MEDIOBANCA

Quarterly Report

for the three months to 30 September 2008

MEDIOBANCA
LIMITED COMPANY
SHARE CAPITAL € 410,027,832.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY
Registered as a Bank. Parent Company of the Mediobanca Banking Group

Quarterly report

for the three months to 30 September 2008 www.mediobanca.it

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REVIEW OF OPERATIONS

The Mediobanca Group's results for the three months ended 30 September 2008 reflect the worsening of the financial crisis in the final weeks of the quarter, which saw several major banks collapse and a liquidity crisis without precedent. The volatility in this phase has led to extraordinary shifts in the market prices of all asset classes, a further rise in interest rates and a subsequent slowdown in corporate banking activities.

Against this backdrop, the Mediobanca Group has maintained appreciable profitability, ending the quarter with a net profit of €309.9m (30/9/07: €389.7m, pro-forma). This result, which includes the profits earned by the Linea group for the first time following its acquisition on 27 June 2008, was boosted by higher net interest income and gains on disposals of AFS securities, but also reflects a much reduced contribution from trading and the Group's equity-accounted companies, plus lower net fee and commission income and higher costs due to the new ventures launched last year. In particular:

— net interest income rose by 7%, from €208.1m to €222.7m, driven by growth in average volumes, which offset the rise in the cost of funding;

— net trading income, despite falling 12.2% from €186.6m to €163.8m, reflects break even on trading operations (with dealing profits of €0.9m, compared with €72.8m last year), plus gains on disposals for the quarter amounting to €162.9m (€113.8m);

— net fee and commission income declined by 7.1%, from €119.5m to €111m, reflecting the slowdown in corporate and investment banking;

— income from principal investing also showed a reduction, from €171m to €96.2m, following the slowdown in profitability by Assicurazioni Generali and RCS MediaGroup in the second quarter;

— costs grew by 25.4%, from €127m to €159.3m, reflecting the Group's domestic and international expansion programmes plus the costs incurred in connection with CheBanca! (€19m for the quarter), net of which the increase would be 10.5%.

Bad debt writeoffs rose from €62.3m to €75.9m, €2.2m of which refer to corporate banking, €3.8m (€2.3m) to leasing, and €69.9m (€60m) to retail operations. The 21.8% increase in this item reflects the higher volumes deriving from the consolidation of Linea and the general worsening of the risk profile.

With the launch of the new three-year business plan, the Group's areas of operation have been segmented differently to form three new divisions: corporate and investment banking (CIB), consisting of wholesale banking and leasing activities; principal investing (PI), which brings together the Group's investments in Assicurazioni Generali, RCS MediaGroup and those taken as part of merchant banking, private equity and special opportunities activities; and retail and private banking, which includes consumer credit, CheBanca! and private banking (with the pro-rata contribution of Banca Esperia as is customary).

Looking at the results by business area, all the main divisions held up well, despite the unpromising conditions and the increase in costs due to the new initiatives. Net profit from CIB was virtually unchanged, at €200.2m, partly due to the reduced tax burden on gains on disposals of holdings of equities; total income posted a modest decrease, from €343.2m to €319.7m, while operating costs rose from €56.5m to €71.5m, driven by staff costs as a result of the Group's new non-Italian ventures. Retail and private banking showed a 7% rise in total income, from €185.4m to €198.3m, due to consumer credit operations and despite the 13.6% reduction in net fee and commission income from private banking, which was down from €21.4m to €18.5m. The increase in operating costs, from €77.1m to €93.5m including the €19m attributable to CheBanca! referred to above, plus the rise in bad debt writeoffs, from €60m to €69.9m, brought net profit down from €29.2m to €24.7m. The contribution from PI, down from €159.9m to €86.1m, reflects the reduction in profits earned by Assicurazioni Generali and RCS MediaGroup mentioned previously.

On the balance-sheet side, there was growth of 3.2%, in loans and advances to customers, from €34.6bn to €35.7bn, of 3.8% in funding, from

€45.6bn to €47.3bn, and a rise in treasury funds from €10.2bn to €10.8bn, while AFS securities declined from €3.8bn to €3.3bn. These trends demonstrate the objective of safeguarding a comfortable liquidity position for the Group despite an scenario which is unfavourable to new issuance of funding products.

* * *

Significant events that have taken place during the three months include:

— further trimming of the AFS equity portfolio, with net divestments of approx. €150m generating gains on disposal of €158.2m;

— reallocation of holdings in debt securities from the trading book and AFS portfolio to loans and receivables, owing the lack of a reliable fair value for these investments at the reporting date due to the illiquid market. This reallocation, which was made possible by the recent amendment to IAS 39, also reflects the changed time horizon of the investments. The transfer was made at book/fair value as at 1 July 2008, and involved bonds carried at €542.5m, €209.6m which from the trading book and €332.9m from the AFS portfolio; these are chiefly ABS securities or bonds subscribed for via private placements. Without this reallocation, based on market prices at the reporting date which are meaningless, a writedown of €23.8m would have been charged, €7m of which would have been taken to profit and loss account;

— the closure of all outstanding positions versus Lehman Brothers, largely derivative contracts, and their renegotiation with other counterparties. All these positions involved Mediobanca as debitor; one of these was backed by collateral worth approx. €11m more than the contract was worth at the closing date, in part as the result of the extraordinary volatility. This generated a creditor position for Mediobanca which was covered in full by gains realized on the other closures. However, full closure of our operations with the US banking group will obviously depend on procedural timescales;

— approval of the internal capital adequacy assessment process (ICAAP) required under Basel II regulations.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated profit and loss account and balance sheet have been restated in order to provide the most accurate reflection of the Group's operations as organized under the terms of the new business plan. The results are also presented in the format recommended by the Bank of Italy as an annex, along with further details as to how the various items have been restated.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 mths to 30/9/07 pro-forma	12 mths to 30/6/08 pro-forma	3 mths to 30/9/08	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	208.1	840.6	222.7	+7.0
Net trading income	186.6	290.9	163.8	–12.2
Net fee and commission income	119.5	476.3	111.0	–7.1
Share in profits earned by equity-accounted companies	171.0	470.3	96.2	–43.7
TOTAL INCOME	**685.2**	**2,078.1**	**593.7**	–13.4
Labour costs	(72.1)	(320.7)	(87.5)	+21.4
Administrative expenses	(54.9)	(302.3)	(71.8)	+30.8
OPERATING COSTS	**(127.0)**	**(623.0)**	**(159.3)**	+25.4
Bad debt writeoffs	(62.3)	(273.8)	(75.9)	+21.8
Extraordinary provisions	—	(22.7)	—	—
PROFIT BEFORE TAX	**495.9**	**1,158.6**	**358.5**	–27.7
Income tax for the period	(103.4)	(135.7)	(46.6)	–54.9
Minority interest	(2.8)	(9.5)	(2.0)	–28.6
NET PROFIT	**389.7**	**1,013.4**	**309.9**	–20.5

RESTATED BALANCE SHEET

	30/9/07	30/6/08	30/9/08
	€m	€m	€m
Assets			
Treasury funds	6,427.0	10,247.1	10,818.8
AFS securities	4,963.0	3,778.7	3,330.4
of which: fixed income	*1,649.3*	*1,725.6*	*1,493.8*
equities	*2,759.9*	*1,588.3*	*1,342.7*
Financial assets held to maturity	626.6	578.1	582.4
Loans and advances to customers	28,703.6	34,590.8	35,704.5
Equity investments	2,746.2	2,845.7	2,810.1
Tangible and intangible assets	310.8	753.2	752.5
Other assets	562.1	1,021.4	1,468.8
of which: other assets	*381.7*	*548.0*	*546.6*
Total assets	44,339.3	53,815.0	55,467.5
Liabilities			
Funding	34,958.9	45,553.5	47,273.5
of which: debt securities in issue	*26,098.2*	*32,192.9*	*33,955.8*
Other liabilities	1,720.3	1,187.6	1,740.0
of which: tax liabilities	*850.3*	*720.9*	*732.8*
Provisions	181.5	210.1	208.6
Net equity	7,088.5	5,849.0	5,935.5
of which: share capital	*409.5*	*410.0*	*410.0*
reserves	*6,570.5*	*5,319.1*	*5,409.4*
minority interest	*108.5*	*119.9*	*116.1*
Profit for the period	390.1	1,014,8	309.9
Total liabilities	44,339.3	53,815.0	55,467.5

BALANCE-SHEET/PROFIT-AND-LOSS FIGURES BY DIVISION
based on structure and outline of 2009-2011 business plan

30/9/08	Corporate & investment banking	Principal investing	Retail & private banking	Group
	€m	€m	€m	€m
Profit-and-loss figures				
Net interest income (expense)	93.9	(3.1)	132.8	222.7
Net trading income	162.7	—	1.9	163.8
Net fee and commission income	55.5	—	63.5	111.0
Share in profits earned by equity-accounted companies	7.6	88.0	0.1	96.2
TOTAL INCOME	**319.7**	**84.9**	**198.3**	**593.7**
Labour costs	(50.2)	(1.3)	(39.5)	(87.5)
Administrative expenses	(21.3)	(0.7)	(54.0)	(71.8)
OPERATING COSTS	**(71.5)**	**(2.0)**	**(93.5)**	**(159.3)**
Bad debt writeoffs	(6.0)	—	(69.9)	(75.9)
PROFIT BEFORE TAX	**242.2**	**82.9**	**34.9**	**358.5**
Income tax for the period	(40.0)	3.2	(10.2)	(46.6)
Minority interest	(2.0)	—	—	(2.0)
NET PROFIT	**200.2**	**86.1**	**24.7**	**309.9**
Balance-sheet data				
Treasury funds	9,443.9	—	1,598.1	10,818.8
AFS securities	2,221.5	62.2	1,115.6	3,330.4
Equity investments	640.6	2,112.6	0.4	2,810.1
Loans and advances to customers	28,246.3	—	12,169.2	35,704.5
of which: to Group companies	*4,619.0*	—	—	—
Funding	(37,911.4)	(259.8)	(14,020.1)	(47,273.5)
No. of staff	858	—	2,272 *	3,030

* Includes 100 staff employed by Banca Esperia group pro-forma not comprised in the total.

Divisions comprise:

– *CIB (Corporate and investment banking)*: comprises corporate and investment banking activities, including leasing, plus the Group's AFS portfolios. the companies which contribute to this line of business are: Mediobanca S.p.A., Mediobanca International, MB Securities USA, Consortium, Prominvestment, SelmaBipiemme Leasing, Palladio Leasing and Teleleasing;

– *Principal investing:* this comprises the Group's shareholdings in Assicurazioni Generali and RCS MediaGroup, plus stakes acquired as part of merchant banking activity and investments in private equity funds;

– *Retail and private banking*: this division focuses on developing business with clientèle in the affluent segment through private banking activities, and with mass market clients through consumer credit products, mortgages and deposit accounts. The companies which form part of this division are Compass, CheBanca!, Cofactor, Linea, Futuro, Equilon and Creditech (consumer credit); and Compagnie Monégasque de Banque, Spafid and Prudentia Fiduciaria, plus 48.5% of Banca Esperia pro-forma (private banking).

30/6/08	Corporate & investment banking	Principal investing	Retail & private banking	Group
	€m	€m	€m	€m
Profit-and-loss figures (pro-forma)				
Net interest income (expense)	334.2	(11.6)	522.5	840.6
Net trading income	269.6	3.1	19.0	290.9
Net fee and commission income	292.1	—	228.2	476.3
Share in profits earned by equity-accounted companies	(21.5)	483.3	—	470.3
TOTAL INCOME	**874.4**	**474.8**	**769.7**	**2,078.1**
Labour costs	(172.2)	(5.8)	(155.7)	(320.7)
Administrative expenses	(99.8)	(2.6)	(219.4)	(302.3)
OPERATING COSTS	**(272.0)**	**(8.4)**	**(375.1)**	**(623.0)**
Bad debt writeoffs	(36.0)	—	(237.9)	(273.8)
Extraordinary provisions	—	—	(22.7)	(22.7)
PROFIT BEFORE TAX	**566.4**	**466.4**	**134.0**	**1,158.6**
Income tax for the period	(92.7)	26.8	(75.1)	(135.7)
Minority interest	(9.5)	—	—	(9.5)
NET PROFIT	**464.2**	**493.2**	**58.9**	**1,013.4**
Balance-sheet data				
Treasury funds	8,954.3	—	1,591.2	10,247.1
AFS securities	2,786.0	60.7	1,050.6	3,778.7
Equity investments	632.5	2,156.9	0.4	2,845.7
Loans and advances to customers	26,936.2	—	11,937.4	34,590.8
of which: to Group companies	*4,180.2*	—	—	—
Funding	(36,178.8)	(259.8)	(13,736.3)	(45,553.5)
Risk-weighted assets	43,675.9	2,072.8	9,322.9	55,081.1
No. of staff	837	—	2,310 *	3,046

* Includes 101 staff employed by Banca Esperia pro-forma not comprised in the total.

30/9/07	Corporate & investment banking	Principal investing	Retail & private banking	Group
	€m	€m	€m	€m
Profit-and-loss figures (pro-forma)				
Net interest income (expense)	82.8	(2.8)	128.8	208.1
Net trading income	182.0	—	4.6	186.6
Net fee and commission income	78.2	—	52.0	119.5
Share in profits earned by equity-accounted companies	0.2	169.0	—	171.0
TOTAL INCOME	**343.2**	**166.2**	**185.4**	**685.2**
Labour costs	(38.3)	(1.5)	(35.7)	(72.1)
Administrative expenses	(18.2)	(0.6)	(41.4)	(54.9)
OPERATING COSTS	**(56.5)**	**(2.1)**	**(77.1)**	**(127.0)**
Bad debt writeoffs	(2.3)	—	(60.0)	(62.3)
PROFIT BEFORE TAX	**284.4**	**164.1**	**48.3**	**495.9**
Income tax for the period	(81.1)	(4.2)	(19.1)	(103.4)
Minority interest	(2.8)	—	—	(2.8)
NET PROFIT	**200.5**	**159.9**	**29.2**	**389.7**
Balance-sheet data[1]				
Treasury funds	5,814.5	—	663.7	6,427.0
AFS securities	3,992.4	26.8	967.0	4,963.0
Equity investments	143.9	2,551.6	—	2,746.2
Loans and advances to customers	24,872.2	—	6,772.5	28,703.6
of which: to Group companies	*2,790.1*	—	—	—
Funding	(30,047.9)	(259.8)	(7,640.6)	(34,958.9)
No. of staff	751	—	2,039 *	2,695

[1] Does not include Linea group.

* Includes 95 staff employed by Banca Esperia group pro-forma not comprised in the total.

BALANCE SHEET

The main balance-sheet items reflected the following trends during the three months:

Funding — this item rose from €45,553.5m to €47,273.5m despite the unfavourable market conditions, due to an increase of almost €1bn in bond issues, from €31,615.1m to €32,545.1m, and of €832.8m in other short-term funding (Euro CDs and commercial paper), which was up from €577.9m to €1,410.7m.

Loans and advances to customers — these rose by €1,113.7m, from €34,590.8m to €35,704.5m, reflecting a slight increase in all segments.

	30/6/08	30/9/08	Change
	€m	€m	%
Corporate and investment banking	22,755.8	23,627.4	+3.8
– *of which: leasing*	*4,770.1*	*4,853.4*	*+1.7*
Retail	11,835.0	12,077.1	+2.0
– *of which: consumer credit*	*8,312.5*	*8,355.0*	*+0.5*
mortgage lending	*2,706.6*	*2,867.9*	*+6.0*
private	*755.4*	*796.1*	*+5.4*
TOTAL LOANS AND ADVANCES TO CUSTOMERS	34,590.8	35,704.5	+3.2

In terms of composition, around two-thirds of the loan book is accounted for by CIB (which brings together corporate, structured finance and leasing activities), while the remainder is attributable to retail services.

Equity investments — this item fell from €2,845.7m to €2,810.1m, representing the balance between profit for the period of €96.2m, (€80.6m of which was attributable to Assicurazioni Generali, €8m to RCS MediaGroup, and €7.6m to Burgo Group (the latter due to non-recurring gains on disposals of investments), and a reduction in the valuation reserves of €131.8m (attributable almost entirely to Assicurazioni Generali).

Based on share prices as at 30 September 2008, the portfolio reflected a surplus over book value of €2,717m (30/6/08: €2,871.2m).

	Percentage shareholding*	Book value	Market value based on prices at 30/9/08	Surplus
	€m	€m	€m	€m
LISTED INVESTMENTS				
Assicurazioni Generali	14.05	1,762.2	4,641.1	2,878.9
RCS MediaGroup, *ordinary*	14.36	311.7	149.8	(161.9)
		2,073.9	4,790.9	2,717.0
OTHER INVESTMENTS				
Telco	10.64	521.6		
Banca Esperia	48.50	56.5		
Burgo Group	22.13	118.6		
Athena Private Equity class A	24.47	37.0		
Fidia	25.00	1.6		
Other minor investments		0.9		
		736.2		
		2,810.1		

* Percentage of entire share capital.

Financial assets held to maturity — these increased by €4.3m, from €578.1m to €582.4m, solely as a result of adjustments to amortized cost. The implicit loss on these assets based on current prices is €75.8m (€45.7m).

AFS securities — these reflect a reduction of €448.3m, from €3,778.7m to €3,330.4m, and comprise €1,493.8m (€1,725.5m) in debt securities, €1,342.7m (€1,588.3m) in equities, and €493.9m (€464.9m) in fund stock units held by Compagnie Monégasque de Banque. As mentioned previously, during the three months bonds worth a total of €332.9m maturing in approximately two years on average were reallocated as loans and receivables. Movements on the equity side included investments worth €62.9m (mostly consisting of a new €60.6m payment to Sintonia S.A.), disposals worth €332m, gains – including valuation reserves – of €158.2m, and marking investments to market/fair value at the reporting date, which involved a downward adjustment of €98.1m. The share of the net equity reserve attributable to equities remained negative, at minus €206.2m (from minus €16.6m), after releasing €91.5m in gains to profit and loss account and following the further reduction in stock market prices during the quarter.

	Percentage shareholding*	Book value as at 30/9/08	Adjustment to fair value	Total AFS reserve
Fiat	1.02 – 0.87	105.0	(11.1)	41.2
Gemina	12.56 – 12.53	132.7	(10.7)	(79.5)
Pirelli	4.61 – 4.49	99.1	(6.4)	(42.1)
Italmobiliare	9.5 – 5.47	76.5	(28.7)	41.9
Other listed securities		431.5	(41.2)	(224.1)
Other unlisted securities		497.9	—	56.4
TOTAL		1,342.7	(98.1)	(206.2)

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

Hedges on the equity portfolio in the form of forward contracts show a surplus of €56.5m, which has been booked to the reserves.

Treasury funds — this item rose from €10,247.1m to €10,818.8m, and includes €505.4m (€579.2m) in cash and cash equivalents, €8,024m (€7,695.8m) in fixed-income securities, €498.3m (€625.5m) in equities, €327m (€296.8m) in upward adjustments to derivative contracts, and applications of treasury funds (repos, bank deposits etc.) amounting to €1,464.1m (€1,049.8m). As mentioned previously, during the quarter asset-backed securities worth €209.6m falling due in approximately five years were reallocated as loans and receivables. The ABS portfolio including the reallocated securities remained virtually unchanged at €610.1m. All the financial instruments have been marked to market if quoted on an active market, or alternatively valued using models based exclusively on market-derived data.

Tangible and intangible assets — these remained stable at €752.5m (€753.2m), €404.3m of which was in goodwill linked to the Linea acquisition due to be reduced once the purchase price allocation process has been completed.

Provisions — this consists of the provision for risks and charges, which stood at €179.3m (€180.9m), and the staff severance indemnity provision of €29.3m (€29.2m).

Net equity — net equity rose by €90.3m, from €5,729.1m to €5,819.4m, after increases due to allocation of retained profits from last year (€492.3m) and capitalization of costs in respect of stock options (€3.4m), plus decreases due to differences arising on consolidation linked to application of the equity method of accounting (€133.5m) and reductions in the valuation reserves (€271.9m).

PROFIT AND LOSS ACCOUNT

Net interest income — the 7% increase in this item, from €208.1m to €222.7m, reflects 13.4% growth in corporate and investment banking, which was boosted by the higher volumes and treasury activity; while growth in net interest income from retail and private banking was more limited, at 3.1%, with the higher cost of funding impacting on this performance.

Net trading income — this heading comprises €0.9m (30/9/07: €72.8m) in dealing profits, and €162.9m (€113.8m) in disposals of securities. Trading activity managed to break even despite the impact of the reduction in stock market prices and the lack of opportunities for deals on the market. This was achieved due to a good performance by fixed-income trading in particular, which delivered €25.6m in profits, offsetting the €24.7m loss made by equities, the latter being more exposed to the market turmoil.

	3 mths to 30/9/07	3 mths to 30/9/08
	€m	€m
Dealing profits	2.4	26.1
Mark-to-market as at reporting date	68.4	(26.3)
Dividends	2.0	1.1
TOTAL	72.8	0.9

Net fee and commission income — this item fell from €119.5m to €111m, following a reduced contribution from capital market operations, down from €30.2m to €6.7m, which in turn impacted on the contribution of corporate and investment banking as a whole, down from €78.1m to €54.6m; conversely, there was an increase in fee income from consumer credit operations, up from €28.6m to €43.2m, while the contribution from Compagnie Monégasque de Banque remained virtually unchanged, at €10.7m, compared with €10.9m.

Operating costs — these rose by 25.4%, from €127m to €159.3m, and consist of:

— labour costs amounting to €87.5m (€72.1m); these include €2.6m (€3m) relating to the Supervisory Board and €3.4m (€2.2m) in stock option expenses;

— sundry costs and expenses amounting to €71.8m (€54.9m), including €6.3m (€4.1m) in depreciation charges, and €65.4m (€50.3m) in administrative expenses which break down as follows:

	3 mths to 30/9/07	3 mths to 30/9/08
	€m	€m
EDP and financial information subscriptions	10.9	11.8
Outside services and consultancy fees	6.4	7.7
Advertising....................................	8.2	12.8
Rent, equipment leasing and maintenance charges .	6.0	7.2
Stationery, publication costs and utilities	4.8	5.5
Bank charges..................................	2.9	5.5
Bad debts and legal fees recovered................	2.2	4.5
Travel, transport and entertainment	2.1	3.3
Others	6.8	7.1
TOTAL	50.3	65.4

Most of the administrative expenses attributable to CheBanca!, i.e. €13.8m, is shared between outside services and consultancy fees (€3.7m) and advertising expenses (€5.3m).

Bad debt writeoffs — the increase in this item, from €62.3m to €75.9m, reflects the enhanced loan book due to the addition of Linea, plus the more widespread deterioration in the risk profile of households, with writeoffs in this segment rising from €60m to €69.9m, and leasing (up from €2.3m to €3.8m). The heading also includes €2.2m in provisions made on a prudential basis to cover the corporate loan book, which continues to consist entirely of performing assets.

Divisional results

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

Corporate and investment banking

	3 mths to 30/9/07	12 mths to 30/6/08	3 mths to 30/9/08	Y.o.Y. change
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	82.8	334.2	93.9	13.4
Net trading income	182.0	269.6	162.7	–10.6
Net fee and commission income	78.2	292.1	55.5	–29.0
Share in profits (losses) by equity-accounted companies	0.2	(21.5)	7.6	n.m.
TOTAL INCOME	**343.2**	**874.4**	**319.7**	**–6.8**
Labour costs	(38.3)	(172.2)	(50.2)	31.1
Administrative expenses	(18.2)	(99.8)	(21.3)	17.0
OPERATING COSTS	**(56.5)**	**(272.0)**	**(71.5)**	**26.5**
Bad debt writeoffs	(2.3)	(36.0)	(6.0)	n.m.
PROFIT BEFORE TAX	**284.4**	**566.4**	**242.2**	**–14.8**
Income tax for the period	(81.1)	(92.7)	(40.0)	–50.7
Minority interest	(2.8)	(9.5)	(2.0)	–28.7
NET PROFIT	**200.5**	**464.2**	**200.2**	**0**

	30/9/07	30/6/08	30/9/08
	€m	€m	€m
Treasury funds	5,814.5	8,954.3	9,443.9
AFS securities	3,992.4	2,786.0	2,221.5
Financial assets held to maturity	625.8	577.4	581.6
Equity investments	143.9	632.5	640.6
Loans and advances to customers	24,872.2	26,936.2	28,246.3
of which: to Group companies	*2,790.1*	*4,180.2*	*4,619*.0
Funding	(30,047.9)	(36,178.8)	(37,911.4)

The net profit earned by the corporate and investment banking division was virtually unchanged at €200.2m (30/9/07: €200.5m), boosted by €162.7m in gains on disposals of AFS securities. Total income was down from €343.2m to €319.7m: the 13.4% rise in net interest income, from €82.8m to €93.9m, and the increase in the share of profits earned by equity-accounted companies, from €0.2m to €7.6m, reflecting the good results posted by Burgo (due to non-recurring items), were offset by dealing profits being virtually wiped out (compared with €68.4m last year), and net fee and commission declining from €78.2m to €55.5m due to the widespread slowdown in investment banking activity. Operating costs were impacted by the Group's international ventures starting to operate at full capacity, with a 26.5% increase, from €56.5m to €71.5m, compared with the same quarter last year which was only impacted in part by such development; indeed, compared to the quarter-by-quarter average for the last financial year, the increase in costs was just 5%. Bad debt writeoffs totalled €6m, €3.8m of which in connection with leasing and €2.2m in respect of the corporate loan book (due to the increase in volumes and the associated risk profile).

Balance-sheet aggregates in the three months reflect growth in loans and advances to customers, from €26.9bn to €28.2bn, funding, from €36.2bn to €37.9bn, and treasury funds, from €9bn to €9.4bn, while the AFS securities portfolio continued to decline, from €2.8bn to €2.2bn.

Corporate and investment banking 30/9/08	Wholesale	Leasing	Total
	€m	€m	€m
Total income	300.8	18.9	319.7
Operating costs	(63.8)	(7.7)	(71.5)
Bad debt writeoffs	(2.2)	(3.8)	(6.0)
Income tax for the period	(36.4)	(3.6)	(40.0)
Minority interest	—	(2.0)	(2.0)
NET PROFIT	**198.4**	**1.8**	**200.2**
Loans and advances to customers	23,392.7	4,853.6	28,246.3

Corporate and investment banking 30/9/07	Wholesale	Leasing	Total
	€m	€m	€m
Total income	323.3	19.9	343.2
Operating costs	(49.7)	(6.8)	(56.5)
Bad debt writeoffs	—	(2.3)	(2.3)
Income tax for the period	(76.6)	(4.5)	(81.1)
Minority interest	0.1	(2.9)	(2.8)
NET PROFIT	**197.1**	**3.4**	**200.5**
Loans and advances to customers	20,510.1	4,362.1	24,872.2

Corporate and investment banking 30/6/08	Wholesale	Leasing	Total
	€m	€m	€m
Total income	795.8	78.6	874.4
Operating costs	(238.2)	(33.8)	(272.0)
Bad debt writeoffs	(22.8)	(13.2)	(36.0)
Income tax for the period	(78.6)	(14.1)	(92.7)
Minority interest	0.5	(10.0)	(9.5)
NET PROFIT	**456.7**	**7.5**	**464.2**
Loans and advances to customers	22,166.0	4,770.2	26,936.2

Principal investing

The share in earnings attributable to Mediobanca for the period declined by 47.9%, from €169m to €88m, €80.6m (€151.3m) of which was attributable to Assicurazioni Generali and €8m (€17.8m) to RCS MediaGroup.

Retail and private banking

	3 mths to 30/9/07 pro-forma	12 mths to 30/6/08 pro-forma	3 mths to 30/9/08	Y.o.Y. change
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	128.8	522.5	132.8	+3.1
Net trading income	4.6	19.0	1.9	–58.7
Net fee and commission income	52.0	228.2	63.5	+22.1
Share in profits (losses) by equity-accounted companies	—	—	0.1	n.m.
TOTAL INCOME	**185.4**	**769.7**	**198.3**	**+7.0**
Labour costs	(35.7)	(155.7)	(39.5)	+10.6
Administrative expenses	(41.4)	(219.4)	(54.0)	+30.4
OPERATING COSTS	**(77.1)**	**(375.1)**	**(93.5)**	**+21.3**
Bad debt writeoffs	(60.0)	(237.9)	(69.9)	+16.5
Extraordinary provisions	—	(22.7)	—	n.m.
PROFIT BEFORE TAX	**48.3**	**134.0**	**34.9**	**–27.7**
Income tax for the period	(19.1)	(75.1)	(10.2)	–46.6
Minority interest	—	—	—	n.m.
NET PROFIT	**29.2**	**58.9**	**24.7**	**–15.4**

	30/9/07	30/6/08	30/9/08	Change
	€m	€m	€m	%
Loans and advances to customers	6,772.5[1]	11,937.4	12,169.2	+1.9 *
New loans	1,436.0	5,981.2	1,244.3	–13.3
No. of branches	147	206	208	—
Cost/income ratio (%)	42	49	47	—
Impaired assets/total loans (%)	0.93	1.15	1.21	—

* Comparison between figures at 30/9/08 and 30/6/08.

[1] Does not include Linea group.

This division's results for the three months show a 7% increase in total income, from €185.4m to €198.3m, driven by a positive contribution from all segments, i.e. consumer credit, retail finance and private banking. Given largely stable net interest income, up just 3.1%, from €128.8m to €132.8m as a result of the increased cost of funding, the most noteworthy item is the growing contribution from fee and other income from consumer credit. This income growth, however, was swallowed up by the operating costs incurred in connection with the CheBanca! initiative, totalling €19m for the period, and the widespread rise in the cost of risk, with bad debt writeoffs up 16.5%, from €60m to €69.9m, partly due to growth in the loan book. For these reasons net profit for the period declined from €29.2m to €24.7m. Turning to the individual business segments, consumer credit showed an increase in profits, from €14.7m to €18m, on the back of the higher fee income; retail banking activity posted a 22.5% rise in total income, on costs which increased from €8m to €23.6m due to the start-up of operations by CheBanca!; lastly, the contribution from private banking operations improved from €13.9m to €17.6m, on the back of higher net interest income linked to Compagnie Monégasque de Banque's commercial activities. Assets under management on a discretionary/non-discretionary basis were stable overall during the three months, at €13.4bn compared with €13.5bn at the balance-sheet date. AUM attributable to CMB were up slightly, from €8,208m to €8,220m, while the pro-rata share from Banca Esperia attributable to Mediobanca fell from €5,325.3m to €5,204.5m, reflecting the reduction in valuations of assets under management.

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

Retail and private banking 30/9/08	Consumer credit	Retail banking	Financial services to households	Private banking	Total RPB
	€m	€m	€m	€m	€m
Total income	149.0	13.6	162.6	35.7	198.3
Operating costs	(52.3)	(23.6)	(75.9)	(17.6)	(93.5)
Bad debt writeoffs	(65.0)	(4.9)	(69.9)	—	(69.9)
Income tax for the period	(13.7)	4.0	(9.7)	(0.5)	(10.2)
NET PROFIT	**18.0**	**(10.9)**	**7.1**	**17.6**	**24.7**
New loans	1,028.1	216.2	1,244.3	—	1,244.3
Loans and advances to customers	8,413.1	2,867.9	11,281.0	888.2	12,169.2
No. of branches	167	41	208	—	208
No. of staff	1,432	515	1,947	225	2,172

Retail and private banking 30/9/07 pro-forma	Consumer credit	Retail banking	Financial services to households	Private banking	Total
	€m	€m	€m	€m	€m
Total income	141.5	11.1	152.6	32.8	185.4
Operating costs	(51.5)	(8.0)	(59.5)	(17.6)	(77.1)
Bad debt writeoffs	(57.9)	(2.1)	(60.0)	—	(60.0)
Income tax for the period	(17.4)	(0.4)	(17.8)	(1.3)	(19.1)
NET PROFIT	**14.7**	**0.6**	**15.3**	**13.9**	**29.2**
New loans	1,274.1	161.9	1,436.0	—	1,436.0
Loans and advances to customers[1]	3,812.2	2,248.1	6,060.3	712.2	6,772.5
No. of branches	118	29	147	—	147
No. of staff	1,524	224	1,748	196	1,944

[1] Does not include Linea group.

Retail and private banking 30/9/08 pro-forma	Consumer credit	Retail banking	Financial services to households	Private banking	Total
	€m	€m	€m	€m	€m
Total income	580.3	49.1	629.4	140.3	769.7
Operating costs	(219.9)	(80.4)	(300.3)	(74.8)	(375.1)
Bad debt writeoffs	(224.2)	(13.3)	(237.5)	(0.4)	(237.9)
Extraordinary provisions	(20.0)	—	(20.0)	(2.7)	(22.7)
Income tax for the period	(84.6)	15.0	(69.6)	(5.5)	(75.1)
NET PROFIT (LOSS)	**31.6**	**(29.6)**	**2.0**	**56.9**	**58.9**
New loans	5,162.2	819.0	5,981.2	—	5,981.2
Loans and advances to customers	8,372.9	2,706.6	11,079.5	857.9	11,937.4
No. of branches	168	38	206	—	206
No. of staff	1,522	470	1,992	168	2,160

Private banking 30/9/08	CMB	Banca Esperia 48.5%	Other	Total PB
	€m	€m	€m	€m
Total income	26.5	7.7	1.5	35.7
of which: net fee and commission income	*10.7*	*6.7*	*1.4*	*18.8*
Operating costs	(9.8)	(6.6)	(1.2)	(17.6)
Income tax for the period	—	(0.4)	(0.1)	(0.5)
NET PROFIT	**16.7**	**0.7**	**0.2**	**17.6**
Discretionary/non-discretionary AUM	8,220.0	5,204.5	—	13,424.5

Private banking 30/9/07	CMB	Banca Esperia 48.5%	Other	Total PB
	€m	€m	€m	€m
Total income	21.5	9.8	1.5	32.8
of which: net fee and commission income	*10.9*	*9.0*	*1.5*	*21.4*
Operating costs	(9.7)	(6.8)	(1.1)	(17.6)
Income tax for the period	0.1	(1.3)	(0.1)	(1.3)
NET PROFIT	**11.9**	**1.7**	**0.3**	**13.9**
Discretionary/non-discretionary AUM	8,014.0	5,838.4	—	13,852.4

Private banking 30/6/08	CMB	Banca Esperia 48.5%	Other	Total PB
	€m	€m	€m	€m
Total income	92.3	41.4	6.6	140.3
of which: net fee and commission income	*43.5*	*36.5*	*6.3*	*86.3*
Operating costs	(41.9)	(27.7)	(5.2)	(74.8)
Bad debt writeoffs	(0.4)	—	—	(0.4)
Extraordinary provisions	(2.7)	—	—	(2.7)
Income tax for the period	—	(5.0)	(0.5)	(5.5)
NET PROFIT	**47.3**	**8.7**	**0.9**	**56.9**
Discretionary/non-discretionary AUM	8,208.0	5,325.3	—	13,533.3

* * *

Outlook

It is not possible to make realistic estimates of the Group's performance in the next few months at this stage, given the conditions of financial markets at this time. Purely for illustrative purposes, however, we may say that net interest and fee and commission income could show a performance not dissimilar to that reported during the three months under review, while trading activity and results from the valuation of the Group's various asset portfolios will continue to be closely linked to market conditions. Lastly, it should be noted that there are significant signs of weakening in both the corporate and retail sectors.

Milan, 28 October 2008

THE MANAGEMENT BOARD

PART A - ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 September 2008 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Council and Commission on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks was governed by Bank of Italy circular no. 262 issued on 22 December 2005. This financial statement has also been drawn up in conformity with Consob resolution 11971/99 enacting regulations for issuers.

Section 2

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.

When a subsidiary is fully consolidated, the carrying amount of the parent's investment and its share of the subsidiary's equity are eliminated against the addition of that company's assets and liabilities, income and expenses to the parent company's totals. Any surplus arising following allocation of asset and liability items to the subsidiary is recorded as goodwill. Intra-group balances, transactions, income and expenses are eliminated upon consolidation.

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

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

		Registered office	Type of relation-ship[1]	Shareholding		% voting rights[2]
				Investee 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.	Rome	1	A.1.1	100.00	100.00
3.	PRUDENTIA FIDUCIARIA S.p.A	Milan	1	A.1.1	100.00	100.00
4.	SETECI - Società per l'Elaborazione, Trasmissione dati, Engineering e Consulenza Informatica S.p.A.	Milan	1	A.1.1	100.00	100.00
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.00	100.00
6.	TECHNOSTART S.p.A.	Milan	1	A.1.1	69.00	69.00
7.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.	Monte Carlo	1	A.1.1	100.00	100.00
8.	C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.7	99.94	99.94
				A.1.8	0.06	0.06
9.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.7	99.70	99.70
10.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.7	99.92	99.92
11.	CMB ASSET MANANGEMENT	Monte Carlo	1	A.1.7	99.50	99.50
12.	MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.7	99.00	99.00
				A.1.9	1.00	1.00
13.	MOULINS 700 S.A.M.	Monte Carlo	1	A.1.8	99.80	99.80
14.	COMOBA S.A. (NEWLY-INCORPORATED)	Lugano	1	A.1.7	100.00	100.00
15.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.16	1.00	1.00
16.	COMPASS S.p.A.	Milan	1	A.1.1	100.00	100.00
17.	CHEBANCA! S.p.A.	Milan	1	A.1.16	100.00	100.00
18.	COFACTOR S.p.A.	Milan	1	A.1.16	100.00	100.00
19.	SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.16	60.00	60.00
20.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.19	95.00	100.00
				A.1.20	5.00	
21.	TELELEASING S.p.A.	Milan	1	A.1.19	80.00	80.00
22.	SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.00	100.00
23.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.00	100.00
24.	CREDITECH S.p.A.	Milan	1	A.1.16	100.00	100.00
25.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
26.	CONSORTIUM S.r.l.	Milan	1	A.1.1	100.00	100.00
27.	QUARZO S.r.l.	Milan	4	A.1.16	90.00	90.00
28.	QUARZO LEASE S.r.l.	Milan	4	A.1.19	90.00	90.00
29.	LINEA S.P.A.[3]	Milan	1	A.1.16	100.00	100.00
30.	FUTURO S.P.A.	Milan	1	A.1.29	100.00	100.00
31.	EQUILON S.P.A.[3]	Milan	1	A.1.29	100.00	100.00
32.	DUCATI FINANCIAL SERVICES S.r.l.	Milan	7	A.1.29	50.00	50.00
33.	JUMP S.r.l.	Milan	4	A.1.29		

Legend

1 Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.
3 = agreements with other shareholders.
4 = other forms of control.
5 = unity of direction as defined in Article 26, paragraph 1 of Italian Legislative Decree 87/92.
6 = unity of direction as defined in Article 26, paragraph 2 of Italian Legislative Decree 87/92.
7 = joint control.

2 Effective and potential voting rights in ordinary AGMs.

3 Merged into Compass S.p.A. as from 21 October 2008 with effect for accounting and tax purposes from 1 July 2008.

Section 3

Significant accounting policies

Financial assets held for trading

This category comprises debt securities, equities, 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 not including any transaction expenses or income directly attributable to the asset concerned, which are taken through profit and loss account.

After initial recognition they continue to be measured at fair value, which for listed instruments is calculated on the basis of market prices ruling at the reporting date. If no market prices are available, valuation methods and models are used based on market-derived data, e.g. valuations of listed instruments with similar features, discounted cash flow analysis, option price calculation methods, or valuations used in comparable transactions. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost. 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 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 comprise equities held for non-trading purposes which do not qualify as controlling interests, investments in associates or jointly-controlled operations.

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

Financial assets held to maturity

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

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

Loans and receivables

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

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 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 profit and loss account in subsequent accounting periods up to the value of amortized cost.

Accounts for which there is 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 profit and loss account, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Leasing

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

Hedges

There are two types of hedge:

– fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

Equity investments

This heading consists of investments in:

- subsidiaries;
- associates, defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment (which may not be less than 10%) is sufficient to ensure an influence in the governance of the investee company;
- jointly-controlled companies;
- other investments of negligible value.

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

Property, plant and equipment

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

Assets held for investment purposes refer to investments in real estate, if any (whether owned or acquired under leases), which are not core to the Bank'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 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 profit and loss account. If the reasons which gave rise to the loss in value cease to apply, the adjustment is written back to profit and loss account with the proviso that the amount credited may not exceed the value which the asset would have had net of depreciation, which is calculated assuming no impairment took place.

Intangible assets

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

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates assets are tested for impairment, which is calculated as the difference between the initial recognition value of the goodwill and its realizable value, the latter being equal to the higher of the fair value of the cash-generating unit concerned net of any sales costs and its assumed value of use. Any adjustments are taken through 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 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 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 continue to be attributable to the Group. A corresponding amount is then entered as a liability to offset any amounts received.

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

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 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 profit and loss account.

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

Trading liabilities

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

Staff severance indemnity provision

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

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

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

Provisions for liabilities and charges

These regard risks not necessarily associated with failure to repay loans, 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 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 profit and loss account in part or in full.

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 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 profit and loss account or on an equity basis).

Tax assets and liabilities

Income taxes are recorded in profit and loss account, with the exception of tax payable on items debited or credited directly to 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.

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 on business combinations in recognized when this is likely to result in a charge for one of the companies concerned.

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

Stock options

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

Treasury shares

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

CONSOLIDATED BALANCE SHEET (IAS/IFRS-COMPLIANT)

	Assets	IAS-compliant 30/9/07	IAS-compliant 30/6/08	IAS-compliant 30/9/08
10.	Cash and cash equivalents	5.8	22.1	27.5
20.	Financial assets held for trading	12,597.5	11,774.4	12,417.0
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	4,963.0	3,778.7	3,330.4
50.	Financial assets held to maturity	626.6	578.1	582.4
60.	Due from banks	7,575.6	7,055.9	8,006.7
	of which:			
	other trading items	*6,207.4*	*5,820.8*	*6,718.8*
	other items	*16.3*	*6.2*	*0.8*
70.	Due from customers	30,498.4	35,807.0	38,759.1
	of which:			
	other trading items	*3,072.4*	*2,306.1*	*3,665.5*
	other items	*37.0*	*124.9*	*456.7*
80.	Hedging derivatives	892.0	1,234.3	1,164.6
	of which:			
	hedge derivatives on funding	*846.4*	*947.4*	*1,032.1*
	hedge derivatives on lending	*2.2*	*15.0*	*2.5*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	2,746.2	2,845.7	2,810.1
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	298.5	312.7	312.7
130.	Intangible assets	12.3	440.6	439.8
	of which:			
	Goodwill	—	*404.3*	*404.3*
140.	Tax assets	381.7	548.0	546.6
	a) current	*227.7*	*244.1*	*219.0*
	b) advance	*154.0*	*303.9*	*327.6*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	324.2	70.6	140.7
	of which:			
	other trading items	*240.4*	*0.2*	*0.3*
	TOTAL ASSETS	**60,921.8**	**64,468.1**	**68,537.6**

The balance sheet provided on p. 9 reflects the following restatements:

— *Treasury funds* comprise asset headings 10 and 20 and liability heading 40 plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10, 20 and 100, which chiefly consist of repos, interbank accounts and margins on derivatives;

— *Funding* comprises the balances shown under liability headings 10 and 20 (excluding amounts restated as trading items for repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;

— *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds*) plus the relevant amounts of asset heading 80 and liability heading 60 in respect of hedging derivatives.

	Liabilities and net equity	IAS-compliant 30/9/07	IAS-compliant 30/6/08	IAS-compliant 30/9/08
10.	Due to banks	13,856.6	13,848.9	15,070.5
	of which:			
	other trading items	*7,567.0*	*4,591.1*	*6,342.2*
	other liabilities	0.1	*49.2*	*0.9*
20.	Due to customers	5,349.4	6,096.5	6,697.4
	of which:			
	other trading items	*2,754.3*	*1,929.1*	*2,096.5*
	other liabilities	*24.0*	*15.4*	*10.6*
30.	Debt securities in issue	25,167.2	30,427.4	32,606.9
40.	Trading liabilities	4,453.0	3,156.2	3,567.7
50.	Liabilities recognized at fair value	—	—	—
60.	Hedging derivatives	1,823.0	2,736.7	2,410.9
	of which:			
	hedge derivatives on funding	*1,777.6*	*2,713.1*	*2,381.1*
	hedge derivatives on lending	*18.0*	*13.6*	*10.8*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	850.3	720.9	732.8
	a) current	*338.8*	*316.9*	*355.4*
	b) deferred	*511.5*	*404.0*	*377.4*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	Other liabilities	1,762.2	407.6	997.4
	of which:			
	other trading items	*918.1*	—	*3.9*
	loans	25.7	*15.5*	*17.0*
110.	Staff severance indemnity provision	25.9	29.2	29.3
120.	Provisions	155.6	180.9	179.3
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*155.6*	*180.9*	*179.3*
130.	Technical reserves	—	—	—
140.	Valuation reserves	614.2	112.8	(160.1)
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments		—	—
170.	Reserves	3,825.6	3,280.2	3,643.3
180.	Share premium reserve	2,131.1	2,140.0	2,140.0
190.	Share capital	409.5	410.0	410.0
200.	Treasury shares	(0.4)	(213.8)	(213.8)
210.	Net equity attributable to minorities	108.5	119.8	116.1
220.	Profit (loss) for the year	390.1	1,014.8	309.9
	TOTAL LIABILITIES AND NET EQUITY	**60,921.8**	**64,468.1**	**68,537.6**

CONSOLIDATED PROFIT AND LOSS ACCOUNT (IAS/IFRS-COMPLIANT)

		3 mths to 30/9/07	12 mths to 30/6/08	3 mths to 30/9/08
10.	Interest and similar income	687.2	2,908.7	824.8
20.	Interest expense and similar charges	(497.2)	(2,138.4)	(619.8)
30.	**Net interest income**	**190.0**	**770.3**	**205.0**
40.	Fee and commission income	122.0	484.8	106.1
50.	Fee and commission expense	(12.5)	(65.5)	(14.7)
60.	**Net fee and commission income**	**109.5**	**419.3**	**91.4**
70.	Dividends and similar income	40.9	123.1	5.5
80.	Net trading income	54.9	33.0	15.5
90.	Net hedging income	3.7	7.0	0.6
100.	Gain (loss) on disposal or repurchase of:	105.1	198.1	159.8
	a) loans and receivables	*0.4*	*2.4*	—
	b) AFS securities	*104.4*	*172.6*	*158.4*
	c) financial assets held to maturity	*(0.1)*	*(0.2)*	*0.1*
	d) financial liabilities	*0.4*	*23.3*	*1.3*
120.	**Total income**	**504.1**	**1,550.8**	**477.8**
130.	Adjustments for impairment to:	(62.4)	(281.3)	(75.9)
	a) loans and receivables	*(62.9)*	*(274.2)*	*(76.4)*
	b) AFS securities	—	*(7.5)*	—
	c) financial assets held to maturity	*0.5*	*0.4*	*0.5*
	d) other financial transactions	—	—	—
140.	**Net income from financial operations**	**441.7**	**1,269.5**	**401.9**
150.	Net premium income	—	—	—
160.	Income less expense from insurance operations	—	—	—
170.	**Net income from financial and insurance operations**	**441.7**	**1,269.5**	**401.9**
180.	Administrative expenses:	(135.2)	(651.9)	(161.4)
	a) labour costs	*(72.1)*	*(320.7)*	*(87.4)*
	b) other administrative expenses	*(63.1)*	*(331.2)*	*(74.0)*
190.	Net transfers to provisions for liabilities and charges	(0.2)	(28.0)	—
200.	Net adjustments to property, plant and equipment	(2.9)	(11.8)	(3.3)
210.	Net adjustments to intangible assets	(1.5)	(9.1)	(3.0)
	of whici: goodwill	—	—	—
220.	Other operating income (expenses)	22.9	107.3	28.1
230.	**Operating costs**	**(116.9)**	**(593.5)**	**(139.6)**
240.	Profit (loss) from equity-accounted companies	171.1	477.8	96.2
270.	Gain (loss) on disposal of investments	—	—	—
280.	**Pre-tax profit (loss) from ordinary activities**	**495.9**	**1,153.8**	**358.5**
290.	Income tax on ordinary activities for the year	(103.4)	(130.9)	(46.6)
300.	**Net profit (loss) on ordinary activities**	**392.5**	**1,022.9**	**311.9**
310.	Net gain (loss) on non-recurrent assets being sold	—	—	—
320.	**Net profit (loss) for the period**	**392.5**	**1,022.9**	**311.9**
330.	Net profit (loss) for the period attributable to minorities	(2.8)	(9.5)	(2.0)
340.	**Net profit (loss) for the period attributable to Mediobanca**	**389.7**	**1,013.4**	**309.9**

The profit and loss account provided on p. 8 reflects the following restatements:

– *Net interest income* includes the total reported under Heading 90, plus margins on swaps reported under Heading 80 amounting to €16.7m, €61.3m and €12.9m respectively, net of €0.2m, €1.9m and €1.1m in interest expense on securities lending accounted for as *Net trading income*;

– Amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered amounting to €8.4m, €23.5m and €6.1m respectively which net operating costs; net transfers to provisions and liabilities as at 30 June 2008 include €22.7m treated as *Extraordinary provisions*;

– *Net trading income* also includes the amounts stated under Headings 70, 80 and 100, net of or in addition to the items already referred to.

Declaration by Head of Company Financial Reporting

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

Head of
Company Financial Reporting
Massimo Bertolini