobanca's current Articles of Association, some of the directors must be chosen from among staff with at least three years' experience as senior management employed by Mediobanca Banking Group companies). The process also requires a pool of possible high-potential replacements to be identified (the "senior talent pool") for key positions, including the business areas, control units, and staff and support roles, in view of likely future requirements in terms of strategic leadership and/or professional and managerial capabilities based on a global organizational approach, without neglecting to monitor the market on an ongoing basis. Growth and career development pathways are devised for such staff, including involvement in specific strategic projects, exposure to Board/committee meetings, and international and intra-Group rotation. Selection is based on assessment of professional and technical skills, as shown by CV and company record as well as performance over time, possession and development of key leadership capabilities.

The remunerations policies are therefore co-ordinated with the selection, appointment, succession and assessment of the adequacy of company representatives and Key Function Holders and the Staff management policies.

Variable component structure: timescale for distribution and instruments

A substantial proportion of the variable component is deferred in time and distributed in the form of equity instruments, in order to link incentives to the objective of value creation in the long term, and to allow the continuity of the company's positive results to be ascertained.

The variable component payable to directors with executive duties, to senior management (i.e. groups 2 and 3 of the table shown in the section entitled "Identified staff") and to staff employed in areas operating on financial markets, included in groups 5 and 7 of the same table, is deferred as to 60%.

For the remaining identified staff the deferred share is 40%.

The time horizon for deferral is three years, save for directors with executive duties and for senior management (i.e. groups 2 and 3 in the table shown in the section entitled "Definition of identified staff"), for whom it is five years, with annual distributions made pro rata. Deferral applies to any amount of variable remuneration.

For line managers and senior staff in the control units and staff and support areas (groups 4 and 6), deferral is applied to variable remuneration which is equal to or exceeds €80,000.

The upfront component (i.e. paid in the same year as the award is made) and the deferred variable remuneration are distributed as to 50% in cash and as to 50% in equity instruments (ordinary shares).

After the vesting period, the shares are subject to a further retention holding period, of two years for the upfront component and one year for the deferred component.

Given the full time horizon over which the variable remuneration is distributed, in cash and shares, the economic benefit for recipients is spread across six financial years for management staff and over five years for the other identified staff.

Mediobanca also applies a 30% deferral over a three-year time horizon, all in cash and subject to malus conditions, to all staff not included in the definition of identified staff who receive variable remuneration equal to or higher than €100,000 [16].

Performance conditions, malus condition and clawback

The deferred variable remuneration component is paid, provided that:

– The beneficiary is still a Group employee [17] and not serving a period of notice for resignation or dismissal;

– In each of the financial years, the performance conditions equating to the gateways described in the section entitled "Incentivization system: determination of variable remuneration and correlation between risks and performance" are met;

– The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as ratified by the Risk Management unit;

– The beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary measures under the terms, inter alia, of Mediobanca's Code of ethics, Organizational model, Business conduct

[16] The same deferral structure also applies in those Group companies which do not have a specific policy of their own and which therefore adopt the Group policy directly.

[17] Equivalent provisions are made for other forms of employment relationships (e.g. collaboration or agency contracts). For Directors of Group companies who are not tied to the Group by employment contracts, when their terms of office come to an end as a result of expiring naturally or failing to be renewed, the rights are maintained subject to the provisions of the specific individual agreements and provided that the person concerned has not left office due to compliance breaches or other deeds attributable to them

policy and other internal regulations [18]) and no losses have been incurred which were attributable to their actions.

This method is consistent with the requirement for staff, in accordance with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital base, a strong liquidity position and close control of all risks as well as positive earnings results, thus guaranteeing that the remuneration systems remain sustainable over the long term.

For staff employed at other Group companies, the Chief Executive Officer may choose to identify one or more specific economic indicators to replace those referred to above.

The Board of Directors, with the favourable opinion of the Remunerations Committee, may, at the Chief Executive Officer's proposal, authorize payment of the deferred component, including in part, even if the gateways are not achieved, either to business divisions or individuals who during the year have delivered particularly outstanding performances or who are expected to be decisive with regard to the sustainability of results over time, for retention purposes.

Mediobanca reserves the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being established.

[18] The remuneration and incentivization system must not only discourage inappropriate behaviour but must also contribute to promoting good conduct. For this reason conduct is an important issue of the remuneration polices, which must take due account of individual and collective responsibilities in the event of misconduct and establish their impact on remuneration. To this end Mediobanca has drawn up a Group directive which lays down the rules for identifying and assessing compliance breaches and their impact on the variable remuneration component, whether already awarded or still to be awarded. In more detail, in the event of compliance breaches being committed malus mechanisms can be activated to reduce or wipe out the value of: (i) the variable remuneration to be assigned for each year in connection with the annual performance assessment of the individual concerned or a specific unit; and/or (ii) deferred component for previous years as yet unpaid; or clawback mechanisms, which require an amount of the variable remuneration already distributed to be repaid. For the purposes of identifying a compliance breach, account is principally taken of violations noted by the control units (Compliance & Group AML, Group Audit and Group Risk Management) and the authorities (e.g. Bank of Italy, Consob). To ensure greater effectiveness, and in accordance with the principle of proportionality, under the terms of the Directive only relevant violations constitute compliance breaches, i.e. incidents which have exposed Mediobanca to a significant risk of non-compliance with the regulations. In general terms, this involves violations which give rise to criminal or administrative liability as a result of a crime being committed (e.g. those contemplated in Italian Legislative Decree 231/01) and violations specific to the banking and financial sector (e.g. market abuse, provision of banking or investment services, anti-money-laundering, business conduct). Any more minor breaches noted by the control units and/or behavioural violations detected by Group HR, despite not constituting compliance breaches, may in any case be taken into consideration in connection with payment of variable remuneration as part of the performance assessment process, which always includes assessment of general conduct among the objectives, along with the individual operating targets. The relevance of the violation is assessed on the basis of the following issues: seriousness of the violation, extent of the violation, and external relevance. Each compliance breach is assessed on the basis of each of the foregoing criteria, assigning a value of nil, low, medium or high and establishing an overall score. For each score the variable component is reduced by a certain amount affecting the remuneration for the current financial year (in-year adjustment) and/or the deferred component assigned in previous years but not yet distributed. In the event of enquiries or disciplinary proceedings being launched by the authorities which have not resulted in procedural violations being clearly established, it may be decided to suspend payment of the variable remuneration, either the upfront and/or deferred component as yet unpaid depending on the results of the enquiries. The outcome of the assessment and the impact on the variable remuneration, individual or unit scorecard, is formalized and stored by the Compliance unit, with regular reporting to the governing bodies.

In particular, provision for such measures is made in cases involving breach of the obligations imposed under Article 26 of the Italian banking act (company representatives – personal and professional qualifications and independence) or, where relevant to the party involved, Article 53, paras. 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Performance share schemes

In order to have ordinary shares for use as components of staff remuneration, Mediobanca has adopted a performance share scheme, approved by shareholders at the annual general meeting to be held on 28 October 2015, to which reference is made for all further details.

The scheme involves the award of Mediobanca shares to beneficiaries as the equity component of the variable remuneration granted to them as a result of the annual or long-term performance assessment process. The shares awarded are actually assigned to the beneficiaries at the end of a vesting period of at least three years – two years for the upfront component – provided that the beneficiaries are still employed by the Group and that the performance conditions stipulated in the remuneration policies in force at the time under the section entitled "Performance conditions, malus condition and clawback" regarding the sustainability of the results achieved have been met, without prejudice to the company's capital solidity and liquidity and/or proper individual conduct.

The performance shares awarded as deferred equity component, after the performance conditions for the reference year have been checked, are subject to a further holding period of at least one year prior to the their actual assignation, which remains conditional upon the beneficiary continuing to work for Mediobanca. The performance shares awarded as upfront equity component are subject to a holding period of two years prior to their actual assignation, which remains conditional upon the beneficiary continuing to work for the Group.

The Chief Executive Officer may also use ordinary shares as an instrument outside the annual award cycle, to define remuneration packages upon the occasion of recruiting new key staff. The governing bodies may also award quantities of performance shares as part of compensation agreed in respect of early termination of the working relationship, to link it to the performance delivered and the risks taken by the individual and the Bank, as required by the regulations in force and consistent with the provisions of the remunerations policies in force at the time.

The shares received are personal, without prejudice to inheritance rights. The right to receive shares is retained in the event of retirement or the beneficiary being permanently disabled and/or suffering from an illness which makes them unable to continue working. Conversely, the right to receive shares is forfeited in cases where the beneficiary tenders their resignation or is dismissed. Exceptions to the foregoing are handled by the governing bodies within their respective areas of authority, namely the Board of Directors, Remunerations Committee and the Chief Executive Officer, based on the powers vested in them, particularly in cases which involve departures by mutual consent within the limits defined by the remunerations policies in force at the time. The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies, and without prejudice to any regulations providing for more favourable treatment instituted by the applicable local legislations.

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for award to Mediobanca Group staff members before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code, which was approved by shareholders on 28 October 2015. A total of 6,856,737 shares remain, and at present there is a total of 6,840,878 performance shares assigned against the resolution adopted by shareholders but not yet allocated on account of their being subject to vesting and/or holding periods. Alternatively and/or in addition, those of the 8,714,833 treasury shares currently held by the Bank and not reserved for other purposes may be used to this end [19]. The fully-diluted percentage of the share capital accounted for by the equity instruments assigned to Group staff amounts to 0.78%. The impact on the stock's value and the possible dilution of the share capital is negligible, given that there are several schemes in operation over different years and with different vesting and holding periods over a medium-/long-term time horizon [20].

[19] Any other treasury shares acquired in accordance with the provisions of the resolution adopted by shareholders in the annual general meeting held on 27 October 2018 may be used for the same purposes.

[20] At the extraordinary annual general meeting held on 27 June 2007, the shareholders of Mediobanca adopted a stock option, which was then revised by the Board of Directors at a meeting held on 24 June 2011 to become a performance stock option scheme. A total of 150,000 options assigned in 2011 at €6.430 under the terms of this scheme remain outstanding, and may be exercised by 30 June 2019. The 24,464,000 shares remaining from the capital increase (to be implemented by 1 July 2022) can no longer be used

Remuneration policies for staff employed at Group companies

Mediobanca liaises constantly with its Group companies to ensure that the remuneration and incentivization systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation, organizational structures, regulations applicable according to type of business and geographical location. In particular the parent company manages the process of defining identified staff, issues guidance to be adopted and takes part in drafting documents relating to the remunerations policies to be compiled by the subsidiaries.

Mediobanca approves the amount of the variable remuneration, including that for identified staff in the different companies and their allocation; establishes the objectives for the CEOs and/or General Managers of the Group companies, and ascertains whether they have been met; and defines the basic principles of the guidelines of the incentives mechanism for the other staff at the companies, leaving the specific decisions up to their respective Boards of Directors.

The incentivization system is reserved specifically to senior staff who, on account of their professional specialization, organizational role and importance to the business, have an impact on their companies' performance and value creation. The beneficiaries are identified by the Chief Executive Officer and/or General Managers of the companies themselves, after consulting with the General Manager and the Human Resources department of Mediobanca. Each beneficiary is notified of their inclusion in the incentives scheme, with a defined annual bonus target and calculation method. The bonus is determined annually on an individual basis in view of the risk-adjusted earnings performance delivered by the company (the indicator used for the Group companies is usually the economic profit earned by the business area and/or the ROAC delivered by the business division in which they work or by other specific risk-adjusted metrics based on the type of activity, as is the case with asset management activity) and other secondary, quantitative objectives. For the commercial branch network and credit management, establishment of the variable component is based on specific quantitative indicators which can be applied individually or collectively by organizational unit. Valuation indicators are also adopted to incentivize proper relations with clients, including (but not limited to): customer satisfaction analysis, commodity checks, absence of complaints attributable to specific responsibilities for improper conduct versus clients, assessment of other quality indicators (e.g. correct MiFID profiling, absence of contractual irregularities, observance of internal processes in the area of powers, proxies and guidelines). Due consideration is also taken of the results of checks made by the control units. The assessment is completed by consideration of whether or not individual and project objectives have been achieved. The completed assessment is validated by Mediobanca S.p.A. For the staff, support and control units, allocation is based primarily on qualitative criteria.

Below given limits, the bonus is paid entirely in cash in the year in which it accrues. Above such limits provision is made for forms of deferral, on a three-year basis. In the event of losses related to provisions which prove to be insufficient, contingent liabilities or other items which might prejudice the integrity of the accounts (such instances not to be construed restrictively; the "malus conditions"), all or part of the deferred share may not be paid.

In line with the provisions in place for Mediobanca, the incentivization schemes in operation at the Group companies too place particular emphasis on the issue of proper individual conduct (i.e. compliance with regulations and internal procedures, and transparency versus clients) by adopting the concept of compliance breaches, both at the stage of award of the variable component, and in assessment of whether or not to pay any deferred components.

External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group, via the Wealth Management division, also uses financial advisors retained on the basis of agency contracts. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view inter alia of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components.

The recurring component chiefly consists of direct commissions (on various products, such as Asset Management, Individual Asset Management, Insurance, Asset Administration, Direct Funding, Bank Services, bank products offered by the Mediobanca Group), and indirect commissions ("oven" fees if a management mandate is issued, calculated based on the business promoted by the advisors co-ordinated and concluded by the Bank).

These are credited back on various grounds (e.g. sales, maintenance, management, negotiation and distribution fees) based on the commission table in force from time to time and attached as an annex to the agency contract. They constitute the more stable, ordinary component of their remuneration and in themselves do not serve for incentivization purposes (comparable to the fixed remuneration component for employees).

The non-recurring component does serve for incentivization purposes (and is therefore comparable to the variable remuneration component for employees) and is linked, for example, to beating certain targets in terms of funding (bonus for developing portfolios or growing the Bank's customers), launch of new products, long-term incentivization schemes operative over several years, etc.

As required by the regulations in force, the Group includes staff members belonging to this category in the process of defining identified staff. The qualitative identification criteria adopted refer to the possible liability on the part of the relevant organizational units for the earnings, financial or reputational risk to which they could expose the Group. The quantitative criteria provided for by the regulations are also adopted for employees to be included in the definition of identified staff; these regulations also govern exclusion mechanisms and procedures, if any.

In accordance with the provisions for employees, for financial advisors too, particular attention is paid to the issue of assessment of proper individual conduct and control of operational and reputational risks (such as compliance with the regulations and internal procedures, and transparency versus clients) through adoption of the mechanism known as compliance breach. Specific events or behaviours are monitored ex post, including (without limitation): sanctions or precautionary measures taken by the supervisory authorities against the financial advisor, complaints made by clients for facts attributable to the financial advisor, fraudulent behaviour or wilful misconduct by the financial advisor, failure to comply with the sector regulations, internal procedures and conduct obligations versus clients, with reference in particular to the duty to act in accordance with the principles of professionalism and proper conduct in relations with clients. Appropriate organizational procedures to prevent such situations from occurring are put in place ex ante.

The same rules apply to non-recurring remuneration received by financial advisors included in the definition of Group identified staff as apply to the payment of variable remuneration for the other identified staff (i.e. gateways, cap, deferral, malus clause and clawback).

Asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, Switzerland, Luxembourg, Principality of Monaco). They are subject to the sector regulations instituted by the local regulators (for the European companies this means the national regulations transposing the UCITS V and AIFMD directives) based inter alia on the criteria of proportionality and within the broader framework of the consolidated banking regulations on subjects including:

– Role of shareholders in general meeting, governing bodies, Remunerations Committee, and governance processes in general where applicable;
– Definition of identified staff at individual and consolidated levels;
– Remuneration and incentivization system structures correlated to performance indicators for the manager and the UCITS and AIFs managed and measured net of the risk concerning their operations, and which take account of the level of the capital and liquidity resources necessary to cover the activities and investments made;
– Application of specific means of deferral between different categories of risk-takers, including the assignment of variable remuneration in the form of financial instruments linked to shares in funds or equivalent non-cash instruments;
– Caps on variable remuneration, if any, as a result of forming part of the banking group and the regulations applicable to it from time to time and/or the relevant jurisdiction;
– Specific malus clauses and clawback mechanisms;
– Dismissal or resignation;
– Disclosure requirements.

Policies in the event of employment being terminated or otherwise ending

As provided by the regulations and the Articles of Association, the shareholders in ordinary general meeting are responsible for determining the compensation to be awarded in cases of early termination, including the limits

[21] In Italy this refers to the joint Bank of Italy/Consob regulations issued on 28 April 2017 which transposes and combines the UCITS V and AIFMD guidelines.

set on such compensation in terms of the annual fixed salary and the maximum amount deriving from applying them.

a) Treatment for directors leaving office early

Mediobanca does not make payments other than the ordinary component to directors who leave office for any reason.

b) Treatment for employees

Treatment for individuals linked to Mediobanca Group companies under the terms of employment contracts (i.e. including directors who are members of the Group's senior management and all identified staff, including the aggregate of management with strategic responsibilities) requires payment of:

– The amount established and due in accordance with the provisions of law and the locally applicable contractual regulations in respect of the cost of the failure to provide notice [22] and other entitlements payable upon termination (severance provision, holiday leave etc.);
– A possible additional amount by way of severance: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment relationship is terminated by mutual consent, with a view to minimizing the earnings and reputational risks, present and future, which the Bank might face as a result of possible disputes;
– Other types of arrangement, e.g. to cover non-competition agreements or settlements paid in respect of potential moral or material damages.

c) Severance pay amount

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual),

[22] In Italy the period of notice required is established on the basis of the national collective labour contracts in force at the time. Usually the notice period will be from six to twelve months, depending on the number of years' service the employee concerned has accrued

as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation given the variety of individual cases, the following factors in particular are taken into account: number of years' service within the Group, age and personal and social conditions, role and organizational position held, the historical performance in qualitative/quantitative terms delivered by the individual concerned, the reasons underlying the termination of the employment relationship (which in some cases may be organizational and strategic rather than related to the question of individual performance), the performance of activities which have generated criticalities for the risk profile established by the Group, the adoption of personal conduct which does not conform to company values, and the existence of risks for the Bank linked to possible disputes. The approach adopted reflects the effective and long-term results of the individual and company performance.

The basis for calculating the additional monthly salaries to be paid by way of severance is usually the most recent fixed salary, the average variable remuneration paid over a given time horizon (generally the last three years), and in some cases the value of fringe benefits.

Mediobanca defines the total maximum amount payable by way of severance as 24 monthly salaries, as previously defined and in any case no more than €5m, unless provided otherwise by shareholders in general meeting. This amount includes any non-competition agreements. The amount does not include any amounts paid as indemnity for failure to give notice and the other amounts due in connection with termination of the employment relationship (severance provision, holiday leave etc.) referred to under the first bullet point of the foregoing point b) [23]. Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

Severance may not be paid in cases where the conduct of individual staff members has resulted in damages to the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

[23] In terms of the number of years' fixed remuneration, if an employee has received variable remuneration throughout the time horizon considered equal to twice their annual fixed salary (cf. 2:1 cap), a total of six years' annual salary would be considered. This provision, which is entirely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.

d) Timescales for payment and instruments used

For identified staff included in clusters 2 and 3 in the table shown in the section entitled “Definition of identified staff”, the methods and timescales provided for in making severance payments and any compensation for non-competition agreements entered into upon terminating an employment relationship include payment of a deferred share of at least 40% over a time horizon of at least three years, use of shares or instruments related to them, payment being made subject to malus conditions in the event of liability being established in cases of fraud and/or wilful misconduct and/or attributed in a court of law to the individual staff member’s own responsibility during the period in which they worked for the company which emerge after the employment relationship has been terminated. For other identified staff, forms of deferral and risk adjustment may be applied, with the appropriate methods to be identified based on the amount to be paid by way of severance, in addition to the considerations described under point c) above. The Bank also reserves the right to use the claw back mechanism in the cases provided for in the applicable employment law regulations.

e) Treatment of any variable remuneration deferred component awarded but not yet paid and fringe benefits

Entitlement to receive deferred variable remuneration components, in cash and/or equity, awarded in previous years but not yet paid, is forfeited in cases where staff members tender their resignations or are dismissed, as the entitlement to any company benefits.

In cases where termination of the employment relationship is by mutual consent, and for treatment in cases of “good leavers”, exceptions providing for more favourable treatment in individual cases and the possibility of applying more favourable local legislations, are handled by the governing bodies within their respective areas of responsibility, namely the Board of Directors, Remunerations Committee and Chief Executive Officer, based on the powers vested in them.

f) Decisions by third parties

The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies.

g) Involvement of governing bodies

Regular reporting is made to the Remunerations Committee on any decisions taken vis-à-vis employees qualifying as identified staff, and the Committee itself is involved promptly in deciding on the treatment of the most significant individual cases.

h) Arrangements for the Chairman, the Chief Executive Officer and General Manager

In cases where the Chairman (if a member of the Group's management), Chief Executive Officer and/or General Manager leave the Bank's employment for any reason, the provisions of the Group's remuneration policies for identified staff and the sector regulations in force from time to time shall apply. Any amounts paid in cash, in addition to notice, shall be subject to contributions to the company's complementary pension scheme, and save in cases of dismissal for just cause, the said persons will be allowed to retain any financial instruments assigned to them up to the time when the employment relationship is terminated.

Dear Shareholders,

In view of the foregoing, we invite you to adopt the following proposed resolution for which, as in previous years, three separate votes will be held:

"At an ordinary general meeting, the shareholders of Mediobanca

in view of the Staff remunerations policies for FY 2017-18 as illustrated in the Board of Directors' report,

HEREBY RESOLVE

Resolution 1: to approve the new staff remuneration policies as illustrated in the Board of Directors' report;

Resolution 2: to adopt the provision instituted in the section entitled "Limit on variable remuneration" which establishes the ratio between variable and fixed remuneration at a maximum of 2:1, without prejudice to the fact that such ratio may not in any case exceed the maximum amount permitted by the law and regulations in force;

Resolution 3: to adopt the provision instituted in the section entitled "Policies in the event of employment being terminated or otherwise ended", establishing the criteria for determining the compensation to be agreed in cases where directors or staff leave office or cease working for Mediobanca early, including the limits on such compensation in terms of the number of annual fixed salary payments to be made and the maximum amount deriving from their application;;

and to confer on the Board of Directors and the Chief Executive Officer and/or the General Manager on its behalf, the broadest powers to execute all deeds and perform all measures and formalities necessary in order to implement each of the three foregoing resolutions including the power to make all amendments to the new staff remunerations policies that prove necessary to bring them into line with the law and regulations in force from time to time".

Milan, 20 September 2018

THE BOARD OF DIRECTORS

Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/17	30/06/18	30/06/20	100,000	1,800,000					350,396				
	Member of Appointments committee										of which complementary pension scheme 346,411				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**				**350,396**		**2,250,396**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,800,000**	**1,900,000**				**350,396**		**2,250,396**		
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/17	30/06/18	30/06/20	135,000		135,000						135,000		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**225,000**		**225,000**						**225,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**225,000**		**225,000**						**225,000**		
Alberto Pecci	Deputy Chairman of Board of Directors	01/07/17	30/06/18	30/06/20	123,589		123,589						123,589		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**153,589**		**153,589**						**153,589**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**153,589**		**153,589**						**153,589**		
Alberto Nagel	CEO	01/07/17	30/06/18	30/06/20	100,000	1,800,000	1,900,000		748,800		448,356		3,097,156	951,375	
											of which complementary pension scheme 443,463				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**		**748,800**		**448,356**		**3,097,156**	**951,375**	
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,800,000**	**1,900,000**		**748,800**		**448,356**		**3,097,156**	**951,375**	

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Francesco Saverio Vinci	General Manager	01/07/17	30/06/18	30/06/20	100,000	1,500,000	1,600,000		539,520		375,660		2,515,180	694,220	
											of which complementary pension scheme 369,136				
	(I) Compensation in company preparing the accounts (5)				**100,000**	**1,500,000**	**1,600,000**		**539,520**		**375,660**		**2,515,180**	**694,220**	
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,500,000**	**1,600,000**		**539,520**		**375,660**		**2,515,180**	**694,220**	
Marie Bolloré	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**120,000**		**120,000**						**120,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**120,000**		**120,000**						**120,000**		
Cesar Alierta	Director	28/10/17	08/03/18	08/03/18	36,164		36,164						36,164		
	Member of Remunerations committee	28/10/17	08/03/18	08/03/18	10,849		10,849						10,849		
	(I) Compensation in company preparing the accounts				**47,013**		**47,013**						**47,013**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**47,013**		**47,013**						**47,013**		
Maurizio Carfagna	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee	01/07/17	30/06/18	30/06/20	80,000		80,000						80,000		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**210,000**		**210,000**						**210,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018 (2)				**22,699**		**22,699**						**22,699**		
	(III) Total				**232,699**		**232,699**						**232,699**		
Maurizio Costa	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Remunerations committee	01/07/17	27/10/17	30/06/17	9,780		9,780						9,780		
	Chairman of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**129,780**		**129,780**						**129,780**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**129,780**		**129,780**						**129,780**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Angela Gamba	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**121,315**		**121,315**						**121,315**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**121,315**		**121,315**						**121,315**		
Valérie Hortefeux	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Remunerations committee	28/10/17	30/06/18	30/06/20	20,219		20,219						20,219		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**141,534**		**141,534**						**141,534**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**141,534**		**141,534**						**141,534**		
Alberto Lupoi	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Remunerations committee	28/10/17	30/06/18	30/06/20	20,219		20,219						20,219		
	Member of Appointments committee	28/10/17	30/06/18	30/06/20	13,479		13,479						20,219		
	(I) Compensation in company preparing the accounts				**101,096**		**101,096**						**101,096**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**101,096**		**101,096**						**101,096**		
Elisabetta Magistretti	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Chairman of Risks committee and Related parties committee	01/07/17	30/06/18	30/06/20	80,000		80,000						80,000		
	Member of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	Member of Remunerations committee	01/07/17	27/10/17	30/06/17	9,781		9,781						9,781		
	(I) Compensation in company preparing the accounts				**209,781**		**209,781**						**209,781**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**209,781**		**209,781**						**209,781**		
Massimo Tononi	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**121,315**		**121,315**						**121,315**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**121,315**		**121,315**						**121,315**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Gabriele Villa	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Executive Committee	28/10/17	30/06/18	30/06/20	60,658		60,658						60,658		
	(I) Compensation in company preparing the accounts				**128,055**		**128,055**						**128,055**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**128,055**		**128,055**						**128,055**		
Marco Tronchetti Provera	Deputy Chairman of Board of Directors	01/07/17	27/10/17	30/06/17	44,014		44,014						44,014		
	(I) Compensation in company preparing the accounts (1)				**44,014**		**44,014**						**44,014**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**44,014**		**44,014**						**44,014**		
Tarak Ben Ammar	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Gilberto Benetton	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Mauro Bini	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Member of Risks committee and Related parties committee	01/07/17	27/10/17	30/06/17	26,082		26,082						26,082		
	Chairman of Appointments committee	01/07/17	27/10/17	30/06/17	6,521		6,521						6,521		
	(I) Compensation in company preparing the accounts				**65,206**		**65,206**						**65,206**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**65,206**		**65,206**						**65,206**		
Angelo Casò	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Member of Executive Committee	01/07/17	27/10/17	30/06/17	29,342		29,342						29,342		
	(I) Compensation in company preparing the accounts				**61,945**		**61,945**						**61,945**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**61,945**		**61,945**						**61,945**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Marina Natale	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Vanessa Labérenne	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Chairman of Remunerations committee	01/07/17	27/10/17	30/06/17	9,781		9,781						9,781		
	Member of Risks committee and Related parties committee	01/07/17	27/10/17	30/06/17	26,082		26,082						26,082		
	(I) Compensation in company preparing the accounts				**68,466**		**68,466**						**68,466**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**68,466**		**68,466**						**68,466**		
Gian Luca Sichel	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018					**200,000**	**200,000**				**2,420**		**202,420**		
	(III) Total				**32,603**	**200,000**	**232,603**				**2,420**		**235,023**		
Alexandra Young	Director	01/07/17	27/10/17	30/06/17	32,603	113,333	145,936				13,957		159,893		
											of which complementary pension scheme 12,322				
	(I) Compensation in company preparing the accounts				**32,603**	**113,333**	**145,936**				**13,957**		**159,893**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**	**113,333**	**145,936**				**13,957**		**159,893**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Management with strategic responsibilities						3,565,523	3,565,523		1,577,785		287,059 of which complementary pension scheme 253,592	39,595	5,469,962	1,635,881	470,000
	(I) Compensation in company preparing the accounts (3)					**3,565,523**	**3,565,523**		**1,577,785**		**287,059**	**39,595**	**5,469,962**	**1,635,881**	**470,000**
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total					**3,565,523**	**3,565,523**		**1,577,785**		**287,059**	**39,595**	**5,469,962**	**1,635,881**	**470,000**
Natale Freddi	Chairman of Statutory Audit Committee	01/07/17	30/06/18	30/06/20	166,959		166,959						166,959		
	(I) Compensation in company preparing the accounts				**166,959**		**166,959**						**166,959**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**166,959**		**166,959**						**166,959**		
Laura Gualtieri	Member of Statutory Audit Committee	01/07/17	30/06/18	30/06/20	128,589		128,589						128,589		
	(I) Compensation in company preparing the accounts				**128,589**		**128,589**						**128,589**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**128,589**		**128,589**						**128,589**		
Francesco Di Carlo	Member of Statutory Audit Committee	28/10/17	30/06/18	30/06/20	94,356		94,356						94,356		
	(I) Compensation in company preparing the accounts				**94,356**		**94,356**						**94,356**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**94,356**		**94,356**						**94,356**		
Gabriele Villa	Member of Statutory Audit Committee	01/07/17	27/10/17	30/06/17	34,233		34,233						34,233		
	(I) Compensation in company preparing the accounts				**34,233**		**34,233**						**34,233**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**34,233**		**34,233**						**34,233**		

1) Fees are paid directly to the company of origin

2) Fees due in respect of position held in Mediobanca SGR

3) Other forms of compensation: fixed amount awarded for length of service (XX years) as established by Company Supplementary contract.

Table 2: Stock options granted to members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Options held at start of financial year			Options awarded during the year						Options exercised during the year			Options expired during the year	Options held at year-end	Options attributable to the year
A	B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2)+(5)-(11)-(14)	(16)
Name and surname	**Post**	**Scheme**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	***Fair value at award date***	**Award date**	**Market price of shares underlying award**	**No. of options**	**Strike price**	**Market price of underlying shares at exercise date**	**No. of options**	**No. of options**	***Fair value***
Renato Pagliaro	Chairman	27/10/07	150,000	6.537	From 2 August 2013 to 1 August 2018							150,000	6.537	9.822			
Alberto Nagel	CEO	27/10/07	350,000	6.537	From 2 August 2013 to 1 August 2018							350,000	6.537	9.822			
Francesco Saverio Vinci	GM	27/10/07	250,000	6.537	From 2 August 2013 to 1 August 2018							250,000	6.537	9.822			
Managerial staff with strategic responsibilities		27/10/07	25,000	6.537	From 2 August 2013 to 1 August 2018							25,000	6.537	9.822			
(III) Total			**775,000**									**775,000**					

Managerial staff with strategic responsibilities at 30 June 2018.

Table 3A: Incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and allocated		Financial instruments attributable to the year
A	**B**	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Name and surname	**Post**	**Scheme**	**No. and type of instrument**	**Vesting period**	**No. and type of financial instrument**	**Fair value at award date**	**Vesting period**	**Award date**	**Market price at award**	**No. and type**	**No. and type**	**Value upon vesting**	**Fair value**
Alberto Nagel	CEO	28-Oct-10	73.563 *Performance shares*	Nov. 2018 – Nov. 2019							49,042	461,976	128,658
		28-Oct-15	183.956 *Performance shares*	Nov. 2018 – Nov. 2021									242,787
		28-Oct-15	152.387 *Performance shares*	Nov. 2019 – Nov. 2022									314,329
		28-Oct-15			150,981 *Performance shares*	1,005,871	Nov. 2020 – Nov. 2023	27 September 2018	9.122				265,601
Francesco Saverio Vinci	GM	28-Oct-10	61.140 *Performance shares*	Nov. 2018 – Nov. 2019							40,758	375,789	110,971
		28-Oct-15	91.627 *Performance shares*	Nov. 2018 – Nov. 2021									120,929
		28-Oct-15	116.830 *Performance shares*	Nov. 2019 – Nov. 2022									240,985
		28-Oct-15			125,818 *Performance shares*	838,229	Nov. 2020 – Nov. 2023	27 September 2018	9.122				221,335
Managerial staff with strategic responsibilities		28-Oct-10	20.646 *Performance shares*	Nov. 2018							41,291	388,961	24,638
		28-Oct-10	101.883 *Performance shares*	Nov. 2018 – Nov. 2019							69,955	658,976	191,079
		28-Oct-15	323.752 *Performance shares*	Nov. 2018 – Nov. 2021									432,107
		28-Oct-15	256.802 *Performance shares*	Nov. 2019 – Nov. 2022									534,885
		28-Oct-15			254,309 *Performance shares*	1,697,921	Nov. 2020 – Nov. 2023	27 September 2018	9.122				453,172
Total			**1,382,586**		**531,108**	**3,542,021**					**201,046**	**1,885,702**	**3,281,476**

Managerial staff with strategic responsibilities at 30 June 2018

Table 3B: Cash incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

A	B	(1)	(2)			(3)			(4)
Name and surname	Post	Scheme	Bonus for the year			Previous years' bonuses			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/paid	Deferred	Deferral period	No longer payable	Payable/ paid	Still deferred	
Alberto Nagel	CEO	FY 2017/2018	496,800	745,200	Nov. 2019 - Nov. 2023				
		FY 2016/2017						810,000	
		FY 2015/2016					252,000	378,000	
		FY 2014/2015						337,500	
Francesco Saverio Vinci	GM	FY 2017/2018	414,000	621,000	Nov. 2019 - Nov. 2023				
		FY 2016/2017						621,000	
		FY 2015/2016					125,520	188,280	
		FY 2014/2015						280,500	
Management with strategic responsibilities		FY 2017/2018	991,200	1,216,800	Nov. 2019 -Nov. 2023				
		FY 2016/2017						1,331,500	
		FY 2015/2016					446,585	631,377.5	
		FY 2014/2015						344,065	
		FY 2013/2014					140,000		
Management with strategic responsibilities			**1,902,000**	**2,583,000**			**964,105**	**4,922,222.5**	

Managerial staff with strategic responsibilities at 30 June 2018.

Investments held by members of the governing and control bodies and by general managers

Name and surname	Post	Investee company	No. of shares held at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
Pagliaro Renato	Presidente	MEDIOBANCA	2,500,000	150,000 [1]	450,000	**2,200,000**
Nagel Alberto	CEO	MEDIOBANCA	2,626,050	397,992 [1]	299,542	**2,724,500**
Vinci Francesco Saverio	GM	MEDIOBANCA	945,000	290,758 [1]	207,258	**1,028,500**
Maurizio Carfagna	Director	MEDIOBANCA	40,000 [2]	11,000 [3]	==	**51,000** [4]
Pecci Alberto	Director	MEDIOBANCA	4,707,500 [5]	==	30,000	**4,677,500** [5]

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

[1] Shares awarded in execution of stock option/performance shares scheme.

[2] of which n. 20,000 shares owned through subsidiaries.

[3] of which n. 1,000 shares inherited.

[4] of which n. 30,000 shares owned through subsidiaries and n. 1.000 through marriage.

[5] Investment owned through subsidiaries.

Investments held by other managerial staff with strategic responsibilities

No. of managerial staff with strategic responsibilities	Investee company	No. of shares owned at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
8 *	MEDIOBANCA	167,708 **	243,601	229,599	181,710

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

* Managerial staff with strategic responsibilities as at 30.6.2018

** Shares awarded in execution of performance share scheme.

Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1 Management body Supervisory function - Mediobanca	3,968,616		—	—				
2 Management body Management function (CEO/GM) - Mediobanca	3,500,000	4,554,000	200%	130.1%	910,800	910,800	1,366,200	1,366,200
3 Staff, Support, holding units	97,810,962	20,162,574	200%	20.6%	17,070,855	235,000	594,113	207,500
4 Control functions (Risk Management, Compliance, Audit)	17,968,621	3,406,612	33%	19.0%	3,298,499	37,200	46,113	24,800
5 Investment Banking - business	53,596,849	50,122,226	200%	93.5%	31,194,292	5,116,500	10,335,540	5,531,000
6 Retail e Consumer - business	72,408,156	8,682,214	200%	12.0%	7,230,954	404,800	643,260	403,200
7 Private Banking / Asset Management - business	32,685,007	17,513,539	200%	53.6%	14,324,894	505,000	2,193,645	490,000
	281,938,211	**104,441,165**	**–**	**37.0%**	**74,030,294**	**7,209,300**	**15,178,871**	**8,022,700**

EBA classification
Gross amounts included for Group Directors emoluments payable in respect of their office.
Includes Group companies which ended FY on 31 December 2017. RAM not included.

Aggregate quantitative information by the various categories of "identified staff" as required by the Bank of Italy instructions

Mediobanca Group - Material Risk Takers		#	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	*Cash Upfront*	*Equity Upfront*	*Deferred Cash*	*"Deferred equity"*
1)	Non-executive directors (non-executive members of BoD, including Chairman)	1	1,800	—	—	—	—	—	—	—
2)	CEO	1	1,800	2,484	200%	138%	496.8	496.8	745.2	745.2
	GM	1	1,500	2,070	200%	138%	414	414	621	621
3)	Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	15	9,342.1	9,890	200%	106%	1,978	1,978	2,967	2,967
4)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	16	2,470.6	739,5	33%	30%	652.7	37.2	24.8	24.8
5)	Staff with managerial responsibilities in relevant business units	23	6,187.7	7,361	200%	119%	1,823.8	1,823.8	1,856.7	1,856.7
6)	Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	8	1,897.9	663	200%	35%	397	114	76	76
7)	Quantitative criteria	20	6,129.1	7,245	200%	118%	2,072.5	2,072.5	1,550	1,550
		85	**31,127.4**	**30,452.5**	**–**	**98%**	**7,834.80**	**6,936.30**	**7,840.70**	**7,840.70**

Gross amounts in €'000 – Performance variable FY ending 30 June 2018

For Group Directors does not include emoluments payable in respect of their office.

Includes relevant staff employed at Group company which financial year ended 31 December 17. RAM not included

Mediobanca Group - Material Risk Takers	#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in number of MB shares[1]
1) Non-executive directors (non-executive members of BoD, including Chairman))	—	—	—	—
2) CEO - GM	2	377,520	2	89,800
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	13	1,582,029	11	370,305
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	2	90,740		
5) Staff with managerial responsibilities in relevant business units	23	1,497,701.7	11	193,183
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	2	45,516	1	5,656
7) Quantitative criteria	16	1,533,178.6	6	138,962
	58	**5,126,685.3**	**31**	**797,906**

[1] Number of Mediobanca shares.

Mediobanca Group - Material Risk Takers	#	Treatment at start of relationship	#	Treatment at end of relationship [1]
1) Non-executive directors (non-executive members of BoD, including Chairman)	—	—	—	—
2) CEO - GM	—	—	—	—
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	—	—	3	3,175,562
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	1	121,705	1	470,000
5) Staff with managerial responsibilities in relevant business units	2	655,000	—	—
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	—	—	1	600,000
7) Quantitative criteria	1	230,000	2	923,743
	4	**1,006,705**	**7**	**5,169,305 ***

[1] With reference to the identified staff identified as of 30 June 2017.
* Of which € 1.635.415 by way of incentive, deferred between 40% - 60% over the three/five-year horizon, cash/equity. The highest amount paid to an individual person was € 2.185.562 included notice and complementary pension scheme contributions.

Total remuneration awarded over € 1 mln.	**#**
€ 1 milion - 1,5 millions	12
€ 1,5 - 2 millions	1
€ 2 - 2,5 millions	3
€ 2,5 - 3 millions	
€ 3 - 3,5 millions	1
€ 3,5 - 4 millions	1
€ 4 - 4,5 millions	1

PROPOSAL FOR AUTHORIZATION TO BUY BACK AND SELL TREASURY SHARES

Dear shareholders,

You have been called together in general meeting inter alia to adopt a resolution regarding the proposal to authorize the Board pursuant to Articles 2357 and 2357-ter of the Italian Civil Code and to Article 132 of Italian Legislative Decree 58/98 to buy back and carry out disposals of treasury shares in the company.

Such authorization is being requested for the purpose, in accordance with the regulations in force and with market practice permitted by Consob under Article 180, paragraph 1, letter c) of the Italian Finance Act, of equipping the Bank with an instrument to provide flexibility in strategic and operational terms, to allow it to sell treasury shares for use in connection with possible acquisitions or to implement compensation schemes, current or future, based on financial instruments for the benefit of Group staff.

No provision has been made for the buyback of shares in order to reduce the share capital by cancelling the treasury shares thus bought back.

The buyback may involve a maximum of 3% of the share capital – the limit set by Article 29 of Commission Delegated Resolution (EU) no. 241/2014 – which at present translates to a maximum of 26,611,288 par value €0.50 ordinary shares, less the treasury shares already owned (currently 8,714,833, or approximately 0.98% of the company's share capital), in accordance with the provisions and limits set forth in Article 2357 of the Italian Civil Code, and subject to clearance being released by the European Central Bank. The shares may be bought back in one or more tranches, within the limits of the distributable earnings and available reserves stated in the most recently-approved financial statements.

The buyback will entail an equivalent reduction in net equity, through a specific item being recorded in the liabilities.

The regulations also stipulate that the market value of the shares, calculated on the basis of the closing price recorded for them on the market day prior to the date on which the authorization is issued by the European

Central Bank, shall be deducted from regulatory capital starting from the date of such authorization, regardless of the shares actually bought.

The 8.7 million shares already owned by the Bank were acquired in FY 2007-08, under a resolution adopted by shareholders at the annual general meeting held on 27 October 2007; their book value is already deducted from net equity and regulatory capital.

The authorization to buy back treasury shares is being requested for a period of eighteen months from the date on which the resolution is adopted in general meeting, while the authorization to sell said shares is being requested without time limits.

Under Article 3 of Commission Delegated Resolution (UE) 2016/1052, the volume of shares acquired in each trading day may not exceed 25% of the average daily volume of shares traded at the trading venue where the acquisition was made, and no acquisition may take place at a price above the higher of the price of the most recent independent trade and the current highest bid offer submitted at the trading venue where the purchase is made. Furthermore, the minimum purchase price shall not be lower than the nominal value of the share itself (i.e. €0.50), whereas the maximum price shall not be more than 5% higher than the closing price on the market day prior to the execution of each individual acquisition.

Treasury shares may also not be traded in the thirty days prior to announcement of the approval of the Bank's annual results or the interim report on operations which Mediobanca discloses to the public.

The buybacks of treasury shares shall be made, as required by Article 132 of Italian Legislative Decree 58/98 and Article 144-bis, para. 1, letter b) of the Regulations for Issuers released by CONSOB under resolution no. 11971/ as amended, in accordance with the operating methods stipulated in the regulations governing the organization and operation of the markets themselves, in order to ensure equal treatment for shareholders.

Accordingly, the purchases will be made exclusively and in various tranches on regulated markets, as required by the operating methods stipulated in the regulations governing the organization and operation of the markets themselves, which do not allow buy bids to be matched directly with given sell proposals.

The shares may be disposed of, in one or more tranches, even before all the purchases have been completed, through sales on the market, whether in bulk or by way of consideration for the purchase of equity investments, or possibly through being allocated to Mediobanca Group staff as part of compensation schemes, existing and prospective, based on financial instruments approved by the Board of Directors. Such disposals will be accounted for in accordance with the provisions of the law and the applicable accounting standards.

Within the limits set forth above, subsequent purchases and disposals of treasury shares may also be made.

Accordingly, you are invited to adopt the following resolution:

The shareholders of Mediobanca, gathered in ordinary general meeting, in view of the Board of Directors' report and in view in particular of Articles 2357 and 2357-ter of the Italian Civil Code, Article 132 of Italian Legislative Decree 58/98 and Article 144-bis of CONSOB regulation 11971/99,

Hereby resolves to

1) Authorize, on the terms illustrated above, the buyback of ordinary shares issued by the company, with a nominal value of €0.50 per share, subject to receipt of authorization from the supervisory authority in accordance with Articles 77-78 of Regulation (EU) no. 575/2013 (the "CRR") of 26 June 2013, and the execution of disposals of said shares, without limits or restrictions in terms of time, in bulk or by way of consideration for the purchase of equity investments, or possibly through being allocated to Mediobanca Group staff as part of compensation schemes, existing and prospective, based on financial instruments approved by the Board of Directors;

2) Vest the Board of Directors, and on its behalf the Chief Executive Officer and General Manager, jointly and severally, with powers in order to execute the acquisitions and disposals as authorized above, including for example to:
   – Establish the means, timescales and all executive and ancillary terms for the purchases and disposals of treasury shares;
   – Execute all deeds, measures and formalities required in order to implement this resolution;
3) Vest the Chief Executive Officer and the General Manager, jointly and severally, with the broadest powers to make any changes, amendments or additions to this resolution that should prove necessary to bring it in line with any changes made to the regulations in force or reflect recommendations made by the regulatory and/or supervisory authorities.

Milan, 20 September 2018

THE BOARD OF DIRECTORS

STATEMENT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Statement on Corporate Governance and ownership structure 2018 [1]

This statement has been prepared in accordance with the provisions of Article 123-bis of Italian legislative decree 58/98 and the Code of Conduct for listed companies (available at www.borsaitaliana.it), to which Mediobanca adheres, on the terms set forth below.

The statement is also intended to meet the public disclosure requirements for banks instituted by the Bank of Italy's supervisory instructions on the issue of corporate governance.

Parent company

Mediobanca was set up in 1946 and has been listed on the Italian stock market since 1956. It provides its clients with medium- and long-term financing solutions and with highly specialized and innovative financial services in financial advice and asset management. It has branch offices in London, Paris, Frankfurt and Madrid, and subsidiaries based in New York, Luxembourg, Istanbul [2] and London. It also holds a 12.98% interest in Assicurazioni Generali.

As a listed company, Mediobanca qualifies among the largest and most complex banks, and as such is subject to prudential supervision by the ECB.

Mediobanca adopts a traditional model of corporate governance based on the presence of Board of Directors (body with responsibility for strategic supervision), an Executive Committee (body with responsibility for management) and a Statutory Audit Committee (body with responsibility for control). This corporate governance system combines maximum efficiency in terms of operations with effective control. The Articles of Association also provide for three executives to be represented on the Banking Group's Board of Directors, as part of a system of corporate governance based on wide-ranging powers being granted to the Executive Committee and the Chief Executive Officer.

[1] Unless specified otherwise, the information refers to the situation at 30 June 2018.

[2] The subsidiary company based in Instanbul has been winding up as from July, 2018.

Mediobanca Group

Mediobanca is the parent company of the Mediobanca Banking Group. Various components contribute in balanced fashion to the company's performances: investment banking, consumer banking and wealth management.

Mediobanca is the leading Italian investment bank, and over time has strengthened its footprint in complementary, highly specialized and growing bank activities which ensure sustainable revenues over the long term. These range from consumer credit with Compass Banca, to the retail banking market with CheBanca!, the Group's multi-channel bank, which is now becoming the growth driver at Group level in wealth management.

With the approval of the 2016-19 strategic plan, priority has been given to asset management and investment activities for householders, which has led to the establishment of a Wealth Management division combining CheBanca!, which collects households' deposits and savings, Compagnie Monégasque de Banque, Spafid and Mediobanca Private Banking which collects AUM for Private & HNWI clients. As part of the organization of a full, integrated product offering the new Mediobanca Alternative Asset Management product factory brings together the activities of Cairn Capital, Compagnie Monégasque de Gestion, Mediobanca SGR and RAM Active Investments.

Mediobanca, in its capacity as parent company of the Mediobanca Group, directs and co-ordinates the companies forming part of the Banking Group (activities which are regulated by the Group Regulations) by governing the process of planning at the Group level, issuing Group-wide Policies, Regulations and Directives, providing centralized risk management, and issuing guidance on how to implement instructions received from the Bank of Italy.

Share capital and ownership

The Bank's share capital at 30 June 2018 totalled €443,126,470, made up of 886,252,940 par value €0.50 shares. The shares are registered shares, and entitle shareholders to one vote per share in the general meeting.

At the annual general meeting held on 28 October 2015, the shareholders of Mediobanca renewed the Board of Directors' authorization:

- Under Article 2443 of the Italian Civil Code, to increase the Company's share capital, by means of rights issues and/or bonus issues in one or more tranches on or prior to the fifth anniversary of the date of this resolution, in a nominal amount of up to €100m, including via warrants, through the issue of up to 200 million ordinary par value €0.50 shares to be offered as an option or assigned to shareholders, and accordingly, to establish from time to time the issue price of the new shares, including the share premium, if any, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising the warrants attached to the shares to be issued;
- Under Article 2420-ter of the Italian Civil Code, to issue bonds convertible into ordinary shares and/or shares cum warrants, in one or more tranches on or prior to the fifth anniversary of the date of this resolution, in a nominal amount of up to €2bn, to be offered as an option to shareholders, and accordingly, to establish from time to time the conversion ratio of the bonds to be issued and any other features thereof, and to authorize the corresponding increase in the Bank's share capital for use in the conversion of the bonds.

The two mandates above shall not lead to the issue of a total number of shares in excess of 200 million;

- Under Article 2443 of the Italian Civil Code, to increase the company's share capital by means of rights issues, in one or more tranches, on or prior to the fifth anniversary of the date of this resolution in a nominal amount of up to €40m, including via warrants, through the issue of up to 80 million par value €0.50 ordinary shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded, under and pursuant to the provisions of 2441, paragraph four, second sentence of the Italian Civil Code, in accordance with the procedure and conditions set forth therein, with the right to establish the issue price of the shares from time to time (again in accordance with the provisions of Article 2441, paragraph four, second sentence of the Italian Civil Code);
- Under Article 2349 of the Italian Civil Code, to increase the Company's share capital by and no later than 28 October 2020, in an amount of up to €10m through the award of no more than 20 million par value €0.50 ordinary shares, to be reserved to Mediobanca Group staff members by way of performance shares.

The performance share schemes approved by shareholders at the 2010 and 2015 general meetings, and the press release regarding the awards made since 2010, are published on the Bank's website at www.mediobanca.com.

Mediobanca owns a total of 8,714,833 treasury shares (average book value €13.17 per share) acquired following a resolution adopted in a general meeting held on 27 October 2007.

The company's shareholding structure as of 30 June 2018 is as follows (showing shares over 3%):

Shareholder	No. of shares	% of share capital
UniCredit group	74,651,753	8.42
Bolloré group	69,681,608	7.86
BlackRock group*	44,362,188	5.01
Banca Mediolanum group	29,095,110	3.29
INVESCO	27,707,271	3.12

* BlackRock Inc. (NY), via fifteen asset management subsidiaries, 0.12% of which by way of potential investment and 0.39% as contracts of differences.

Mediobanca has approximately 52,500 shareholders. Mediobanca shareholders representing approximately 28.5% of the Bank's shares have entered into a block shareholders' agreement with the purpose of ensuring that the Bank has a stable shareholder structure with representative management bodies. The Agreement expires on 31 December 2019, with the possibility of early withdrawal with effect from 31 December 2018. The agreement is filed with the Milan companies' register, and an excerpt from it may be found on the Bank's institutional website (www.mediobanca.com/CorporateGovernance).

Governing Bodies

- Shareholders in general meeting
- Board of Directors
- Chairman of the Board of Directors
- Board committees
- Chief Executive Officer
- General Manager

– Head of Company Financial Reporting
– Statutory Audit Committee.

General meetings

The general meeting gives expression to the wishes of the body of the company's shareholders, and decisions taken in such meetings, which are adopted in conformity with the provisions of both the law and the company's Articles of Association, are binding on all shareholders.

Issues which fall within the jurisdiction of shareholders in general meeting include the following:

1) Approval of financial statements and allocation of profits;
2) Appointment and/or dismissal of the Board of Directors and Statutory Audit Committee;
3) Engagement of, and termination of agreements with, external legal auditors;
4) Transactions required by law to be approved by shareholders in extraordinary general meeting;
5) Remuneration policies and compensation schemes based on financial instruments adopted for directors, Group employees and collaborators.

The right to attend and vote at General Meetings is governed by the Articles of Association (Section III, Articles 5ff), and the notice of meeting for the AGM explains the means and conditions for attendance.

The Bank has not adopted a specific set of regulations for holding general meetings, as its Articles of Association ensure that proceedings are conducted in an orderly manner, providing for the Chairman of the meeting, who under the Articles is the Chairman of the Board of Directors, has the duty of establishing that a quorum has been reached, ascertaining the identity of those in attendance, and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken.

As provided under Article 127-ter of the Italian consolidated finance act, shareholders may table questions on items on the agenda even prior to the meeting itself. Questions received prior to the meeting will be answered during the meeting itself at the latest, including by means of a single answer if other questions with substantially the same content have been received.

The Board of Directors reports on the activities performed to shareholders at the general meeting, in its Review of Operations; and prepares reports on the various items of agenda within the timeframe set by the regulations in force.

Board of Directors: Composition and Role

The Board of Directors consists of between nine and fifteen members, with two places reserved for the list submitted by minority shareholders. Of the Directors thus appointed, three are managers with at least three years' experience working for the Mediobanca Banking Group, and at least one-third qualify as independent in accordance with the definition provided in Article 19 of the Articles of Association, which is basically aligned with that in the Code of conduct for listed companies [3]. At least one-third of the Directors must be of the less-represented gender. No person may be appointed director if they are aged seventy-five or over.

The Board of Directors of the parent company of a banking group has overall responsibility for management of the group as a whole and for the rules and mechanisms of governance to ensure such management is prudent and effective. In particular, the Board of a bank which, like Mediobanca, adopts the so-called "traditional" governance model has responsibilities of both management and supervision/control.

Management responsibilities may include the following, illustrative examples chosen to highlight their importance: strategy, risk taking policy, internal controls, optimal capital allocation, remuneration policies, selection of management, etc. Supervision and control responsibilities require the ability to fully understand the risks taken, supervise the executive bodies, monitor analysis and decisions on an ongoing and continuing basis, and ensure that the heads of the control units are fit to perform their own duties.

[3] According to this definition, persons who hold an investment of more than 2% or are significant representatives of a group which holds such an investment are not independent, regardless of whether or not they are parties to shareholders' agreements.

Against such a backdrop, the composition of the Board of Directors is of fundamental importance.

The current Board of Directors of Mediobanca was appointed by shareholders in a general meeting held on 28 October 2017 for the 2018-20 three-year period, on the basis of lists of candidates in possession of the requisites stipulated by law, the applicable regulations and the Articles of Association (Article 15). Such lists are submitted by shareholders representing in the aggregate at least 1% of the company's share capital.

In submitting their lists of candidates, the shareholders have taken account of the guidance issued by the Board of Directors in its "Report on the qualitative-quantitative composition of the Board of Directors" dated 14 June 2017.

As at 30 June 2018, the Board of Directors consisted of 14 members [4]. On 23 November 2017, the Board found that the following directors qualify as independent pursuant to Article 148, para. 3 of Italian Legislative Decree 58/98: Maurizia Angelo Comneno, Marie Bollorè, Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Alberto Lupoi, Elisabetta Magistretti, Massimo Tononi (who resigned on 25 July 2018) [5] and Gabriele Villa (in addition to César Alierta, who resigned in March 2018) [6]; and the following directors qualify as independent under the definition provided in Article 19 of the Articles of Association: Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Alberto Lupoi, Elisabetta Magistretti and Massimo Tononi (plus César Alierta).

Following the appointment of the Board of Directors, the Board, with the Appointments Committee's support, reviewed the qualifications of each individual director and of the Board as a whole and assessed the degree to which the composition defined as optimal in qualitative and quantitative terms corresponds to the actual composition which ensued from the appointment process, including with reference to issues of gender representation.

[4] Massimo Tononi resigned as director on 25 July 2018. On 20 September 2018 Maximo Ibarra was co-opted to replace César Alierta and Vittorio Pignatti-Morano was co-opted to replace Massimo Tononi.
Thus at 20 September 2018 the Board of Directors consists of 15 members, ten of whom qualify as independent under the definition provided in Article 148, para. 3 of the Italian Finance Act, of which ten seven also qualify as independent under the definition provided in Article 19 of the new Articles of Association.

[5] after accepting a new position which will make increasing demands on his professional activities. On 20 September 2018, the Board of Directors found that Maximo Ibarra and Vittorio Pignatti-Morano, who were co-opted to the Board on the same date, qualified as independent under the definition provided in Article 19 of the Articles of Association.

[6] He resigned as he is increasingly devoted to social initiatives which require growing energies and time commitment.

In this connection, the Board's composition does comply with the legal requirements on gender representation. The Board's composition is as follows:

Member (as at 30/6/18)	**Post held**	**Date of birth**	**Indep.***	**Indep.****	**Manage-ment**	**In office since*****
Renato Pagliaro ♦	Chairman	20/02/1957			X	02/07/2007
Maurizia Angelo Comneno ♦	Deputy Chairman	18/06/1948		X		28/10/2014
Alberto Pecci ♦	Deputy Chairman	18/09/1943				27/10/2012
Alberto Nagel ♦	CEO	07/06/1965			X	02/07/2007
Francesco Saverio Vinci ♦	General Manager	10/11/1962			X	02/07/2007
Marie Bolloré ♦	Director	08/05/1988		X		28/10/2014
Maurizio Carfagna ♦	Director	13/11/1947	X	X		28/10/2014
Maurizio Costa ♦	Director	29/10/1948	X	X		28/10/2014
Angela Gamba ■	Director	15/08/1970	X	X		28/10/2017
Valérie Hortefeux ♦	Director	14/12/1967	X	X		28/10/2017
Alberto Lupoi ■	Director	29/03/1970	X	X		28/10/2017
Elisabetta Magistretti ♦	Director	21/07/1947	X	X		28/10/2011
Massimo Tononi ♦ •	Director	22/08/1964	X	X		28/10/2017
Gabriele Villa ♦	Director	18/06/1964		X		28/10/2017

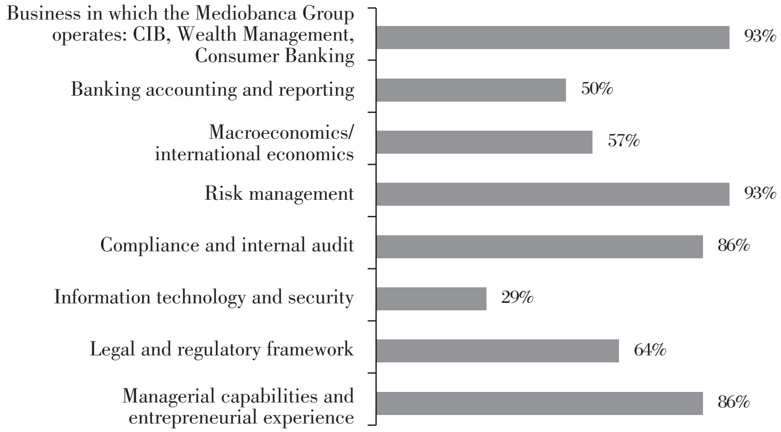
* Independent in accordance with the definition provided in Article 19 of the Articles of Association.
** Independent as required by Article 148, para. 3 of Italian Legislative Decree 58/98.
*** Period also comprises post held in governing bodies under dualistic governance system adopted by Mediobanca from 27/6/07 to 28/10/08.
♦ Taken from the list submitted by shareholder Unicredit S.p.A., owner of 8.46% of the company's share capital.
■ Taken from the list submitted by a group of investors holding 3.889% of the share capital.
• In office until 25 July 2018.

Since 30 June 2018, Massimo Tononi has also tendered his resignation from his post as director and on 20 September 2018 Maximo Ibarra and Vittorio Pignatti-Morano were co-opted to the Board.

A breakdown of the Board of Directors by years of seniority is shown below.

0-2 years	**3-5years**	**≥6 years**
40%	33%	27%

The composition of the Board of Directors reflects the appropriate combination of capabilities and professional expertise, in line with the recommendations made in the "Report on the qualitative-quantitative composition of the Board of Directors" (2017).



The Board of Directors is comprised of 9 men (64,3%) and 5 women (35,7%); a breakdown of the Board members by age bracket is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
1	0	3	4	0	1	4	1

The documentation submitted by the Directors for appointment to the Board of Directors, including their CVs, is available on the Bank's website at www.mediobanca.com/Corporate Governance.

The Articles of Association require that along with, and at the same time as, each list is submitted, in addition to the information and statements required by the regulations in force at the time, each candidate also submit their own CV to illustrate their professional qualifications to hold office, plus a declaration in which the candidate states, under their own responsibility, that no grounds exist which would render them incompatible with or ineligible to hold office, and that they are in in possession of the requisite qualifications under the law and the Articles of Association, plus also a list of the management and supervisory positions held by them at other companies.

In accordance with the supervisory instructions for banks in the area of corporate governance and with the provisions of the Articles of Association, non-management directors who are members of the Executive Committee qualify as executive and are therefore not included in the Remunerations, Appointments and Risks Committees.

The Statutory Audit Committee then checked that the criteria and procedures adopted by the Board of Directors had been applied correctly with respect to the ascertaining of its members' independence. The Committee's activities were principally aimed at ensuring that the Board expressed its opinion on the basis of adequate information and material, that the proper procedural process was followed for decisions made by the Board, and that the criteria stipulated by the regulations (Article 19 of the Articles of Association and Article 148 of the Italian consolidated finance act) regarding the requirements for independence were correctly applied.

The independent Directors meet regularly on their own without the other Directors present.

Under the Articles of Association currently in force, the following matters are the sole jurisdiction of the Board of Directors:

1. Definition and approval of strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
2. Approval of quarterly and interim accounts and of draft individual and consolidated financial statements;
3. Decisions concerning the acquisition or disposal of equity investments which are equal to 10% of the investee company's share capital and also involve an amount which is above 5% of the Group's consolidated regulatory capital;
4. Appointment and dismissal of the Executive Committee, Chief Executive Officer, General Manager, head of company financial reporting and the heads of the Group Audit, Compliance and Risk Management units;
5. Definition of the overall governance arrangements and approval of the Bank's organizational structure, ensuring clear distinction of duties and function and preventing conflicts of interest.

Under the regulations currently in force, and the resolution in respect of powers, the following matters are also under the sole jurisdiction of the Board of Directors:

- Proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
- Ascertaining that Directors and members of the Statutory Audit Committee upon their appointment, or without prejudice to the foregoing on at least an

annual basis, are in possession of the requisite credentials stipulated by regulations in force and the Articles of Association;

- Approval of “most significant” transactions involving related parties of relevance to the Bank of Italy’s prudential regulations, and, if they do not qualify as ordinary transactions, transactions with related parties for purposes of the transparency regulations;
- Approval of the Risk Appetite Framework and the general guidelines for the ICAAP process;
- Approval of the Recovery Plan (required under EU Directive 2014/59);
- Approval of annual plans and review of reports by the internal control units.

Twice a year the Board of Directors also assesses the adequacy of the Bank’s administrative and accounting structure, with particular attention paid to the internal control system and risk management based on the enquiries made by the Control and risks committee and the report presented by the head of company financial reporting on the adequacy and application of administrative and accounting procedures required by Italian law 262/05.

The delegated bodies report to the Board of Directors on the Bank’s general performance, outlook, and the principal transactions in terms of size or characteristics that have been executed either by Mediobanca itself or by Mediobanca Group companies.

The Board normally adopts resolutions on proposals from the Executive Committee or Chief Executive Officer, with a majority of those in attendance voting in favour.

The means by which Board meetings are called are established by Article 17 of the Articles of Association.

The Chairman is responsible for ensuring that the Directors receive adequate information on the various items on the agenda in good time for the meeting (the documentation on the items on the agenda is normally sent at the same time as the notice of meeting, i.e. five days before the meeting itself is held, and after the Board committee responsible for processing the documentation has assessed it), and ensures that sufficient room is given for discussing the individual items, giving priority to issues of strategic relevance and guaranteeing that the debate is effective. The Chairman regularly invites Board members to indicate issues of interest to them which require further analysis or explanation. The secretary to the Board is available to arrange induction sessions or further analysis for the individual directors.

The Secretary to the Board, the Chief Risk Officer and other Group staff and representatives invited on the basis of the items on the agenda also take part in Board meetings.

The Board of Directors' meetings held during the financial year (1 July 2017/30 June 2018) were duly attended by people in charge of and working for the relevant company units for discussion of the items on the agenda.

A total of eleven Board meetings took place in the period from 1 July 2017 to 30 June 2018. The average duration of Board meetings was around four hours and twenty minutes.

The following induction and training meetings were arranged during the year outside of the Board meetings themselves, for the benefit of directors and statutory auditors:

- Six "general" induction meetings (to provide preparation for deliberations at Board meetings) on the following issues: European regulations: recovery and resolution plans; updates to regulations: market abuse and MiFID II regulations; corporate engagement, state of progress in adoption of AIRB models; Corporate Social Responsibility; Risk Appetite Framework; statutory issues requiring further analysis and internal governance;
- Five "specific" induction meetings addressed chiefly to newly-appointed members on the following issues: financial statements for the year ended 30 June 2017 and accounting standards; RAF and risk monitoring (dashboard); 2017-19 strategic plan and state of progress in implementing it; European regulations (SREP, ICAAP, ILAAP); principal activities with ECB; meeting with heads of control units; compliance: main issues, current and prospective;
- Two training sessions on more general issues (open also to Board members of other Group companies): staff remuneration and incentivization of commercial networks; cross-selling practices; cyber-security; Research Department/R&S activities.

The average duration of the induction meetings was about two hours, and that of the training sessions around two and a half hours.

Self assessment of the Board of Directors

The process of self-assessment of the size, composition and functioning of the Board of Directors and its committees required by the Supervisory Instructions for banks in the area of corporate governance and by the relevant EU regulations, was conducted in the months between February and July 2018, with the assistance of an external specialist advisor.

The process was structured in three different phases:

– Obtaining each Director's recommendations, on the basis of a standardized questionnaire which was the same for all recipients, structured in three sections: the first on individual suitability, the second on collective suitability, and the third on the Board's functioning. The questionnaire also sought to identify new topics of discussion for next year's induction sessions;
– The Appointments Committee's analysis of the data collected in aggregate form;
– The Board of Directors' approval of the Summary Report, including the principal results at the Appointments Committee's proposal.

The self-assessment process, in which all of the directors participated and also, in line with the supervisory instructions for banks, the three standing auditors plus four members of the Bank's management external to the Board, revealed a positive situation which confirms the effectiveness of the work carried out by the Board.

The following points in particular emerged:

- The individual and collective composition (in terms of size, capabilities, diversity and number of independent members) and functioning of the Board itself and the committees set up by it were considered to be adequate;
- The flow of information ahead of the meetings, the documentation on risks facing the company and risk controls, and segmentation of budget and closing data by business line, were all held to be satisfactory;
- The debate within the Board itself and the accuracy of the minutes for the meetings were all judged to be effective;

- The Board members were unanimous in their appreciation of the Chairman's role in terms of leadership, effectiveness in running meetings and stimulating critical and independent discussion within the Board itself;
- There was general satisfaction with the induction sessions arranged and the supporting documentation provided;
- The judgement on the work done by the Board as a whole and by each of its members was also generally satisfactory.

The Executive, Appointments, Remunerations and Risks Committees were felt to be excellent in terms of role, functioning, composition and size.

Areas for improvement included in particular the density of the Board meetings' agenda in terms of the number of items for discussion. At a Board meeting held on 31 July 2018, the directors upheld the proposals made in this respect by the Appointments Committee, identifying the following corrective measures:

– Alter the organization of the proceedings at Board meetings, to prevent presentations which have already been made to Board committees being repeated (save in special cases);
– Reporting flow for activities performed by delegated bodies to be correlated to the Board but giving priority to the timing compared to the most recent meeting;
– Send all directors the agendas for meetings of the Board committees, to increase awareness of the issues which will subsequently require approval at the level of the Board itself.

The Board self-assessment process, which in FY 2015-16 was extended to the other banks in the Group in order to obtain an overall picture of the functioning of Group governance, revealed a largely positive assessment of the role of the Board.

Chairman of Board of Directors

The Chairman of the Board of Directors calls, chairs and directs proceedings at general meetings and Board meetings, and ensures that the other Directors are provided with adequate information regarding the items on the agenda. No person aged seventy or over may be elected as Chairman.

The Chairman is responsible for ensuring that the corporate governance system runs smoothly in practice, guaranteeing due balance between the powers of the Chief Executive Officer and the other executive Directors; he is the counterparty for dialogue with the internal control bodies and internal committees.

He ensures that the self-assessment process is completed effectively, and that the corrective measures devised in order to meet any shortcomings detected are implemented in practice; he ensures that the directors are able to take part in meetings to analyse strategic issues in greater depth, with a view to providing adequate knowledge of the company itself, principles of proper risk management and the regulatory framework.

The Board of Directors has not tasked the Chairman with specific duties or vested him with powers of proposal save for that of controlling the internal audit activities, to be performed on the basis of reports on the results of the audits carried out and via monitoring of the remediation measures identified.

In addition to the duties associated with his role, the Chairman of Mediobanca, Renato Pagliaro is a member of the Appointments Committee and is invited to take part in certain committee meetings but without voting rights.

Board Committees

In accordance with Article 20 of the Articles of Association, the Board of Directors, at the Appointments Committee's proposal, confirmed the institution of the Executive Committee and the three Board Committees (Risks, Remuneration and Appointments), consisting exclusively of non-executive directors, the majority of whom are independent, from whom the Chairman is selected.

The Board committees reach a quorum when the majority of directors in office participate and resolutions are adopted on the basis of the majority of those participating voting in favour.

Minutes are taken of meetings by each Committee which are kept in specific registers.

The Chairman of each Committee reports to the first Board of Directors' meeting on its activities and the Committee's proposals to be submitted for examination by the Board.

Composition and role of Executive Committee

Without prejudice to situations of incompatibility and the restrictions set under the regulations in force, the directors who are members of the management of Mediobanca Group companies are members of the Executive Committee de jure. Members of the Executive Committee who are part of the Mediobanca Group's management are bound to devote themselves exclusively to the performance of activities relating to their post, and without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for companies or entities other than those owned by Mediobanca. The other Executive Committee members, again without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for other banking or insurance groups.

The Committee remains in office for the entire duration of the office of the Board of Directors which appointed it.

The Committee is chaired by the Chief Executive Officer. The Chairman of the Board of Directors is also invited to take part in Executive Committee meetings, to ensure adequate information and reporting flows to the full Board of Directors. The Statutory Audit Committee also participates, as do the Secretary, the Chief Risk Officer and the Head of Company Financial Reporting.

Members (as at 30/6/18)	Post held	Executive
Alberto Nagel (Chair)	CEO and Chairman	X
Maurizia Angelo Comneno *	Deputy Chair	
Francesco Saverio Vinci	General Manager	X
Gabriele Villa *	Director	

* Independent as defined under Article 148, para. 3 of the Italian Finance Act.

The Executive Committee comprises three men (75%) and one woman (25%). A breakdown of the committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	0	3	0	0	1	0

Under the Articles of Association, the Executive Committee is responsible for managing the ordinary activities of the Bank, vested with every power, including the power to disburse credit, without prejudice to those issues for which the Board of Directors has sole jurisdiction or which the Board has otherwise delegated to the Chief Executive Officer. In particular, the Executive Committee:

– Approves resolutions, in accordance with the guidelines and general directives adopted by the Board of Directors, to grant loans, including pursuant to Article 136 of the Italian banking act, and trading involving shareholdings considered relevant under the terms of the Articles and for percentage values not to exceed those over which the Board of Directors has decision-making powers;

– Draws up and implements internal regulations, to be submitted to the approval of the Board of Directors, and establishes the principles for co-ordination and management of Group companies in execution of the strategic guidelines approved by the Board of Directors;

– Establishes operating limits on the taking of various types of risk, in accordance with the Risk Appetite Framework. The Executive Committee may delegate some of their powers to internal managerial committees or to individual management staff, while giving priority to the principle of collegiality in decision-making. In accordance with the provisions of the Articles of Association, and in order to facilitate the smooth running of the company's operations, the Executive Committee has assigned the following powers to the following committees:

    - Group Risk Management, powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks;

    - Lending and Underwriting, with executive powers for matters of credit, issuer and conduct risk;

    - Group ALM and Operating ALM, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate;

    - Investments, for the equity investments referred to in Article 18 of the Bank's Articles of Association and other equities and banking book investments (excluding those in Banking Group companies);

    - New Operations, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models;

    - Operational Risks, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions;

- Private Investments, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

Reports on these committees' activities are presented at each Executive Committee meeting.

The Committee regularly assesses the general operating performance, including on the basis of information received from the Chief Executive Officer and from the internal management committees.

Resolutions are approved by the Executive Committee with the majority of its members in attendance and voting in favour.

Meetings are called on the initiative of the Chairman based on the requirements of the business, as a rule meeting once a month.

A total of twelve meetings were held in the period from 1 July 2017 to 30 June 2018, with an average duration of roughly 1 hour and 40 minutes.

Risks Committee

Members (as at 30/6/18)	**Independent (Article 19)***	**Independent (Finance Act)****
Elisabetta Magistretti (C)◊	X	X
Maurizio Carfagna	X	X
Angela Gamba	X	X
Valérie Hortefeux	X	X
Massimo Tononi°	X	X

◊ Registered auditor.

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

° In office until 25 July 2018..

As at 30 June 2018, the Committee consisted of five non-executive Directors [7] who qualify as independent as defined in Article 19 of the Articles of Association, supports the Board of Directors on matters pertaining to risk and the internal controls system, with a focus in particular on all related and necessary activities to ensure that the Board is able to arrive at an accurate and

[7] On 20 September 2018, Vittorio Pignatti-Morano was co-opted to the Board of Directors to replace Massimo Tononi and was also appointed as a member of the Risks Committee.

effective Risk Appetite Framework and risk governance policies. The person chairing the Committee is an independent director in possession of the requisite experience in accounting and financial matters, on account of their being a registered auditor. The Committee consists of three women (60%) and one man (40%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	2	1	0	0	2	0

In particular, the committee:

– Performs duties of monitoring, instruction and support to the Board of Directors in respect of:
  - Defining the Risk Appetite Framework, monitoring its thoroughness, adequacy, functioning and reliability and those of the risk governance policies;
  - Defining the guidelines for the internal control and risk management system, to ensure that the principal risks facing the Bank and its Group companies are properly identified and adequately measured, managed and monitored;
  - Dealing with risk resulting from any prejudicial events of which the Board of Directors may become aware;
  - Reviewing, at least once a year, the adequacy of the internal control and risk management system vis-à-vis the Bank's characteristics and the risk profile assumed;

– Expresses non-binding opinions, with the assistance of the Appointments Committee, on the appointment and dismissal of the heads of the internal control units (Group Audit, Compliance and Risk Management), their salaries and powers, and the means guaranteed for them to exercise their functions;

– Examines the regular reports and work plans of the Group Audit, Compliance and Risk Management units, and supervises the internal auditing system;

– Reports to the Board, at least once every six months, on the activities performed and the adequacy of the internal control and risk management system;

– 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;

– Checks that the Bank's remuneration and incentivization system is consistent with the Risk Appetite Framework.

With reference to the structure of the Bank's financial reporting organization, the 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 Secretary and the Statutory Audit Committee take part in Committee meetings, and the Chief Executive Officer and General Manager are also invited to take part. The head of company financial reporting, the heads of the control units and other Group staff also attend if considered necessary.

The Risks Committee currently also acts as the Related Parties Committee instituted pursuant to the Regulations for transactions with related parties approved on 20 June 2012 and most recently revised on 10 May 2018 (www.mediobanca.com/Corporate Governance), with the following duties:

1) Expressing opinions in advance on the adoption of, and possible amendments to, the Regulations;
2) Participating in negotiating and processing the most significant transactions with related parties, by receiving thorough and prompt reporting on them with the right to request further information and make comments;
3) Expressing reasoned opinions (binding only in respect of the largest transactions) on the Bank's interest in executing the transaction with related parties and the convenience and substantial correctness of the financial terms, including with the help of independent experts.

The Committee met on a total of twelve occasions in the period from 1 July 2017 to 30 June 2018 and on nine occasions as the Related Parties Committee.

The average duration of Risk Committee meetings was roughly three hours and 20 minutes, and that of Related Parties Committee meetings around 30 minutes.

Remunerations committee

Members (as at 30/6/18)***	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Carfagna (C)	X	X
Valérie Hortefeux	X	X
Alberto Lupoi	X	X
Alberto Pecci		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

*** César Alierta resigned from his position as Director with effect from 8 March 2018.

As at 30 June 2018[8], the Committee consisted of four non-executive members, the majority of whom qualify as independent under the terms of Article 19 of the Articles of Association, including the Committee Chair. The Committee has duties of consultation and enquiry to determine the remuneration of Directors vested with particular duties and the General Manager, as well as on the proposals formulated by the Chief Executive Officer regarding the guidelines for the remuneration system for senior management and Group staff remuneration, loyalty retention and incentivization schemes. The Committee currently consists of three men (75%) and one woman (25%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	2	0	0	0	1	1

In particular the Committee:

1) Regularly assesses the adequacy, overall consistency and practical application of the remuneration policy for directors and relevant staff;

2) Formulates proposals and/or opinions regarding the remuneration of the Chief Executive Officer and the General Manager.

3) Monitors application of the rules on the remuneration of the heads of the company's control units, liaising closely with the body with responsibility for control;

4) Gives its opinion on the Remunerations Policies to be submitted to the approval of the Board of Directors and shareholders in annual general meeting, with reference in particular to the issue of whether or not the performance objectives on which the incentivization schemes are based

[8] Until 8 March 2018, the Remunerations Committee consisted of five non-executive members, the majority of whom qualify as independent under the definition stipulated in Article 19 of the Articles of Association, including César Alierta (who ceased to be a member of the Committee with effect from 8 March 2018).

have been reached, and to ascertaining whether or not the further conditions set to payment of bonuses have been met;

5) Proposes the allocation of the aggregate fixed compensation to the Board of Directors established by shareholders in annual general meeting to the Board itself for approval.

The Chairman of the Board of Directors, the Secretary, the Statutory Audit Committee, the Chief Risk Officer and Head of Human Resources take part in Committee meetings, along with (in an advisory capacity) the Chief Executive Officer, the General Manager, and any other Group staff considered necessary.

The Committee met eight times in the period from 1 July 2017 to 30 June 2018, including two meetings which were not attended by the Executive Committee, to review changes in the regulatory framework and formulate proposals to the Board of Directors regarding staff remuneration policies. For further information on the issue of remuneration, please see the Report on Remuneration available on the Bank's website under www.mediobanca.it/Corporate Governance.

The average duration of Committee meetings was roughly one hour and 45 minutes.

Appointments committee

Members (as at 30/6/18)	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Costa (C)	X	X
Marie Bolloré		X
Alberto Lupoi	X	X
Elisabetta Magistretti	X	X
Renato Pagliaro		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

As at 30 June 2018, the Appointments Committee consisted of five non-executive directors, the majority of whom qualify as independent under Article 19 of the Articles of Association, including the Chairman.

The Committee consists of three men (60%) and two women (40%). A breakdown of the Committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
1	0	1	0	0	1	2	0

The Appointments Committee:

– Performs administrative activities in connection with the Board of Directors' annual self-assessment exercise;
– Performs advisory duties to identify the optimal qualitative/quantitative composition of the Board of Directors, and subsequently checks that this corresponds to the actual composition which results from the appointment process;
– Has duties of enquiry in respect of proposals of submission of lists for the Board of Directors, co-opting of new directors to replace those who have left their post, and for the appointment of the Executive Committee, Chief Executive Officer and, at the CEO's proposal, the General Manager;
– Performs administrative duties in connection with succession planning for directors who are members of the Bank's management;
– Provides administrative assistance to the Board of Directors on governance issues;
– Supports the Risk Committee in identifying the heads of the company control units.

The Secretary, Chief Executive Officer, General Manager and Head of Company Financial Reporting take part in Committee meetings, along with any other Group staff considered necessary.

The Committee met ten times in the period from 1 July 2017 to 30 June 2018 to adopt resolutions regarding the Board of Directors' self-assessment process, to verify the requirements and on succession planning issues, plus the "Policies for the selection, appointment, succession and performance assessment of company representatives and Group Key Function Holders".

The average duration of committee meetings was roughly 1 hour and 40 minutes.

Committee instituted pursuant to Article 18, para. 4 of the articles of Association

In addition to the Committees provided for in the regulations and codes of conduct, the Board of Directors has also set up a committee pursuant to Article 18, para. 4 of the Articles of Association which adopts resolutions in respect of decisions to be taking regarding appointments to be made to the governing bodies of particular investee companies at their annual general meetings, companies, that is, in which the Bank holds a stake of at least 10% of the share capital and for which the value of such stakes represents more than 5% of the Group's consolidated regulatory capital.

Members (as at 30/6/18)	Independent (Article 19)*	Independent (Finance Act)**
Alberto Nagel (C)		
Marie Bolloré		X
Elisabetta Magistretti	X	X
Francesco Saverio Vinci		

* Independent as defined in Article 19 of the Articles of Association.
** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

The Committee consists of two men (50%) and two women (50%). A breakdown of the Committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
1	0	0	2	0	0	1	0

As at 30 June 2018, the Committee consisted of the Chief Executive Officer, General Manager and two Directors, one of whom qualifies as independent.

The Committee did not meet at all during the last financial year.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among the Directors who have been members of the Banking Group's management for at least three years, who must not be more than sixty-five years old.

The Board of Directors, without prejudice to the provisions of the Articles of Association, establishes the duties and powers of the Chief Executive Officer. In particular, the Chief Executive Officer has executive powers and is responsible for implementing resolutions adopted by the Board of Directors and the Executive Committee, which he chairs, and also:

1) Within the limits of his powers, implements the plans and strategic guidelines set by the Board of Directors and Executive Committee;

2) Is empowered to make proposals to the Board of Directors and Executive Committee, with reference in particular to management direction, proposed strategic plans and budgets, draft financial statements and interim accounts, and the principal internal regulations;
3) Is empowered to make proposals to the Committee instituted pursuant to Article 18, para. 4 of the Articles of Association concerning the decisions to be taken regarding appointments to the governing bodies of the investee companies, if listed;
4) Is responsible for staff management, and, having sought the opinions of the General Manager, if appointed, appointment of managerial staff;
5) Ensures that the organizational, administrative and accounting systems of the bank are adequate for the operations and size of the Company;
6) Reports, with the General Manager, if appointed, to the Board of Directors and Executive Committee each quarter on the Bank's operating performance and prospects, and on the most significant transactions carried out by the Company and its subsidiaries;
7) Is responsible for supervising activities in the area of sustainability, including preparing the Consolidated Non-Financial Statement to be published annually. In performing these duties, the Chief Executive Officer is assisted by the Corporate Social Responsibility management committee.

The Chief Executive Officers is Alberto Nagel.

General Manager

The Board of Directors may, if proposed by the Chief Executive Officer's proposal with an indication of powers and duties, appoint a General Manager from among the Directors who have been members of the Banking Group's management for at least three years and are not more than sixty-five years old.

The Board of Directors vests the General Manager, who is the head of the internal organization and as such is responsible for its management, with powers to carry out the day-to-day business of the company, which specifically involves supervision of the other Group companies, and to implement resolutions passed by the Board of Directors and Executive Committee in accordance with the directions issued by, and based on the individual remit of, the Board of Directors, Executive Committee and Chief Executive Officer. The General Manager is responsible for approving the guidelines to ensure that the risk mitigation techniques implemented are effective and that suitable training programmes are instituted to embed the requisite risk culture.

The General Manager is Mr Francesco Saverio Vinci, who heads the Operations division and the Banking Group's principal investments; he is also responsible for the Financial Markets area which is part of the Corporate and Investment Banking division.

Head of Company Financial Reporting

On the proposal of the Chief Executive Officer, and with the Statutory Audit Committee's favourable opinion, the Board of Directors appoints one person to act as head of financial reporting, who shall be chosen from among the Bank's management and must have held management positions for a period of at least three years in the field of accounting administration at the Bank itself or at another leading bank. The post is currently held by Emanuele Flappini.

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, plus all other reporting of a financial nature. The appointed bodies and the Head of Company Financial Reporting issue statements on the company's capital, earnings and finances as required by law.

The Board of Directors exercises supervision to ensure that the Head of Company Financial Reporting is vested with suitable powers and means to carry out the duties entrusted to him, and to ensure that the administrative and accounting procedures are complied with in practice.

At the annual general meeting held on 27 October 2012, the shareholders of Mediobanca appointed PricewaterhouseCoopers to audit the company's full-year financial statements and interim accounts, and to perform other activities provided for under Article 155 of the Italian Consolidated Finance Act for the 2013/2021 period.

Risk management and internal control system for financial reporting process

Mediobanca has equipped itself with an internal control system for accounting and financial reporting requirements based on benchmark standards which are widely accepted at international levels (COSO and COBIT framework) [9]. The system provides for:

– Company Level Controls: controls to ensure that general and supervisory regulations are complied with in the running of the business, which are the norms, regulations and control mechanisms in force in the Group. Company Level Controls regard the organization of the company and impact on the methods by which the financial reporting and disclosure objectives are reached.

– Administrative/accounting model: organizational processes (operators, activities, risks and controls) which generate the most significant earnings and asset figures included in the financial statements and information disclosed to the market.

– General IT controls: general rules governing technologies and applications developments which are common to the architectures and IT applications used to generate financial reporting.

The system has been constructed and is applied according to the relevance of Group companies, accounts or processes.

Checks are carried out according to two distinct methods based on the reference process:

– Test of controls, for non-accounting processes (chiefly relating to the support areas) IT processes, which are carried out by the process-owners using a self-assessment methodology and checked by the heads of their respective organizational areas;

– Test of controls for accounting processes, carried out in part using a self-assessment methodology and in part by the Group Audit Unit.

[9] The CoSO Framework has been compiled by the Committee of Sponsoring Organizations of the Treadway Commission, a US body with the objective of improving the quality of corporate information through defining ethical standards and an effective corporate governance and organizational system. The CobIT Framework-Control Objectives for IT and related technology, meanwhile, is a set of rules prepared by the IT Governance Institute, another US body whose objective is to set and improve corporate standards in the IT sector.

The Group Audit unit ascertains annually that the tests carried out on a self-assessment basis have been performed in accordance with the relevant methodologies.

Any gaps that emerge from the testing activity are analysed in conjunction with the heads of the organizational units responsible for the process, and possibly also with the areas that will be involved in solving the problems. With the Head of company financial reporting, a plan of corrective action is drawn up which assigns responsibilities and defines timescales.

Based on this model, the relevant administrative bodies and the Head of Company Financial Reporting attest, by means of a declaration attached to the annual report, the condensed interim report and the consolidated financial statements, that the procedures in force are adequate and have been effectively applied during the period to which the documents apply, and that the documents correspond to the data recorded in the company's books and accounts ledgers and are adequate for the purpose of providing a truthful and adequate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

Statutory Audit Committee

The Statutory Audit Committee consists of three standing auditors and three alternate auditors. Appointment to the Statutory Audit Committee is made on the basis of lists deposited at least twenty-five calendar days prior to the date scheduled for the general meeting to be held in the first or only instance along with professional CVs for the individual candidates and statements by them agreeing to stand as candidates and confirming that they are in possession of the qualifications required under law, the applicable regulations and the Articles of Association. The Articles in particular provide that, without prejudice to the provisions of the law, members of the Statutory Audit Committee may not hold posts in governing bodies other than those with responsibility for control of other Group companies or in companies in which Mediobanca holds, including indirectly, an investment which is deemed to be strategic under supervisory requirements laid down by the Bank of Italy, hold the post of Chief Executive Officer, manager or officer in companies or entities, or who otherwise work with the management of companies operating directly or indirectly (including through subsidiaries) in the same sectors as Mediobanca. The Articles of Association further state that lists may only be submitted by shareholders representing in the aggregate at least the percentage of the company's share capital established under regulations in force at the date of the general meeting (currently 1%).

The mechanism for appointments provides that the Chairman of the Statutory Audit Committee shall be chosen from the minority list.

Its composition also ensures the gender balance stipulated in Italian law 120/11.

The Statutory Audit Committee, appointed on 28 October 2017 for the 2018, 2019 and 2020 financial years, is currently made up as follows:

Members (as at 30 June 2018)	**Position**	**In office since ****
Natale Freddi *	Chairman	28.10.2011
Laura Gualtieri ♦	Standing Auditor	28.10.2014
Francesco Di Carlo ♦	Standing Auditor	28.10.2017
Alessandro Trotter ♦	Alternate Auditor Supplente	28.10.2014 **
Barbara Negri ♦	Alternate Auditor Supplente	28.10.2014
Stefano Sarubbi *	Alternate Auditor Supplente	28.10.2017

♦ Appointed from the list submitted by shareholder UniCredit S.p.A., which holds 8.46% of the company's share capital.

* Appointed from the list submitted by a group of investors owning 3.889% of the share capital.

** Alternate audit until 2 July 2007; member of Management Board from 2 July 2007 to 28 October 2008; and alternate auditor from 28 October 2014.

The members of the Statutory Audit Committee all qualify as independent under Article 148 of Italian legislative decree 58/98 and the Code of Conduct.

The CVs of the Statutory Auditors deposited along with the lists for appointments to the Statutory Audit Committee may be found on the Bank's website at www.mediobanca.it/Corporate Governance.

The Statutory Audit Committee performs the duties and functions required of it under the regulations in force. In particular it monitors:

– Compliance with the provisions of the law, regulations and the Company's memorandum of incorporation, as well as with the principles of proper management;

– Adequacy of the organizational, administrative and accounting arrangements set in place by the company and the financial reporting process;

– The thoroughness, adequacy, functioning and reliability of the internal control system and Risk Appetite Framework;

– The process of auditing the annual and consolidated financial statements;

- The independence of the external auditors, in particular regarding the provision of non-audit-related services;
- The thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee is also responsible for:

- Reviewing the plans of activity for the company's control units, along with the reports prepared by them on the work carried out;
- Expressing its opinion on the appointment and/or dismissal of the heads of the control units and the Head of company financial reporting;
- Monitoring the process of 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);
- Informing the Board of Directors of the results of the auditing process, and sending the additional report required under Article 11 of European regulation no. 537/2014, along with any comments it might have;
- Proposing the audit company for approval by shareholders in annual general meeting to act as the Bank's legal external auditors;
- Reviewing the working plan prepared by the external auditors to audit the Bank's accounts, and the results as described in their report and their letter containing suggestions;
- Assessing the adequacy of the procedures adopted to regulate transactions involving related parties and compliance with them;
- Checking that the criteria and procedures adopted by the Board of Directors to assess the independence of its members are applied correctly;
- Monitoring compliance with the requirements provided for in Italian Legislative Decree 254/16 on sustainability;
- Reporting any irregularities in operations or breaches of the regulations noted to the supervisory authorities.

The statutory auditors are vested with the broadest powers provided for by the legal and regulatory provisions in force.

The committee takes part in all meetings of the Board of Directors, the Executive Committee and the other committees set up by the Board for which their participation is required under the Board's regulations. In this way the Committee is kept informed of the activities carried out and the most significant transactions in earnings, financial and capital terms, executed by the Company or its subsidiaries, transactions with related parties, and transactions in which the Directors have an interest either in their own right or by means of third parties.

The Statutory Audit Committee receives information flows organized and channelled via the company's control units, i.e. Group Audit, Risk Management and Compliance, deals with issues in conjunction with the Risks Committee, and maintains regular relations, with a view to reciprocal exchanges of information, with the external legal auditors, and with other Group companies' Statutory Audit Committees. The heads of the various areas of the company hold regular meetings with the Statutory Audit Committee to provide further analysis or training on issues that are of interest to them.

Any Statutory Auditor who has an interest in a particular transaction in which Mediobanca is involved, either in his/her own right or via third parties, informs the other Statutory Auditors and the Chairman of the Board of Directors promptly and exhaustively regarding the nature, terms, origin and scope of such interest.

A total of twenty-nine meetings of the Statutory Audit Committee were held in the last financial year, twelve of which were held jointly with the Risks Committee, and the Committee met on several occasions with representatives of the external auditors retained to audit the company's financial statements pursuant to the Italian Finance Act.

The average duration of committee meetings was roughly three hours.

Group Audit Unit

Mediobanca maintains a Group Audit Unit, centralized at Mediobanca S.p.A. but covering the Group as a whole, which is organized so as to assess the thoroughness, adequacy, functioning and reliability of the company's internal control system. The activities regard all companies in the Banking Group and are performed by the unit itself and via its co-ordination of the corresponding subsidiaries' units (where applicable; e.g. in the case of Compagnie Monégasque de Banque).

Centralizing internal audit activities in this way allows Mediobanca's role of co-ordination of the internal controls system to be strengthened and makes the whole control structure more efficient by:

– Centralizing co-ordination responsibilities at, and providing for direct coverage, by the Group audit unit for all subsidiaries;
– Defining a Banking Group audit plan, to be submitted to the approval of Mediobanca's Board of Directors and thereafter of the individual companies' Boards for what concerns them;
– Sharing specialized skills (e.g. IT auditing, AIRB, regulations) and audit methodologies, inspection methods reporting standards vis-à-vis governing bodies and senior management.

The head of the Group Audit Unit is Giorgio Paleari, who reports to the Board of Directors.

The unit operates independently and has direct access to all information useful to it, and adequate means are made available for it to be able to perform its mandate.

The head of the Group Audit Unit takes part in meetings of the Risks Committee, providing support in its own control activities. The unit submits a report to the Risks Committee and the Board of Directors once every six months on the activities performed and remediation of any critical issues noted.

The plan of activities is executed in accordance with the provisions contained in the unit's own Regulations and the Audit Plan approved each year by the Board of Directors.

Compliance Unit

The Compliance unit manages the regulatory and reputational risks of the Group, and to monitor in particular that the internal procedures set in place are consistent with the objective of preventing breaches of regulations applicable to the Bank and the Group. For the Bank, the unit proposes and monitors the adoption of procedures intended to manage risks of non-compliance linked to the provision of banking services and MiFID investment and ancillary services, ensuring staff are fully updated on developments in the domestic and European regulatory scenario. The unit manages compliance risks at the Group level as well, with the assistance of representatives and officers of the various Group companies, who in functional terms report to the head of the Compliance unit on such matters.

The head of Compliance takes part in Risks Committee meetings, providing support to the committee in its control activities. The Compliance unit reports to the Control and risks committee, the Board of Directors and the Statutory Audit Committee twice a year. The Compliance unit is headed up by Massimiliano Carnevali, who reports directly to the Chief Executive Officer.

Anti-money-laundering Unit

The Anti-money-laundering unit was established in 2011, and as required by the instructions issued by the Bank of Italy on 10 March 2011 as amended, is responsible for ongoing monitoring of the Bank's and Group's procedures to ensure they are adequate to prevent and tackle breach of the regulations on money-laundering and terrorist financing. In 2018, the unit was centralized at Mediobanca for the Italian Group companies, while at the non-Italian companies the unit manages these risks with the assistance of the respective representatives and officers, who in functional terms report to the head of the AML unit on such matters.

The head of the Group AML unit is Andrea Verger, who reports to the head of the Compliance unit.

Group Risk Management Unit

The Group Risk Management unit reports directly to the Chief Executive Officer under the leadership of the Group Chief Risk Officer, Pierpaolo Montana.

The unit co-operates in the definition and execution of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process. It plays an important role in strategy and risk-taking decisions, in the appraisal of extraordinary transactions, and in identifying, measuring, valuing, managing, mitigating, monitoring and reporting risks in the event of unauthorized exposures being noted.

In particular it is responsible for identifying and implementing an efficient risk management process and for ensuring this is embedded across the Group. To this end it presides over the functioning of the Bank's and the Group's risk management systems, defining the appropriate methodologies for measuring the current and future set of risks faced by them. The unit ensures ongoing control of the aggregate exposure, at Group and individual unit level, to credit, financial, operational and other relevant risks, within the limits set by the internal and supervisory regulations. The unit also issues guidance to the Group companies, to ensure that the entire Group's exposure to the above risks is governed appropriately.

In the exercise of his duties of control, the Group Chief Risk Officer is the person responsible for identifying and implementing an efficient risk management process through developing risk management policies which include defining and quantifying risk appetite and risk limits at both the individual operating unit and Group-wide level, calling on the assistance also of the other Risk Management teams of the various Group companies which to this end report in functional terms to the Group Chief Risk Officer.

The Head of the unit attends meetings of the Risks Committee, assisting it in its control tasks. Every six months the unit submits a report to the Risks Committee and the Board of Directors on the activities performed, and once a year it submits an assessment of the Group's risk profile and the adequacy of the Group's risk management measures.

As part of the Risk Appetite Framework, the Risk Management unit performs a set of regular internal controls with the aim of measuring the current level of the metrics relative to the limits set in the framework. It also gives prior opinions on whether Most Significant Transactions are consistent with the Risk Appetite Framework and identifies any needs in terms of decision-making escalation. If needs be, and depending on the nature of the transaction, it also seeks the opinion of other units involved in the risk management process.

In the area of strategic planning, Risk Management participates in the definition of the Group's strategic guidelines, ensuring the strategic goals and risk limits defined in the RAF are consistent with reference specifically to the adequacy of the company's assets and liquidity.

The unit is also responsible for the process and performance of Group-wide stress tests.

The Risk Management unit is involved in making decisions regarding the Bank's entry into new markets, introduction of new products, and extraordinary operations, in order to assess the impact of these changes and operations on the Bank's and the Group's overall risk level.

Organizational model instituted pursuant to Italian Legislative Decree 231/01

At a Board meeting held on 31 July 2018, the Directors of Mediobanca approved the revised version of the new organizational model following changes to the regulatory framework.

The organizational model consists of:

1. A **General Part**, which provides an overview of the set of principles on which the model is based and functions, containing references to the primary regulations and with them a list of the crimes pursuant to Italian Legislative Decree 231/01, the cases of possible exemption from liability, an indication of the requisites for the supervisory body and its members, references to the staff remuneration and incentivization.
2. **Special Parts**:
   - **Map of crimes and activities at risk:** for each category of crime and organizational unit, the sensitive activities, control measures and organizational units involved are identified.
   - **Protocols**, summarizing the principles of conduct and operating procedures for each sensitive area.
   - Group Code of Ethics, which has been adopted by all Group companies, constitutes an integral part of the model, and contains references and principles which are complementary to the legal obligations and self-regulation requirements for directors, advisors, outside staff and suppliers, and are continuous and consistent with the Group's mission and its basic values. The document is available on the Bank's website at www.mediobanca.it/Corporate Governance.

- **Reporting flows** from/to the supervisory body, containing the data and information which each organizational unit is required to transmit to the supervisory body. Obtaining such data allows the supervisory body to monitor the model's functioning and compliance with it, and to propose revisions where these may be necessary in order to render the company's organizational and internal control measures more effective.
- **Form for reporting** suspected breaches of the model to the supervisory body.
- List of crimes: document describing the crimes assumed to be applicable to the Bank.

The Statutory Audit Unit also performs the functions assigned to the supervisory unit instituted pursuant to Italian legislative decree 231/01. In this connection, the Statutory Audit Committee is responsible for monitoring the functioning of and compliance with the model and the functioning of the disciplinary system. It maintains and ensures flows of information to the Board of Directors, including:

- Presenting an annual report on the activity carried out;
- Serious breaches of the model, also informing the Chairman of the Control and Risks Committee.

Code of Ethics and Code of Conduct

Since 2010 Mediobanca has adopted a Code of Ethics summarizing the ethical principles on which the Bank bases its activity and describing the values which underpin its daily operations.

These principles have also been set out in a Code of Conduct, which represents the benchmark for governing, in cases not expressly covered by the regulations, the Banks's internal and external relations in ethical terms, describing the standard of conduct required from all staff and collaborators.

Whistle-blowing

Mediobanca has also adopted a policy on whistle-blowing to enable staff to report, including on a confidential basis, any issues with the functioning of the Bank's organizational structure or internal control systems, or any other irregularity in the Bank's operations or breaches of the regulations on banking activity. The policy provides for liaison with the supervisory body, to which such reports are addressed. The policy, adopted by all Group companies, defines the the principles, methods and measures to ensure that such instances of whistle-blowing are managed correctly, respecting the confidentiality of the parties involved.

The head of the internal reporting systems is Massimiliano Carnevali, who is also responsible for the Compliance unit.

Personal transactions

In accordance with the provisions of regulations in this area, Mediobanca has adopted a procedure to ban and/or identify personal transactions made (or transactions recommended, solicited or divulged to third parties) by relevant persons which may give rise to conflicts of interest or otherwise be in breach of the regulations on insider or confidential information.

Under the procedure, relevant persons must be made aware of and comply with the restrictions and reporting requirements on personal transactions.

Internal Dealing

The Board of Directors has adopted Regulations on Internal Dealing to govern reporting requirements for transactions involving equity instruments issued by Mediobanca (shares, convertible bonds, warrants, equity derivatives, etc.) carried out by persons defined as "relevant". Such relevant persons (chiefly Directors, statutory auditors and key management) have all subscribed to the code, and notify Mediobanca of each such transaction involving said equity instruments within two days of its completion. Transactions involving sums of less than €5,000 (or a higher figure set by the relevant authority, if any) are not considered. Mediobanca then discloses all such information to the market and Consob by the next successive day, using the methods set down by the regulations in force. Relevant persons may not effect such transactions in the thirty days prior to the date on which the Board of Directors' approval of the Bank's annual, interim and quarterly accounts is made public (black-out period). A more restrictive regime has also been introduced for certain management figures, limiting the restrictions on them trading to certain "window" periods only, i.e. the 15 open market days subsequent to the results for the period being published.

Related Party Transactions

At a Board meeting held on 10 May 2018, following the unanimous favourable opinion of the Related Parties Committee and the Statutory Audit Committee, the Directors of Mediobanca approved a revised version of the Regulations in respect of transactions with related parties and their associates adopted in pursuance of Consob resolution 17221/10 and the Bank of Italy's 2011 provisions on this subject, which set out the provisions with which the Bank must comply to ensure that transactions with related parties carried out directly or via Group companies are executed transparently, fairly in terms of both substance and form, objectively and impartially, whether directly or via subsidiaries, and also that the prudential limits on risk assets vs related parties are complied with.

The Regulations use a definition of "related party" which combines the areas of application provided under the Consob regulations with Bank of Italy instructions in respect of procedural and approval obligations. The scope of the definition of related parties to which the prudential limits set by the Bank of Italy and the transparency regulations set by Consob apply remains distinct.

The Regulations are activated every time the Bank intends to implement a transaction with a related party (as defined in Annex 1 of the regulations). They involve an initial classification between "Most significant transactions" and "Transactions of minor significance", which determines the respective responsibilities and approval procedures. The Regulations do not apply to transactions which qualify as "Exemptions" (which include "Ordinary transactions of minor significance carried out on market terms" and "Transactions involving negligible amounts").

The Regulations also prescribe a specific "transparency regime" which defines the reporting requirements and deadlines versus both the public and the company's governing bodies. These Regulations are published on the Bank's website at www.mediobanca.com/Corporate Governance.

Conflict of Interest Policy

Consistent with the requirements of the regulations in this area, Mediobanca has adopted a conflict of interest management policy for the identification, monitoring and management of conflicts which may arise in the provision of investment or ancillary services. Taking into account the provisions of the ECB Guide for the requirements of directors' integrity and professionalism, it also regulates the measures to be taken in the event that one of them or a Statutory Auditor should become involved in a conflict of interest.

The Policy describes the methods of identification and management of real and potential conflicts of interest which affect Mediobanca's ability to act independently and could thereby harm the interests of the Bank or of one or more of its clients.

Mediobanca believes prompt, correct identification and management of conflicts of interest to be not only necessary in order to comply with the provisions of the laws and regulations but of essential importance for protecting clients' rights and safeguarding Mediobanca's assets and reputation before its clients, the market, other institutions and the authorities.

Directors' and strategic management's remuneration

The Chief Executive Officer's and the General Manager's remuneration are structured in such a way as to ensure their interests are aligned with the main objective of value creation for shareholders over the medium and long term, as part of a framework of regulations directed towards achieving proper management of the current and future risks facing the company, and maintaining appropriate liquidity and capitalization levels. The compensation package is structured into three components so that the economic benefits accruing to executive Directors are diversified over time:

1) Fixed salary;
2) A variable annual component (or short-term incentive) which accrues only if the gateways established in the remuneration policies are met, which is defined in the sense of reaching certain specific quantitative and qualitative performance criteria, contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal.

The scorecards contain performance objectives for the business areas under the individual manager's responsibility. For example these may regard: risk-adjusted profitability; revenues, for the Group as a whole or specific divisions; profitability or Economic Profit of the individual areas under their responsibility; and/or other objectives consistent with the strategic plan guidelines in terms of capitalization, liquidity or new business initiatives. Each objective is weighted based on the importance attributed to it by the Board and the actual degree of autonomy which the manager concerned has in terms of decision-making regarding it. Achievement of these objectives results in variable remuneration being paid which varies from 50% (or a lower percentage) of annual gross salary when minimum targets (usually those set by the budget) are reached to up to of 200% for particularly outstanding performances (indicatively between 115% and 150% of the minimum).

Payment of the variable component (50% in cash and 50% in shares) is deferred as to 60% over a five-year time horizon. All the deferred components are subject to the performance and malus conditions provided for in the remuneration policies.

3) When the Group's strategic plan is approved, the Board of Directors may adopt a long-term incentivization scheme linked to achievement of the plan's targets. In this case the short-term incentive scheme described in the previous point will be adapted with reference to the long-term scheme, without prejudice to the 200% cap on variable remuneration for each financial year. Like the short-term scheme, the long-term incentivization scheme will have specific quantitative and qualitative objectives linked to the time horizon of the plan and will be subject to gateways. Payment will be made in accordance with the terms, conditions and means provided for the variable remuneration component referred to in the previous point, unless the Board of Directors decides otherwise having first consulted with the Remunerations Committee, as required by the regulations on long-term incentivization schemes currently in force, including any specific resolutions requiring to be adopted by shareholders gathered in annual general meeting. At present there is no long-term incentivization scheme in force.

The Chairman is entitled to fixed remuneration only.

Directors who are also members of the Group's senior management receive a fee for their position as directors, but do not receive any remuneration in respect of their participation in committees, and in cases where such directors hold posts on Mediobanca's behalf in Group or investee companies, any emoluments due are paid to Mediobanca itself as the persons concerned are members of the Bank's staff.

Non-executive Directors' remuneration is set by shareholders in their annual general meeting, and does not include incentives linked to the Bank's performance.

The policy on the remuneration of directors and management with strategic responsibilities is illustrated in the "Remuneration Policy", which at the Remuneration Committee's proposal is approved by the Board of Directors and submitted to shareholders in annual general meeting. The policy for FY 2017-18 as approved by the shareholders is available on the Bank's website at www.mediobanca.com/Corporate Governance.

Other information required under Article 123-bis of the Italian Consolidated Finance Act on Severance Pay Agreements

In the event of the directors employed by Mediobanca ceasing to work for the company for any reason, the provisions of the Group's remuneration policies for identified staff and the sector regulations in force at the time shall apply, as approved by the shareholders in their annual general meeting and published on the Bank's website at www.mediobanca.com.

Succession Planning

At a Board meeting held on 12 July 2018, the Directors approved the "Policies for the selection, appointment, succession and performance assessment of company representatives and Group Key Function Holders" governing inter alia the succession of executive directors (including the Chief Executive Officer and the General Manager) and non-executive directors, the Statutory Auditors and the Key Function Holders and include the emergency plan for renewal of appointments to senior management positions in the event that this should suddenly become necessary. The company representatives include members of the Board of Directors and Statutory Audit Committee; while the Key Function Holders are persons who are not Board members but have a significant influence on the Bank's management (the heads of the control units, the head of company financial reporting, the heads of the Mediobanca Group business areas (CIB, Retail/Consumer, Private Banking, Principal Investing, CMB, MAAM), and the Group HR Director).

Regarding succession planning for the executive Directors, the Chief Executive Officer and General Manager, the Appointments Committee is tasked with selecting a limited number of persons who have been members of the Group's management for at least three years and who are considered able to succeed to those positions. The selection is made with the support of the Chief Executive Officer and General Manager in office, Group HR, and specialized consultants if considered appropriate. This select number of management is kept informed at all times, so that, if need be, the Appointments Committee can make swift proposals to the Board of Directors or to shareholders in general meetings. In emergency situations, the Chairman swiftly calls a meeting of the Board of Directors to assign interim powers in order to ensure continuity of business, and to launch ordinary succession procedures with the Appointments Committee's involvement.

If an executive director other than the Chief Executive Officer or the General Manager, i.e. a member of the Executive Committee, should leave office during the course of a financial year, the responsibility for proposing a replacement falls to the Appointments Committee. In general terms, an executive director must possess all requisites stipulated in general for directors, plus specific experience in banking, professional or corporate areas which highlights their capability to take decisions quickly and on an informed basis. The Appointments Committee will commence its selection from among the other non-executive directors currently in office; if it fails to identify a suitable candidate, the new director will be co-opted from outside. To this end the Appointments Committee assesses the profiles represented on the Board to gauge who which might be suitable for inclusion in the Executive Committee.

Regarding the succession of non-executive directors, those appointed from the minority list are replaced, where possible, by unappointed directors from the same list, in accordance with the provisions in force on equal gender representation.

For directors appointed from the majority list, in line with best practice, the selection of candidates will reflect the guidance issued by the Board in its Report on the qualitative-quantitative composition of the Board of Directors.

In particular, the Board, with the assistance of the Appointment Committee which performs the administrative duties, will take steps immediately to identify a candidate in possession of the same characteristics as the director leaving office (in terms of gender, independence, international experience and specialization), and if this is not possible, a candidate who nonetheless possesses characteristics which are functional to the Board's optimal composition in qualitative and quantitative terms.

The regulations in force at the time in respect of the balance of directors in terms of gender and independence will of course be observed.

As for the limitations on the number of posts which representatives of banks may hold under the new CRD IV directive, the relevant decree law remains to be enacted by the Italian Ministry for the Economy and Finance, which, after consulting with the Bank of Italy, will set the limits pursuant to Article 26 of the Italian Banking Act, as amended by Italian legislative decree 72/15. These provisions will apply to appointments subsequent to its coming into force, as provided by Article 2 of Italian legislative decree 72/15.

As for the Key Function Holders, a total of ten key positions have been identified (currently covered by eleven individuals), for which the capabilities required for such roles have been defined and formalized.

The Chief Executive Officer and the General Manager, with the support of Group HR, identify internal staff who are able to guarantee succession in the short and medium term (known as the senior talent pool), without ceasing to monitor the market. Growth and career development pathways are identified for senior talent pool members, including in terms of involvement in specific strategic projects, exposure to Board/Committee meetings, and international/intra-Group rotation.

Relations with shareholders and investors

Mediobanca maintains an ongoing dialogue with its shareholders, institutional investors and individual holders of shares and bonds and with all other stakeholders within the national and international financial community.

Transparency and prompt disclosure are the hallmarks of the relationship between Mediobanca and its interlocutors, in compliance with the regulations and the internal procedures governing the circulation of inside information.

To enable all shareholders to exercise their rights knowingly, information concerning the Group's business model, corporate governance structure, earnings/financial data, products and services, and social and cultural initiatives is available on the Bank's website; to promote the greatest possible participation in annual general meetings, the relevant documentation is sent beforehand to the addresses of who requested it.

Furthermore, to promote dialogue via its institutional website at www.mediobanca.com (content in English and Italian), Mediobanca offers interested parties an opportunity to be kept up-to-date with the Group's earnings results and strategic objectives. As well as making available the full documentation produced by the Bank (again in both languages), the website also offers an opportunity to follow the conference calls organized for publication of the Bank's quarterly, half-yearly and annual results via a web streaming service.

Relations with institutional investors, financial analysts and journalists are handled by the relevant units (Paola Schneider – Group Corporate Affairs, Jessica Spina - Investor Relations and Lorenza Pigozzi – Media Relations).

Milan, 20 September 2018

Table 1: Structure of Board of Directors and Committees as at 30 June 2018

Board of Directors													Executive Committee		Risks Committee		Remuneration Committee		Appointments Committee	
Office	Member*	Year of birth	Date first appointed **	In office since	In office until	List	Non-exec.	Exec.	Indep. (Article 19)	Indep. (Finance Act)	No. of other posts held (***)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)
Chairman	Renato Pagliaro	1957	28/10/08 [1]	28/10/17	28/10/20	(a)	X				0	100%								100%
Deputy Chair ♦	Maurizia Angelo Comneno	1948	28/10/14	28/10/17	28/10/20	(a)		X		X	0	100%		100%						
Deputy Chair	Alberto Pecci	1943	27/10/12	28/10/17	28/10/20	(a)	X				3	90.90%						100%		
CEO ◊ ♦	Alberto Nagel	1965	28/10/08 [1]	28/10/17	28/10/20	(a)		X			0	100%	P	100%						
Director and General Manager ♦	Francesco Saverio Vinci	1962	28/10/08 [1]	28/10/17	28/10/20	(a)		X			0	90.90%		100%						
Director	Marie Bolloré	1988	28/10/14	28/10/17	28/10/20	(a)	X			X	10	81.81%								80%
Director	Maurizio Carfagna	1947	28/10/14	28/10/17	28/10/20	(a)	X		X	X	3	100%				91.66%	P	100%		
Director	Maurizio Costa	1948	28/10/14	28/10/17	28/10/20	(a)	X		X	X	1	90.90%						100% *	P	90%
Director	Angela Gamba	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	1	100%				100%				
Director	Valérie Hortefeux	1967	28/10/17	28/10/17	28/10/20	(a)	X		X	X	2	100%				100%		100%		
Director	Alberto Lupoi	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	0	100%						100%		100%
Director	Elisabetta Magistretti	1947	28/10/11	28/10/14	28/10/20	(a)	X		X	X	2	100%			P	100%		100% *		100%
Director	Massimo Tononi	1964	28/10/17	28/10/17	25/07/18	(a)	X		X	X	3	90.90%				100%				
Director ♦	Gabriele Villa	1964	28/10/17	28/10/17	28/10/20	(a)		X		X	1	100%		100%						

Maximo Ibarra and Vittorio Pignatti-Morano were co-opted on 20 September 2018.

* Left office on 28 October 2017.

Directors who left office during fy 2017-18

Board of Directors												Executive Committee		Risks Committee		Remunerations Committee		Appointments Committee	
Office	**Member***	**Year of birth**	**Date first appointed ****	**In office since**	**In office until**	**List *****	**Non-exec.**	**Exec.**	**Indep. (Code)**	**Indep. (Finance Act)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**
Deputy Chair	Marco Tronchetti Provera	1948	23/05/07	28/10/14	28/10/17	(c)	X			X	75%								
Director	Tarak Ben Ammar	1949	15/09/03	28/10/14	28/10/17	(c)	X		X	X	75%								
Director	Gilberto Benetton	1941	28/10/02	28/10/14	28/10/17	(c)	X				50%								
Director	Mauro Bini	1957	28/10/14	28/10/14	28/10/17	(d)	X		X	X	100%							P	100%
Director ♦	Angelo Casò	1940	28/10/08	28/10/14	28/10/17	(c)	X		X	X	100%				100%				
Director	Vanessa Labérenne	1978	09/05/12	28/10/14	28/10/17	(c)	X		X	X	100%						100%		
Director	Marina Natale	1962	28//10/16	28/10/16	21/07/17	(e)	X			X	100%								
Director ♦	Gian Luca Sichel	1968	28/10/14	28/10/14	28/10/17	(c)		X			100%				100%				
Director ♦	Alexandra Young	1968	28/10/14	28/10/14	28/10/17	(c)		X			90,9%				100%				
Director °	César Alierta	1945	28/10/17	28/10/17	08/03/18	(a)	X		X	X	25%						0%		

* The CVs submitted by the directors in conjunction with the lists for appointment to the Board of Directors are available on the Bank's website at www.mediobanca.com/Corporate Governance.

** The "date first appointed" for each Director refers to the date on which they were appointed for the first time (ever) to the issuer's Board of Directors.

*** Data refers to posts held in other listed companies in regulated markets, including outside Italy, in financial companies, banks and/or insurances of significant size.

♦ Members of the Executive Committee.

(a) Taken from the majority list submitted by Unicredit S.p.A. which holds 8.46% of the Bank's share capital.

(b) Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

(c) Taken from the majority list submitted by Unicredit S.p.A. which held 8.65% of the Bank's share capital.

(d) Taken from a minority list submitted by a group of investors representing an aggregate 1.699% of the Bank's share capital.

(e) Proposal submitted by Unicredit S.p.A. which held 8.46% of the Bank's share capital.

A. Indicates the director's role within the committee: "C": Chairman.

B. Indicates the directors' attendance records in percentage terms at meetings of the Board of Directors and Committees (no. of meetings which each director attended out the total no. of meetings which they could have attended).

◊ Main person responsible for managing the issuer (Chief Executive Officer or CEO).

1 Member of the Management Board from 2 July 2007 to 28 October 2008.

No. of meetings held during year ended 30 June 2018:

Board of Directors: 11	**Executive Committee: 12**	**Risks Committee: 12**	**Related Parties Committee: 9**	**Remunerations Committee: 8**	**Appointments Committee: 10**
Quorum required for minority shareholders to submit lists for the appointment of one or more directors:			at least 1% of the share capital		

• In the year ended 30 June 2018, the Board of Directors also held one meeting of independent directors, eleven induction meetings and two training sessions.

Table 2: Structure of Statutory Audit Committee as at 30 June 2018

Office	Member	Year of birth	Date first appointed*	In office since	In office until	List	Indep., Code of conduct	Percentage of Committee meetings attended	No. of other posts held**
Chairman	Natale FREDDI	1952	28/10/11	28/10/17	28/10/20	(b)	X	100%	-
Standing Auditor	Francesco DI CARLO	1964	28/10/17	28/10/17	28/10/20	(a)	X	94.7%	1
Standing Auditor	Laura GUALTIERI	1968	28/10/14	28/10/17	28/10/20	(a)	X	96.5%	1
Alternate Auditor	Alessandro TROTTER	1940	28/10/00	28/10/17	28/10/20	(a)			
Alternate Auditor	Barbara NEGRI	1973	28/10/14	28/10/17	28/10/20	(a)			
Alternate Auditor	Stefano SARUBBI	1965	28/10/17	28/10/17	28/10/20	(b)			

Statutory Auditors who left office during FY 2017-18

Office	Member	Year of birth	Date first appointed*	In office since	In office until	List	Indep., Code of conduct	Percentage of Committee meetings attended	No. of other posts held **
Standing Auditor	Gabriele VILLA	1964	28/10/11	28/10/14	28/10/17	(c)		90%	2
Alternate Auditor	Silvia OLIVOTTO	1950	28/10/14	28/10/14	28/10/17	(d)			

No. of meetings held during the year ended 30 June 2018§: 29

Quorum required for minority shareholders to submit lists for the appointment of one or more Statutory Auditors:	at least 1% of the share capital

§ 12 of which in conjunction with the Risks Committee.

* The "date first appointed" for each Statutory Auditor refers to the date on which they were appointed for the first time (ever) to the issuer's Statutory Audit Committee.

** Indicates the no. of posts as director or Statutory Auditor held by the person concerned in other companies listed on regulated Italian markets.

a Taken from the majority list submitted by Unicredit S.p.A. which holds 8.46% of the Bank's share capital.

b Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

c Taken from the majority list submitted by Unicredit S.p.A. which held 8.65% of the Bank's share capital.

d Taken from a minority list submitted by a group of investors representing an aggregate 1.699% of the Bank's share capital.

Table 3: Other requirements under code of conduct for listed companies

	YES	NO	Reasons for any departures from recommendations made in the Code
Power to represent the Bank and related party disclosure			
Has the Board of Directors authorized parties to represent the Bank and established:			
a) limits	X		
b) methods for exercising such powers	X		
c) regular reporting requirements?	X		
Has the Board of Directors reserved for itself the right to inspect and approve all significant transactions in terms of earnings, capital and finances (including transactions with related parties)?	X		
Has the Board of Directors set guidelines and established criteria for identifying "significant" transactions?	X		
If so, have such guidelines/criteria been set out in the statement on corporate governance?	X		
Has the Board of Directors implemented procedures for reviewing and approving transactions with related parties?	X		
If so, have such procedures been set out in the statement on corporate governance?	X		
Procedures for most recent appointments to Board of Directors/Statutory Audit Committee			
Were candidates' applications for the post of director lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
Were they accompanied by statements regarding the candidates' eligibility to stand as independent Board members?	X		
Were candidates' applications for the post of statutory auditor lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
General meetings			
Has the Bank adopted specific regulations in respect of the holding of general meetings?		X	Orderly proceedings are ensured by the powers vested in the Chairman under law and the company's Articles of Association.
If so, are such regulations attached as an annex hereto, or is indication provided in the annual report as to where they may be obtained or downloaded?		X	
Internal controls			
Has the company designated staff to take charge of internal control?	X		
If so, are such staff independent in operational terms from the various heads of the individual operating units?	X		
Organizational unit responsible for internal control	X		Group Audit Unit
Investor relations			
Has the company appointed a head of investor relations?	X		
If so, what are the head of the IR unit's contact details?	Jessica Spina Tel. no.: (0039) 02-8829.860 - Fax no.: (0039) 02-8829.819 Email: investor.relations@mediobanca.it		

Annex

Posts held in other financial companies, banks, insurances or other companies of significant size by members of the Board of Directors of Mediobanca [1]

Name	**Post held in Mediobanca**	**Posts held in other companies**
PAGLIARO Renato	Chairman	
ANGELO COMNENO Maurizia	Deputy Chair and Executive Committee member	=
PECCI Alberto	Director	Chairman, Pecci Filati Chairman, Tosco-Fin Director, El.EN.
NAGEL Alberto	CEO and Chairman of Executive Committee	=
VINCI Francesco Saverio	General Manager, Director and Executive Committee member	=
BOLLORE Marie	Director	Director, Bolloré S.A. Director, Financiere de l'Odet Director, Bolloré Participations Director, Financiere V Director, Omnium Bolloré Director, Blue Solutions Director, Societé Industrielle et Financiere de l'Artois Supervisory Board member, Sofibol Chair of Supervisory Board, Compagnie du Cambodge CEO Elettric Mobility Application Division of Bolloré Group
CARFAGNA Maurizio	Director	CEO, H-Invest Director, Futura Invest Director, FingProg Italia S.p.A.
COSTA Maurizio	Director	Director, Amplifon
GAMBA Angela	Director	Director, Parmalat
HORTEFEUX Valérie	Director	Director, Blue Solutions Director, Ramsay – Générale de Santé
LUPOI Alberto	Director	=
MAGISTRETTI Elisabetta	Director	Director, Luxottica Group Director, Smeg
TONONI Massimo	Director	Chairman, Prysmian S.p.A. Director, Italmobiliare S.p.A. Chairman, ISA Istituto Atesino di Sviluppo S.p.A.
VILLA Gabriele	Director	Statutory Auditor, Edison S.p.A.

[1] The full list of positions is available at www.mediobanca.com.

GLOSSARY

GLOSSARY

The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB), and the "advanced" internal ratings-based method (AIRB). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

– Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;

- Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

Amortized cost (financial assets measured at amortized cost): this is one of the new categories for financial assets and liabilities provided for in IFRS9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

- The instrument is held according to a business model consisting of collection of the contractual cash flows (Held to collect, see definition); and
- The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/ dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the bail-in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail-in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) *Basel II:* The short name given to the document entitled *International Convergence of Capital Measurement and Capital Standards* signed in Basel in 2004 which came into force in 2008. It is based on three so-called Pillars: Pillar I (minimum capital requirements addressing risk); Pillar II (supervisory review); and Pillar III (market discipline).

b) *Basel III:* This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).

c) *Basel IV:* Proposed standard on capital reserves for banks to update the Basel III standards, not due for ratification before March 2019.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: *Held to collect, Held to collect and sell*, and *Other*.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk-weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk (as expressed by a single risk factor, namely beta; see definition.

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR): Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IAS39 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition).

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio: The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/ long-term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

– Exposures to SMEs;
– Leveraged finance (see definition);
– Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enable a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS 9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage 1 comprises:
   a. Credit exposures originated or acquired;
   b. Exposures with no significant increase in credit risk compared to their initial recognition;
   c. Exposures subject to the low credit risk exemption.

b) Stage 2: significant increase in credit risk compared to initial recognition;

c) Stage 3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over-the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS) – Deposit Insurance Fund (DIF): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD (*Fondo di garanzia dei Depositanti del Credito Cooperativo*). At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution.

Effective Interest Rate: the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro-prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

External Rating: Valuation formulated by a specialist private agency of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS39 to neutralize exposure to changes in a balance-sheet item's fair value.

FTA – First Time Adoption: Governed by IFRS1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

– The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Held to collect and sell; see definition); and
– The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): An international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

Forward looking information: According to the new impairment model introduced by IFRS9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

Global Systemically Important Banks (G-SIBs): These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Global Systemically Important Institutions (G-SIIs): These are the largest financial institutions, of global systemic importance, which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

Grand-fathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS 9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (stage 1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to stage 1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice: i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital

Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Leveraged Finance: Type of financing which comprises transactions aimed at:

- Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
- Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
- Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

Loan Loss Provisions: Provisioning is the setting aside of funds to cover possible future losses on loans. Within this category a distinction must be drawn between:

– Individual adjustments, which are made in respect of a single item; and
– Collective adjustments, which are made in respect of unrealized losses whose existence is known but which cannot be assigned to individual positions.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings-based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Markets In Financial Instruments Directive (MiFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
MREL = (own funds + eligible liabilities) / total liabilities + own funds).

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiries and amount of the exposure.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

Options: Derivative contracts which include the right, but not the obligation, for the option holder by paying a premium to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

Overtime (OVT) and Point in Time (PIT): According to IFRS15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

– The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;
– The entity's performance creates or enhances the activity (e.g. work in progress) which the client is able to monitor in the process of its being created or enhanced;
– The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.

If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non-performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS15 which refers to "each promise to transfer to the client:

– A distinct good or service (or a combination of both); or
– A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

Plain Vanilla (derivatives): Plain villa derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS 3 (Business combinations).

POCI – "Purchased or Originated Credit Impaired": POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as stage 3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined;

in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS 9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II).

SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stock Option: The term "stock option" refers to options offered to the employees of a company which entitles them to buy shares in the same company based on a strike price.

Stress Test: A stress test is a simulation procedure used to measure the impact of market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell'Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the "Draghi" law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity's operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – Targeted Long Term Refinancing Operation: The T-LTRO is a non-conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses. The new requirements set the TLAC at 16 percent of RWAs and at 6 percent of leverage exposure by 1 January 2019.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS 15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS 15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

– Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and
– SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely ti be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

RESOLUTIONS ADOPTED BY SHAREHOLDERS IN ANNUAL GENERAL MEETING HELD ON 27 OCTOBER 2018

Resolutions adopted by shareholders at the Annual General Meeting held on 27 October 2018

At the Annual General Meeting held on 27 October 2018, the shareholders of Mediobanca:

– Approved the financial statements as at 30 June 2018 and the distribution of a gross dividend of €0.47 per share in respect of each of the shares in issue granting such entitlement, payable as from 21 November 2018, with record date 20 November 2018, after coupon no. 35 has been detached on 19 November 2018;

– Appointed Maximo Ibarra and Vittorio Pignatti-Morano as Directors, co-opted at the Board meeting held on 20 September 2018, to remain in office throughout the mandate of the current Board of Directors, whose term of office is due to expire with the annual general meeting to be held to approve the financial statements for the financial year ending 30 June 2020;

– Approved the "Staff Remunerations Policies", including the cap on variable and fixed remuneration based on a ratio of 2:1 and the criteria for establishing the compensation due in cases where beneficiaries leave office or cease to work for Mediobanca;

– Authorized, for a period of eighteen months, the buyback of treasury shares (nominal value €0.50 per share), up to a maximum of 3% of the share capital (or 26,611,288 shares, of which 8,714,833 already owned pursuant to a resolution adopted in 2007), and the authorization to sell said shares without time limits or restrictions.

BALANCE SHEET AND FUND ALLOCATION ANALYSES

Balance sheet analysis ASSETS (€'000)

As at 30 June	Liquid assets	Bills discounted advances, repurchase and forward transactions, and loans	Investment securities (excluding investments in Group undertakings)	Investments in Group undertakings	Investments in consortium companies	Property	Furniture, equipment and intangible assets	Other assets	Total assets	Contra accounts	Grand total
1946/1947	1,536	398	—	—	—	—	6	33	1,973	387	2,360
1947/1948	1,344	1,900	—	—	—	—	6	33	3,283	465	3,748
1948/1949	2,830	3,569	—	1	—	24	—	32	6,456	264	6,720
1949/1950	3,532	5,315	889	3	—	—	—	35	9,774	853	10,627
1950/1951	3,751	6,760	546	25	—	—	—	31	11,113	315	11,428
1951/1952	3,706	9,779	464	38	—	—	—	31	14,018	176	14,194
1952/1953	5,395	12,654	263	—	—	—	—	35	18,347	8,841	27,188
1953/1954	7,804	15,909	763	1	—	—	—	137	24,614	553	25,167
1954/1955	10,294	18,690	971	58	—	—	—	85	30,098	1,644	31,742
1955/1956	14,713	23,573	1,283	5	—	—	—	484	40,058	12,272	52,330
1956/1957	17,670	28,648	1,540	—	—	—	—	245	48,103	10,394	58,497
1957/1958	18,727	31,577	1,798	—	—	—	—	439	52,541	4,799	57,340
1958/1959	31,724	40,713	4,131	—	—	—	—	1,391	77,959	16,828	94,787
1959/1960	45,099	49,813	4,286	—	—	—	—	227	99,425	7,622	107,047
1960/1961	48,464	66,669	6,412	110	—	—	—	244	121,899	7,974	129,873
1961/1962	29,895	100,913	9,027	39	—	—	—	435	140,309	32,419	172,728
1962/1963	39,529	124,090	9,282	142	—	—	—	626	173,669	28,175	201,844
1963/1964	49,714	153,282	9,337	90	—	—	—	1,332	213,755	23,277	237,032
1964/1965	67,815	157,552	13,417	5	—	—	—	1,273	240,062	37,932	277,994
1965/1966	100,651	191,935	15,115	—	—	—	—	2,385	310,086	100,762	410,848
1966/1967	107,097	245,565	17,396	5	—	—	—	3,342	373,405	112,502	485,907
1967/1968	121,745	305,666	17,317	—	—	—	—	4,569	449,297	122,695	571,992
1968/1969	104,636	374,711	19,877	—	—	—	—	6,028	505,252	179,385	684,637
1969/1970	108,075	513,117	19,759	5	—	—	—	5,512	646,468	148,926	795,394
1970/1971	296,325	533,281	19,833	21	—	—	—	4,804	854,264	220,019	1,074,283
1971/1972	211,681	644,004	22,501	541	—	26	—	6,373	885,126	248,839	1,133,965
1972/1973	219,061	768,777	23,083	671	—	26	79	7,999	1,019,696	317,492	1,337,188
1973/1974	725,455	1,091,712	29,243	755	—	190	102	16,095	1,863,552	283,551	2,147,103
1974/1975	898,375	1,243,559	32,603	755	—	190	108	24,963	2,200,553	270,792	2,471,345
1975/1976	842,638	1,394,824	27,159	1,573	—	190	133	27,826	2,294,343	260,533	2,554,876
1976/1977	930,863	1,526,989	32,255	4,042	—	3,615	190	31,666	2,529,620	266,527	2,796,147
1977/1978	931,722	1,719,338	34,759	4,137	—	3,615	198	72,125	2,765,894	414,045	3,179,939
1978/1979	506,795	1,703,992	78,140	4,173	—	3,615	228	74,652	2,371,595	312,152	2,683,747
1979/1980	520,954	1,834,527	55,983	4,174	7,230	3,615	251	75,576	2,502,310	385,483	2,887,793
1980/1981	446,588	2,215,915	73,762	4,008	14,977	3,615	423	174,332	2,933,620	618,841	3,552,461
1981/1982	638,435	2,540,960	165,104	4,008	14,993	3,615	438	174,142	3,541,695	714,778	4,256,473
1982/1983	839,289	2,773,956	170,991	4,008	16,217	3,615	481	231,585	4,040,142	575,962	4,616,104
1983/1984	859,764	3,002,978	225,314	8,088	16,217	19,625	511	224,145	4,356,642	650,010	5,006,652
1984/1985	1,257,350	3,138,244	284,891	8,088	8,986	19,625	700	292,367	5,010,251	685,879	5,696,130
1985/1986	1,697,370	3,388,523	379,210	8,088	1,239	19,625	666	227,820	5,722,541	1,575,268	7,297,809
1986/1987	1,578,922	4,271,623	416,752	8,088	—	19,625	1,153	242,919	6,539,082	1,031,762	7,570,844
1987/1988	1,569,877	4,540,865	565,933	4,213	—	19,625	1,803	208,692	6,911,008	1,827,254	8,738,262
1988/1989	1,403,579	5,465,846	640,118	12,606	—	19,625	2,050	244,208	7,788,032	1,532,042	9,320,074
1989/1990	1,860,248	6,841,257	709,335	9,495	—	19,625	2,353	348,524	9,790,837	2,458,501	12,249,338
1990/1991	2,471,961	6,772,063	926,197	15,652	—	19,625	2,815	407,693	10,616,006	1,914,503	12,530,509
1991/1992	2,245,473	7,356,291	1,149,728	17,897	—	23,800	3,539	516,359	11,313,087	4,974,896	16,287,983
1992/1993	3,104,631	7,933,550	1,187,565	51,589	—	23,800	4,410	532,248	12,837,793	5,464,451	18,302,244
1993/1994	3,347,387	8,961,303	1,389,176	49,085	—	23,800	4,690	522,005	14,297,446	3,851,623	18,149,069
1994/1995	3,150,896	9,609,949	1,618,928	47,725	—	23,800	4,571	478,176	14,934,045	3,103,192	18,037,237
1995/1996	2,571,335	10,717,159	1,793,785	46,491	—	23,800	4,739	484,943	15,642,252	4,114,659	19,756,911
1996/1997	4,337,359	12,058,402	1,820,638	51,422	—	23,800	5,046	582,619	18,879,286	9,531,224	28,410,510
1997/1998	4,789,102	14,115,689	2,106,078	58,298	—	23,800	6,013	856,681	21,955,661	24,883,375	46,839,036
1998/1999	5,201,164	13,175,891	2,602,245	129,792	—	23,800	7,477	1,120,409	22,260,778	33,863,092	56,123,870
1999/2000	4,578,652	14,764,593	2,740,839	60,875	—	23,800	9,286	1,344,067	23,522,112	43,236,774	66,758,886
2000/2001	5,645,521	14,229,607	2,923,030	102,505	—	23,800	10,515	1,491,431	24,426,409	46,827,877	71,254,286
2001/2002	7,377,119	14,861,758	2,912,572	118,779	—	23,800	11,961	1,881,176	27,187,165	50,916,657	78,103,822
2002/2003	8,796,562	12,521,995	2,647,557	118,731	—	23,800	13,810	1,964,690	26,087,145	79,162,015	105,249,160
2003/2004	8,427,864	13,324,382	2,591,198	396,476	—	25,479	14,171	2,188,463	26,968,033	84,319,470	111,287,503
2004/2005	6,538,471	13,995,593	2,719,006	490,219	—	26,255	14,730	2,032,674	25,816,948	81,192,618	107,009,566
2005/2006	8,790,079	15,823,797	2,845,923	457,429	—	27,214	17,252	1,835,453	29,797,147	157,987,333	187,784,480

Balance sheet analysis § ASSETS

(€'000)

At year-end	Net treasury fund application	AFS securities	Financial assets held to maturity	Loans and advances to customers	Investment in Group undertakings	Other investments	Properties	Tangible and intangible assets	Other assets	Total assets
2005/2006	5,580,560	4,042,970	625,544	15,870,533	457,429	1,219,525	116,656	6,256	267,649	28,187,122
2006/2007	6,379,384	4,788,039	621,634	20,306,484	468,270	1,212,507	115,237	6,059	251,591	34,149,205
2007/2008	8,845,365	2,846,738	619,214	24,235,221	969,612	1,752,778	113,818	7,756	420,591	39,811,093
2008/2009	13,059,370	4,330,945	1,556,744	23,282,523	971,536	1,873,697	112,783	9,666	555,412	45,752,676
2009/2010	16,241,356	5,237,181	1,454,466	20,194,698	969,510	1,858,777	113,244	17,336	519,658	46,606,226
2010/2011	10,660,781	6,684,674	4,001,102	22,891,839	969,841	1,701,144	112,137	20,684	660,920	47,703,122
2011/2012	10,760,583	9,356,653	4,013,408	27,219,512	1,358,759	1,855,681	119,494	18,565	538,166	55,240,821
2012/2013	9,138,557	10,319,344	5,004,318	23,003,606	1,509,341	1,208,272	118,060	13,879	419,245	50,734,622
2013/2014	9,599,504	7,301,515	5,000,765	20,181,604	1,494,603	1,173,347	116,723	16,650	567,212	45,451,923
2014/2015	3,183,252	6,407,061	4,946,271	22,522,908	1,986,439	1,173,249	115,471	16,710	470,294	40,821,655
2015/2016	4,269,787	7,668,089	4,918,859	23,056,855	1,534,234	1,153,452	114,447	17,588	452,332	43,185,643
2016/2017 *	6,992,662	5,664,401	5,759,347	25,226,651	1,921,731	1,135,267	113,422	18,807	766,123	57,908,907
2017/2018 *	3,650,055	5,166,352	7,035,411	25,745,060	1,948,891	1,135,267	112,303	43,134	600,037	59,234,413

§ IAS/IFRS-compliant.

* From the 30th of June 2017, Mediobanca has adopted a new Reclassified Balance Sheet that has led to some changes in the composition of Loans and advances to customers and Other Assets (see attached tables: New Reclassified Balance Sheet: Reconciliation).

Balance sheet analysis LIABILITIES (€'000)

At year-end	Capital			Specific credit risks provisions	Provision for discounts and expenses on bonds issued	Securities fluctuation allowance	Provision for writedowns on investments	Time deposits and current accounts	Loans and other funding typologies	Debt securities	Debt securities in issue	Due to banks and EIB funds	Accumulated depreciation on furniture and equipment	Accumulated depreciation on property	Other liabilities and provisions	Profit for the year	Total liabilities	Contra accounts	Grand total
	Share capital	Reserves, provisions qualifying as reserves * and retained earnings	Total																
1946/1947	516	—	516	—	—	—	—	1,448	—	—	—	—	—	—	24	(15)	1,973	387	2,360
1947/1948	516	—	516	—	—	—	—	2,729	—	—	—	—	—	—	30	8	3,283	465	3,748
1948/1949	516	2	518	—	—	—	—	5,746	—	—	—	—	—	—	143	49	6,456	264	6,720
1949/1950	1,033	26	1,059	—	—	—	—	8,325	—	—	—	—	—	—	303	87	9,774	853	10,627
1950/1951	1,549	54	1,603	—	—	—	—	8,985	—	—	—	—	—	—	335	190	11,113	315	11,428
1951/1952	1,549	109	1,658	—	—	—	—	11,745	—	—	—	—	—	—	405	210	14,018	176	14,194
1952/1953	1,549	169	1,718	—	—	—	—	15,623	—	—	—	—	—	—	791	215	18,347	8,841	27,188
1953/1954	1,549	273	1,822	—	—	—	—	21,681	—	—	—	—	—	—	898	213	24,614	553	25,167
1954/1955	1,549	322	1,871	—	—	—	—	26,945	—	—	—	—	—	—	1,045	237	30,098	1,644	31,742
1955/1956	2,066	365	2,431	—	—	—	—	35,586	—	—	—	—	—	—	1,764	277	40,058	12,272	52,330
1956/1957	3,099	446	3,545	—	—	—	—	41,798	—	—	—	—	—	—	2,437	323	48,103	10,394	58,497
1957/1958	3,099	522	3,621	—	—	—	—	45,287	—	—	—	—	—	—	3,245	388	52,541	4,799	57,340
1958/1959	3,099	607	3,706	—	—	—	—	68,934	—	—	—	—	—	—	4,923	396	77,959	16,828	94,787
1959/1960	5,165	747	5,912	—	—	—	—	87,472	—	—	—	—	—	—	5,323	718	99,425	7,622	107,047
1960/1961	5,165	1,127	6,292	—	—	—	—	107,712	—	—	—	—	—	—	6,929	966	121,899	7,974	129,873
1961/1962	5,165	1,562	6,727	—	—	—	—	125,489	—	—	—	—	—	—	7,089	1,004	140,309	32,419	172,728
1962/1963	6,197	2,285	8,482	—	—	—	—	155,196	—	—	—	—	—	—	9,276	715	173,669	28,175	201,844
1963/1964	6,197	2,901	9,098	—	—	—	—	189,266	—	—	—	—	—	—	14,618	773	213,755	23,277	237,032
1964/1965	7,230	3,607	10,837	—	—	—	—	211,506	—	—	—	—	—	—	16,943	776	240,062	37,932	277,994
1965/1966	7,230	4,484	11,714	—	—	—	—	274,589	—	—	—	—	—	—	22,862	921	310,086	100,762	410,848
1966/1967	7,230	5,933	13,163	—	—	—	—	336,544	—	—	—	—	—	—	22,742	956	373,405	112,502	485,907
1967/1968	8,263	7,307	15,570	—	—	—	—	402,293	—	—	—	—	—	—	30,377	1,057	449,297	122,695	571,992
1968/1969	8,263	8,994	17,257	—	—	—	—	449,103	—	—	—	—	—	—	37,439	1,453	505,252	179,385	684,637
1969/1970	8,263	11,326	19,589	—	—	—	—	534,360	—	41,317	—	—	—	—	50,034	1,168	646,468	148,926	795,394
1970/1971	8,263	13,500	21,763	—	—	—	—	726,356	—	41,317	—	—	—	—	63,113	1,715	854,264	220,019	1,074,283
1971/1972	8,263	16,462	24,725	—	—	—	541	745,717	—	41,317	—	—	—	26	71,605	1,195	885,126	248,839	1,133,965
1972/1973	11,569	19,698	31,267	—	—	—	516	839,113	—	40,284	—	—	79	26	106,559	1,852	1,019,696	317,492	1,337,188
1973/1974	11,569	24,879	36,448	—	—	—	669	832,133	—	240,371	—	597,632	102	26	153,960	2,211	1,863,552	283,551	2,147,103
1974/1975	16,527	33,840	50,367	—	—	—	755	1,171,053	—	215,581	—	580,034	108	26	179,651	2,978	2,200,553	270,792	2,471,345
1975/1976	16,527	41,766	58,293	—	—	—	755	1,073,975	—	213,284	—	771,016	133	26	166,756	10,105	2,294,343	260,533	2,554,876
1976/1977	20,658	58,793	79,451	—	—	—	1,572	1,254,227	—	268,556	—	748,283	190	26	162,642	14,673	2,529,620	266,527	2,796,147
1977/1978	26,856	67,217	94,073	—	—	—	4,039	1,449,198	—	396,572	—	601,809	198	3,615	200,652	15,738	2,765,894	414,045	3,179,939
1978/1979	43,382	83,667	127,049	2,622	—	—	4,137	1,531,093	—	423,029	—	62,443	228	3,615	200,944	16,435	2,371,595	312,152	2,683,747
1979/1980	43,382	107,496	150,878	3,300	3,873	—	4,173	1,622,873	—	445,639	—	41,851	251	3,615	207,623	18,234	2,502,310	385,483	2,887,793
1980/1981	52,679	139,245	191,924	1,265	5,087	—	4,174	1,842,966	—	589,210	—	28,807	423	3,615	221,450	44,699	2,933,620	618,841	3,552,461
1981/1982	70,238	167,753	237,991	650	7,308	—	4,008	2,390,742	—	662,617	—	27,385	438	3,615	187,644	19,297	3,541,695	714,778	4,256,473
1982/1983	70,238	186,693	256,931	2,755	8,806	—	4,008	2,753,902	—	738,830	—	23,558	481	3,615	208,464	38,792	4,040,142	575,962	4,616,104
1983/1984	87,798	269,265	357,063	3,267	9,684	—	4,008	2,987,681	—	698,842	—	5,404	511	4,204 [2]	241,537	44,441	4,356,642	650,010	5,006,652
1984/1985	87,798	321,361	409,159	2,556	10,823	—	4,008	3,445,663	—	756,640	—	27,346	700	1,178	285,170	67,008	5,010,251	685,879	5,696,130
1985/1986	87,798	416,625	504,423	1,275	8,163	—	4,008	3,559,090	—	1,170,955	—	98,190	666	1,766	284,740	89,265	5,722,541	1,575,268	7,297,809
1986/1987	87,798	533,608	621,406	620	6,219	—	8,088	3,456,058	—	1,928,005	—	191,501	1,153	2,355	265,317	58,360	6,539,082	1,031,762	7,570,844
1987/1988	105,357	609,693	715,050	440	1,727	—	4,213	3,799,239	—	1,872,357	—	229,658	1,803	2,944	221,321	62,256	6,911,008	1,827,254	8,738,262
1988/1989	105,357	684,026	789,383	416	735	—	2,253	4,160,423	—	2,195,808	—	285,071	2,050	3,533	264,500	83,860	7,788,032	1,532,042	9,320,074
1989/1990	175,595	1,037,632	1,213,227	192	7,031	—	12,606	4,679,784	—	3,160,657	—	247,347	2,353	4,121	343,651	119,868	9,790,837	2,458,501	12,249,338
1990/1991	175,595	1,142,463	1,318,058	15,900	7,370	75,806	9,495	5,029,104	—	3,108,092	—	474,942	2,815	4,710	455,885	113,829	10,616,006	1,914,503	12,530,509
1991/1992	175,595	1,252,575	1,428,170	5,872 [1]	6,137 [3]	131,073 [1]	15,652	5,489,100	—	2,803,155	—	752,917	3,539	5,299	536,812	135,361	11,313,087	4,974,896	16,287,983
1992/1993	175,595	1,418,593	1,594,188	13,039	—	—	—	6,393,007	—	3,063,153	—	1,096,146	4,410	6,013	564,478	103,359	12,837,793	5,464,451	18,302,244
1993/1994	245,833	1,983,409	2,229,242	13,763	—	—	—	5,366,489	—	4,461,893	—	1,601,089	4,690	6,727	502,025	111,528	14,297,446	3,851,623	18,149,069
1994/1995	245,833	2,070,559	2,316,392	36,735	—	—	—	6,097,985	—	4,625,946	—	1,283,946	4,571	7,441	480,929	80,100	14,934,045	3,103,192	18,037,237
1995/1996	245,833	2,152,495	2,398,328	35,201	—	—	—	6,432,396	—	4,783,236	—	1,441,434	4,739	8,155	476,621	62,142	15,642,252	4,114,659	19,756,911
1996/1997	245,833	2,252,872	2,498,705	—	—	—	—	5,773,044	—	7,787,176	—	2,047,681	5,046	8,869	686,944	71,821	18,879,286	9,531,224	28,410,510
1997/1998	295,059	2,972,222	3,267,281	—	—	—	—	4,082,396	—	10,297,074	—	2,707,852	6,013	9,583	1,455,901	129,561	21,955,661	24,883,375	46,839,036
1998/1999	295,366	3,100,762	3,396,128	—	—	—	—	3,452,177	—	10,286,779	—	3,283,081	7,477	10,297	1,711,361	113,478	22,260,778	33,863,092	56,123,870
1999/2000	307,780	3,317,037	3,624,817	—	—	—	—	2,918,920	—	11,072,736	—	3,072,363	9,286	11,011	2,686,566	126,413	23,522,112	43,236,774	66,758,886
2000/2001	331,650	3,743,506	4,075,156	—	—	—	—	3,385,422	—	10,890,941	—	3,417,142	10,515	11,725	2,484,247	151,261	24,426,409	46,827,877	71,254,286
2001/2002	389,265	4,069,354	4,458,619	—	—	—	—	4,508,208	—	11,202,082	—	4,430,055	11,961	12,439	2,446,155	117,646	27,187,165	50,916,657	78,103,822
2002/2003	389,275	4,114,735	4,504,010	—	—	—	—	1,721,391	—	14,653,555	—	3,667,461	13,810	13,153	1,527,612	(14,027)	26,086,965	79,162,015	105,248,980
2003/2004	389,291	3,993,794	4,383,085	—	—	—	—	3,069,781	—	14,663,091	—	2,828,314	14,171	13,917	1,568,111	427,563	26,968,033	84,319,470	111,287,503
2004/2005	397,478	4,130,486	4,527,964	—	—	—	—	2,133,993	—	14,491,296	—	2,749,348	14,730	14,705	1,444,858	440,054	25,816,948	81,192,618	107,009,566
2005/2006	405,999	4,346,447	4,752,446	—	—	—	—	729,603	—	20,892,213	—	1,394,510	17,252	15,521	1,501,268	494,334	29,797,147	157,987,333	187,784,480

* Provision for general banking risks, general credit risks provisions and securities fluctuation allowance (between 1967 and 1984, when this allowance was taken to Reserve).

[1] Taken to Reserve.

[2] Of which €3.6m taken to Reserve.

[3] Of which €12.5m taken to Reserve and the balance to write down the the book value of securities.

Balance sheet analysis § LIABILITIES

(€'000)

At year-end	Capital			Provisions	Debt securities in issue	Other funding forms	Other liabilities	Profit for the year	Total liabilities
	Share capital	Reserves, other provisions with capital content * and retained earnings	Total						
2005/2006	405,999	4,527,856	4,933,855	165,712	20,192,077	1,811,063	538,895	545,520	28,187,122
2006/2007	408,781	5,128,989	5,537,770	162,433	23,027,454	4,077,662	782,776	561,110	34,149,205
2007/2008	410,028	4,217,383	4,627,411	161,452	30,541,427	3,199,445	658,779	622,579	39,811,093
2008/2009	410,028	4,210,394	4,620,422	160,612	35,860,227	4,388,413	702,194	20,808	45,752,676
2009/2010	430,551	4,244,955	4,675,506	160,650	36,150,327	4,587,318	788,286	244,139	46,606,226
2010/2011	430,565	4,380,729	4,811,294	159,991	36,783,922	5,059,996	760,543	127,376	47,703,122
2011/2012	430,565	4,191,175	4,621,740	160,075	31,561,792	18,494,608	602,757	(200,151)	55,240,821
2012/2013	430,565	4,296,680	4,727,245	160,458	26,905,614	18,463,685	712,618	(234,998)	50,734,622
2013/2014	430,703	4,396,778	4,827,481	161,676	23,606,132	15,826,116	864,605	165,913	45,451,923
2014/2015	433,599	4,423,095	4,856,694	149,260	19,729,098	14,927,077	826,481	333,045	40,821,655
2015/2016	435,510	4,551,720	4,987,230	139,927	19,229,901	17,931,792	608,755	288,038	43,185,643
2016/2017 °	440,606	4,559,232	4,999,838	105,668	18,826,771	22,211,421	1,136,387	318,326	57,908,907
2017/2018 °	443,275	4,505,198	4,948,473	105,509	16,769,393	22,403,654	872,447	337,034	59,234,413

§ IAS/IFRS-compliant.

* Provision for general banking risks, general credit risks provisions and securities fluctuation allowance (between 1967 and 1984, when this allowance was taken to Reserve).

° From the 30th of June 2017, Mediobanca has adopted a new Reclassified Balance Sheet that has led to some changes in the composition of Debt securities in issue, Other funding forms and Other liabilities (see attached tables: New Reclassified Balance Sheet: Reconciliation).

Fund allocation analysis (€'000)

For years ended 30 June	Gross profit for year	Allocation to credit risks provision	Net profit	Appropriation of net profit						Increase (decrease) in retained earnings
				Amount taken to Reserve	Amount taken to Special Reserve [1]	Writedowns in securities and investments, depreciation on furniture and equipment, and amortization of discounts on bonds issued	Total dividend paid	Percent dividend paid	Directors' remuneration [2]	
1946/1947	(15)	—	(15)	—	—	—	—	—	—	—
1947/1948	23	—	23	2	—	21 [3]	—	—	—	—
1948/1949	49	—	49	24	—	24	—	—	1	—
1949/1950	87	—	87	26	—	3	54	7	2	2
1950/1951	190	—	190	52	—	25	108	7	2	3
1951/1952	210	—	210	52	—	38	108	7	3	9
1952/1953	215	—	215	103	—	—	108	7	3	1
1953/1954	213	—	213	52	—	52	108	7	3	(2)
1954/1955	237	—	237	52	—	84	108	7	3	(10)
1955/1956	277	—	277	77	—	57	135	7,50	3	5
1956/1957	323	—	323	77	—	52	194	7,50	3	(3)
1957/1958	388	—	388	77	—	52	248	8	3	8
1958/1959	396	—	396	129	—	—	248	8	8	11
1959/1960	718	—	718	387	—	—	331	8	8	(8)
1960/1961	966	—	966	439	—	109	413	8	8	(3)
1961/1962	1,004	—	1,004	413	—	116	465	9	9	1
1962/1963	1,025	310	715	103	—	142	465	9	9	(4)
1963/1964	1,289	516	773	103	—	90	558	9	12	10
1964/1965	1,370	594	776	155	—	5	604	9	12	—
1965/1966	1,644	723	921	181	—	—	723	10	14	3
1966/1967	1,911	955	956	207	—	5	723	10	15	6
1967/1968	2,219	1,162	1,057	258	—	—	775	10	16	8
1968/1969	2,873	1,420	1,453	516	—	—	909	11	19	9
1969/1970	2,976	1,808	1,168	258	—	5	909	11	18	(22)
1970/1971	3,652	1,937	1,715	258	—	537	909	11	19	(8)
1971/1972	3,390	2,195	1,195	258	—	—	909	11	19	9
1972/1973	4,822	2,970	1,852	387	—	155	1,273	11	26	11
1973/1974	6,988	4,777	2,211	511	—	395	1,273	11	26	6
1974/1975	11,112	8,134	2,978	775	—	155	1,983	12	41	24
1975/1976	17,077	6,972	10,105	1,808	4,132	2,109	1,983	12	41	32
1976/1977	22,549	7,876	14,673	5,165	178	6,059	3,223	12	66	(18)
1977/1978	25,034	9,296	15,738	6,197	6,197	98	3,223	12	65	(42)
1978/1979	29,346	12,911	16,435	7,747	—	2,489	6,074	14	124	1
1979/1980	33,728	15,494	18,234	7,747	3,099	1,214	6,074	14	123	(23)
1980/1981	67,940	23,241	44,699	17,043	17,560	2,571	7,375	14	150	—
1981/1982	29,720	10,423	19,297	7,747	—	1,498	9,833	14	201	18
1982/1983	52,450	13,658	38,792	10,329	17,560	878	9,833	14	200	(8)
1983/1984	60,560	16,119	44,441	27,372	—	3,476	13,170	15	272	151
1984/1985	87,848	20,840	67,008	51,646	—	—	14,926	17	307	129
1985/1986	124,380	35,115	89,265	67,139	—	4,080	17,560	20	361	125
1986/1987	89,906	31,546	58,360	40,800	—	—	17,560	20	351	(351)
1987/1988	84,324	22,068	62,256	40,800	—	—	21,071	20	429	(44)
1988/1989	110,642	26,782	83,860	38,734	—	16,649	28,095	20	311	71
1989/1990	153,577	33,709	119,868	83,912	—	339	35,119	20	454	44
1990/1991	147,192	33,363	113,829	59,450	—	18,666	35,119	20	456	138
1991/1992	171,152	35,791	135,361	99,852	—	—	35,119	20	452	(62)
1992/1993	141,654	38,295	103,359	64,041	—	—	38,631	20	528	159
1993/1994	154,910	43,382	111,528	61,975	—	—	49,167	20	733	(347)
1994/1995	126,220	46,120	80,100	30,213	—	—	49,167	20	740	(20)
1995/1996	110,692	48,550	62,142	12,137	—	—	49,167	20	742	97
1996/1997	128,026	56,205	71,821	21,949	—	—	49,167	20	739	(34)
1997/1998	191,858	62,297	129,561	62,090	—	—	66,401	22,50	1,091	(20)
1998/1999	175,711	62,233	113,478	45,914	—	—	66,460	22,50	1,093	11
1999/2000	198,407	71,994	126,413	47,898	—	—	77,230	25	1,312	(27)
2000/2001	233,894	82,633	151,261	49,913	—	—	99,522	30	1,769	57
2001/2002	204,646	87,000	117,646	265	—	—	116,782	30	618	(19)
2002/2003	30,973	45,000	(14,027)	(154,166) [4]	—	—	140,139	36	—	(81)
2003/2004	460,563	33,000	427,563	111,201	—	—	311,535	80	4,827	—
2004/2005	440,054	—	440,054	51,416	—	—	382,365	96	6,273	—
2005/2006	494,334	—	494,334	15,058	—	—	473,003	116	6,273	—

[1] Allocation to Special Reserve were used to fund bonus issues of €4.1m in October 1976, €6.2m (together with €6,019,000 from the Revaluation Reserve) in October 1977, €6.2m in October 1978, €3.1m in October 1980, €17.6m in October 1981 and €17.6m in October 1983.

[2] Plus fixed fee of €258,000 as from 30/6/89 and €1.5m as from 30/6/02.

[3] Of which €15,000 to absorb prior year loss.

[4] Of which €14,027,000 to cover loss for the year, and €140,139,000 for payment of dividend.

Fund allocation analysis §

(€'000)

Financial year	Profit before tax for the year	Transfers to risk provisions	Net profit	Allocation of net profit				Changes in retained earnings
				To reserves	Dividends paid out	%	Remuneration due to Board [1]	
2005/2006	545,520	—	545,520	66,244	473,003	116	6,273	—
2006/2007	561,110	—	561,110	22,423	532,414	130	6,273	—
2007/2008	622,579	—	622,579	89,543	533,036	130	—	—
2008/2009	20,808	—	20,808	20,808	—	—	—	—
2009/2010	244,139	—	244,139	100,643	143,496	34	—	—
2010/2011	127,376	—	127,376	(16,124)	143,500	34	—	—
2011/2012	(200,151)	—	(200,151)	(242,357) [2]	42,206	10	—	—
2012/2013	(234,998)	—	(234,998)	(234,998)	—	—	—	—
2013/2014	165,913	—	165,913	39,064	126,849	30	—	—
2014/2015	333,045	—	333,045	120,152	212,893	50	—	—
2015/2016	288,038	—	288,038	57,123	230,915	54	—	—
2016/2017	318,326	—	318,326	31,833	320,226	74	—	—
2017/2018	337,034	—	337,034	33,703	412,814	94	—	—

§ IAS/IFRS-compliant.

[1] Plus fixed fee of €258,000 as from 30/6/89 and €1.5m as from 30/6/02.

[2] Of which €200,151 to cover losses for the period and €42,206 to pay for the dividend.

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