MEDIOBANCA

Annual Accounts and Report
as at 30 June 2019

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,608,088.50
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 28 October 2019

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
Emanuele Flappini	Head of Company Financial Reporting

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REVIEW OF GROUP OPERATIONS

The 2018-19 financial year reflected a particularly adverse operating environment for financial intermediaries. The global growth estimates being revised downwards during the first half-year triggered an abrupt price correction for all the principal asset classes near the end of 2018. Prices then returned to near normal in the first months of 2019, helped by the monetary policies implemented, which, however, drove a further significant reduction in interest rates and impacted on the profitability of the higher liquidity/quality assets. However, this market scenario did not hamper Mediobanca's path to growth. The Group delivered a 6% rise in operating profit from banking activities, on a 4.4% increase in revenues, with the cost/income ratio stable at 46% and the cost of risk at an all-time low of 52 bps. Net profit for the twelve months totalled €823m, lower than last year (30/6/18: €863.9m), due solely to the absence of gains on disposals of AFS equities which last year added €98.3m (mostly regarding the sale of the Atlantia stake). The Group's capital position remains solid, with the Common Equity Tier 1 ratio above 14%, despite reflecting the share buyback in progress and the Messier Maris & Associés acquisition. The twelve months under review were characterized by intense commercial activity: total assets increased from €72.3bn to €78.2bn, on strong growth in customer loans (up 7.9%) and an impressive performance in total financial assets (TFAs) in Wealth Management, which were up 6% to €67.9bn.

The 4.4% increase in revenues, from €2,419.3m to €2,524.7m, regarded basically all segments, as follows:

– Net interest income rose by 2.7% (from €1,359.4m to €1,395.6m), on higher lending volumes (up 7.9%) with the cost of funding down from 90 bps to 80 bps, despite the spread on Italian government securities remaining at high levels; conversely, interest rates remaining negative penalized treasury assets, which were mostly invested in short-term applications. All business lines reflected increasing contributions for the twelve months: Consumer Banking up 3.5%, Corporate and Investment Banking up 2.5%, and Wealth Management up 2%;

– Net treasury income increased from €157.4m to €196.7m, on a healthy contribution from Capital Market Solutions totalling €130.4m (€82.3m), assisted by clients requesting more sophisticated solutions to counter market volatility and negative interest rates; by contrast, the proprietary portfolio's contribution (banking and trading book) decreased from €40.8m to €34.6m, reflecting the exposure of some trades to the lower interest rates;

- Net fees declined slightly, from €622.2m to €611.2m (down 1.8%), due to the lower contribution from capital markets activities (down from €65.8m to €28.9m), net of which growth would have been 4.1%, with good performances in particular by Wealth Management (up 8.6%, from €258.7m to €280.9m) and M&A advisory business (up 35.3%, from €64.7m to €87.5m);
- The equity-accounted companies contribution to net equity, virtually all of which is attributable to Assicurazioni Generali, grew from €280.3m to €321.2m.

Operating costs rose from €1,114.9m to €1,161.9m, an increase of 4.2%, with the cost/income ratio unchanged at 46%. Labour costs rose by 4.3%, chiefly in Wealth Management (up 10.3%), including the consolidation of RAM and enhancement of the commercial networks in the Private and Affluent segments (with the addition of 48 bankers); administrative expenses were up 4.1%, reflecting the commercial network expansion (with 23 new CheBanca! POS and 18 new Compass agencies opened), the increase in IT spending (linked to the new platforms, including the new Treasury application). and the intense project activity (introduction of IFRS 9, MiFID II, and Brexit).

Loan loss provisions decreased by 10%, from €247.2m to €222.6m, and with lending volumes increasing, reflect a cost of risk for the Group of 52 bps (a significant reduction on the 62 bps recorded last year and the 124 bps at end-June 2016); in Wholesale Banking net writebacks of €62.7m were credited, reflecting ongoing improvement in the valuation of certain UTP positions. The cost of risk in Consumer Banking recorded its best ever performance, at 185 bps (199 bps last year), as did CheBanca! (16 bps, versus 21 bps), which also reflects the sale of a small portfolio of legacy bad debts.

Results for the twelve months were impacted by contributions to the resolution and deposit guarantee funds totalling €53.5m (€46.3m), €26.8m of which in ordinary transfers to the Single Resolution Fund (€26.3m), €11.2m to the deposit guarantee scheme (DGS) (€5.4m), and €15.5m in extraordinary contributions (€14.6m), €6.4m of which in respect of the voluntary contribution for Carige (the investment having been written off on prudential grounds), and

€9.1m required by the Italian resolution authority. The heading "Other items" also includes other minor items totalling €0.5m.

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The 2018-19 financial year brings the time horizon covered by the three-year, 2016-19 strategic plan to a close. The Mediobanca Group has reached the plan objectives comfortably, on the back of our distinctive business model which is focused on three highly-specialized segments – Wealth Management, Consumer Banking and Corporate & Investment Banking – growth in which is underpinned by long-term upward trends, and our financial solidity. These factors have enabled the Mediobanca Group to focus on growth and have put us in an excellent position to enhance distribution, both organically and via acquisitions.

Over the three years of the plan, revenues have grown at an average annual compound rate ("3Y CAGR") of 7% and have reached €2.5bn, as follows::

- Fees have grown by 11% (3Y CAGR), in particular those generated by capital-light businesses such as wealth management and advisory. The Wealth Management division is now the leading contributor to fee income at Group level, with a share of over 40%;
- Net interest income has confirmed its positive long-term growth trend, reflecting an increase of 5% (3Y CAGR), despite the ongoing negative interest rate scenario and the deterioration in the macroeconomic backdrop, due to the Consumer Banking segment which has generated higher volumes in sustainable margins.

Gross operating profit has significantly exceeded expectations (3Y CAGR: +16%, vs +10% in the plan) and stands at over €1.1bn (vs target of €1bn). Crucial factors in this outperformance have been maintaining high asset quality, which has enabled a substantial reduction in the cost of risk (to 52 bps, vs 105 bps in the plan) and operating efficiency (cost/income ratio stable at 46%).

ROTE[1] has increased by 3 percentage points, reaching the plan target of 10% despite the absence of gains on disposals, and with a much higher capital base (CET1 ratio above 14%, approx. 230 bps higher than the plan target).

[1] ROTE: net profit/average tangible net equity (KT). KT= net equity less goodwill less other intangible assets.

Helped by the high earnings generation capacity and capital absorption optimization, the CET1 ratio has increased from 12.1% to 14.1% over the three years, having basically financed organic growth, acquisitions and increased shareholder remuneration. In the three-year period, approx. €2.5bn in earnings have been generated; and risk-weighted assets (RWAs) have reduced by some €10bn (or 20%), following introduction of the AIRB models (large corporate loan book in CIB and residential mortgage portfolio for CheBanca!), optimization of market risk and extension of credit risk mitigation (CRM) in Private Banking; while the Group's risk density (RWAs/total assets) declined from 73% to 59% (below the 64% target).

The factors cited above have enabled us to finance substantial organic growth in our business (the loan book has grown by €9bn over the three years) plus acquisitions (Banca Esperia, RAM, MMA), and also increase the payout ratio from 38% to 50% (vs plan target of 40%), as well as launching a new buyback scheme to involve a total of up to 4.5% of the share capital (including treasury shares used).

The divisional performances for the year were as follows:

– Wealth Management has been transformed in the past three years, on the back of organic growth, implementation of two significant merger projects (former Barclays' Italian operations merged into CheBanca!, Banca Esperia merged into Mediobanca and renamed Mediobanca Private Banking) and one acquisition (RAM). This process has enabled the Group's Wealth Management platform to gain scale (the franchise has almost trebled and now has 900 bankers) and visibility in its reference markets, standing out as a highly specialized player able to provide its clients and managers with innovative product and sale solutions. The division's contribution to the consolidated results is now significant: Wealth Management is the biggest contributor to the Group's net fees (44%), and generates over 20% of its revenues and some 10% of its net profits. The gradual expansion in size drove growth in revenues over the three years of the plan (3Y CAGR: +18%), with AUM up 31%. The division posted a net profit of €71.2m in the twelve months, up 2.9% on last year, following revenues of €547.3m and operating costs amounting to €434m. The Affluent/CheBanca! component contributed a net profit of €31.5m (€27.7m), on revenues of €297.1m, costs of €236.3m, and loan loss provisions totalling €13.7m. Meanwhile, the contribution from

Private Banking (including RAM for the full twelve months) decreased from €41.5m to €39.7m, on revenues of €250.2m (up 7.2% year-on-year) and costs totalling €197.7m. The ROAC for the division was 16%, with capital absorbed in the region of €408m (RWAs €4.5bn);

- Consumer Banking delivered record results, confirming its leadership position in the consumer credit segment by positioning and profitability. The division's ranking as one of the top three sector players was confirmed, with a market share of 11.5% and new loans for the year of over €7bn (up 5%). Its distribution is among the most extensive and diversified in Italy, further enhanced in the direct channel with the opening of 18 branches in the period, for a total of around 200 POS (172 proprietary branches and 27 agencies). The division delivered a net profit for the twelve months of €336.4m, up 6.7% on last year (€315.3m), confirming its position as the Group's chief source of income. Revenues broke through the €1bn mark for the first time during the year, up 3.1%, from €996.2m to €1,026.9m, and account for 40% of the Group's top line (as well as around two-thirds of its net interest income), beating the targets set in the strategic plan (3Y CAGR: +6%). The cost/income ratio was unchanged at 28.6%, despite reflecting the structural increase in overheads due to expanding the distribution network (18 new POS added). The cost of risk reached its lowest-ever level (185 bps), with loan loss provisions declining from €241.9m to €237.8m (30/6/18: €360.4m). The ROAC for the division was 30%, with capital absorbed in the region of €1,130m (RWAs €12.6bn) on loans which grew in the three-year period at a CAGR of 6%;

- Corporate and Investment Banking strengthened its positioning, with revenues diversified and reduced capital absorption. The division's leadership position in Italy was confirmed, with improved client coverage, for both large caps (organizational model reshaped) and mid-caps (dual Investment Banking – Private Banking coverage), and a product mix featuring an increased contribution from capital-light products. In 4Q geographical distribution was strengthened on the back of the partnership with MMA. France is now the CIB division's third core market, alongside Italy and Spain. The Specialty Finance segment too gained visibility: MB Facta is now ranked seventh in Italy for turnover, while MBCredit Solutions features regularly in auctions for sales of unsecured receivables, with an NPL portfolio with a nominal value of over €5bn and a net value of some €370m. The division posted a net profit of €265.8m, largely unchanged versus last year (€264.5m), on revenues of €627.1m (25% of the consolidated total), costs of €269.3m, and net writebacks totalling €36.2m (representing the balance between €62.7m in writebacks credited in respect of certain UTP positions in Wholesale Banking, and €26.5m in provisions for the rest of the portfolio, including factoring and NPLs acquired). The contribution from Specialty Finance increased versus last year, with net profit up from €30.7m to €38.5m for both businesses, factoring and NPLs, whereas the bottom line earned by Wholesale Banking declined from €233.8m to €227.3m, reflecting a 56% reduction in capital market fees only in part offset by those generated from M&A advisory and CMS revenues (up 35.3% and 65.1% respectively). The ROAC for the division was 15%, with capital absorbed in the region of €1,805m (RWAs €20.1bn);

– Principal Investing reflected a stable portfolio over the three years of the plan worth approx. €4bn, following disposals of equities of around €500m and new investments in seed capital for the asset management companies of over €400m. The Assicurazioni Generali investment remains stable at 13%, with profit up to €320m (3Y CAGR +8%). The division reported a net profit of €314.2m for the twelve months, down from the €373.8m reported last year due to the absence of gains on disposals of AFS assets[2] (30/6/18: €96.3m, chiefly Atlantia) and despite the higher income generated by the Assicurazioni Generali stake (up from €279.9m to €320m). The ROAC for the division was 15% (vs 19% in 2016), despite the higher capital absorbed by the Assicurazioni Generali investment as a result of the stricter concentration limit.

– Holding Functions: liquidity and funding indicators remain at comfortable levels, with the cost of funding under control. In the three years the Group's central functions have gradually been optimized, allowing the intense project activities and regulatory measures to be absorbed. A net loss of €167.5m was posted for the twelve months, slightly more than last year (€158.9m), on higher contributions to the resolution funds totalling €53.5m (€46.3m). Conversely, treasury operations reduced their liability position due to gains on disposals of banking book securities totalling €45m (€13.1m), which absorbed the effect of the negative interest rates on the substantial liquidity position. Leasing operations delivered a net profit of €3.2m (€4.8m); RWAs for the division amounted to €3.5bn.

[2] The introduction of IFRS 9 has impacted on this division's figures principally in two ways: holdings in equity (formerly accounted for as available for sale, or AFS) are no longer recognized through profit and loss, whereas funds, including private equity and seed capital, are recognized through profit and loss, at fair value.

During the year under review, IFRS 9 on accounting for financial instruments came into force.[3] The transition to the new standard has resulted in an approx. €80m reduction in net equity, due chiefly to the introduction of the new impairment model, the impact of which on regulatory capital will be spread over the next five years. The Bank of Italy's recommended format for financial statements also changes with IFRS coming into force, leading to minor changes in the way the Group presents its restated accounts.

Total assets increased from €72.3bn to €78.2bn, on higher lending volumes and treasury balances (represented gross), performing as follows:

– Customer loans rose from €41.1bn to €44.4bn, with all segments contributing positively, in particular Wholesale Banking (up 11.2%, to €15.6bn; representing 35% of the stock), Consumer Banking (up 5.6% to €13.2bn; 30%), and CheBanca! mortgage lending (up 11% to €9bn; 20%);

– Funding increased from €48.9bn to €51.4bn, reflecting the growth in CheBanca! deposits (from €14.2bn to €15bn; approx. 30% of the stock) and Private Banking (from €4.9bn to €7.4bn; 14%). This offset the reduction in debt security funding, which totalled €18.5bn, after new issues worth €3.1bn against redemptions and buybacks totalling €3.8bn. Overall the cost of funding reduced from 90 bps to 80 bps, following the redemption of certain expensive issues and increased use of secured transactions, including a securitization of consumer banking receivables for €600m, a covered bond for €750m, plus over €500m in bilateral bank loans guaranteed by receivables from lending;

– Banking book securities (which bring together bonds accounted for as Hold to Collect and Hold to Collect and Sell) declined from €7.7bn to €6.7bn, following sales and non-renewals due to market movements in the final months on spreads and interest rates; in particular, EU government securities held for regulatory liquidity ratio purposes reduced from €5.4bn to €4.6bn; €2.2bn of these are Italian government securities with limited duration (approx. 3 years);

– Net treasury funds rose from €4.8bn to €5.3bn, with a view to preserving a substantial liquidity position in a scenario of market uncertainty, replacing part of the banking book securities; the book value (representing trading assets and treasury loans) increased from €16.6bn to €19.9bn, due to the increased operations in equities matched by derivatives entered into with clients.

[3] For further details and full disclosure on the effects of first-time adoption of IFRS 9, which replaces IAS 39, please refer to the document entitled "Summary of IFRS 9 accounting standard adoption" published on the Group's website at www.mediobanca.com.

Total financial assets in Wealth Management, or TFAs, rose in the twelve months from €63.9bn to €67.9bn, on €4.8bn in net new money (NNM). AUM and AUA increased from €37.1bn to €39bn, with NNM of €1.7bn, and a substantially neutral market effect, having recovered the December outflow in 3Q; direct funding rose from €19.1bn to €22.4bn, confirming clients' preference for liquidity in this market phase; while assets under custody decreased from €7.6bn to €6.5bn. The Affluent segment (CheBanca!) reported net TFAs of €25.4bn, €15bn of which in deposits (NNM €2.6bn); Mediobanca Private Banking and the product factories reported TFAs of €21.2bn, €4bn of which in deposits (NNM €2.3bn); Compagnie Monégasque de Banque reported an increase from €10bn to €10.5bn, €3.4bn of which in deposits, while RAM and Cairn reported TFAs of €3.1bn and €4bn respectively (NNM: €0.9bn outflow for the former, and €0.7bn inflow for the latter).

The capital ratios – calculated by applying the CRR/CRR II rules, weighting the Assicurazioni Generali investment at 370%, and factoring in the proposed dividend (€0.47 per share) as well as the buyback in progress, comfortably exceeded both the original targets and the regulatory limits. The Common Equity Tier 1 ratio stood at 14.09%, down slightly compared to last year (14.24%) due to the buyback (which accounted for 65 bps, after uses of treasury shares made during the year) and the recent acquisition of Messier Maris & Associés (15 bps, considering that the upfront price was paid for in Mediobanca shares), which more than offset the capital generated from current operations (consisting of the difference between retained earnings, growth in RWAs and fine-tuning of the buffers required for deductions) and the 40 bps deriving from introduction of AIRB models for the CheBanca! mortgage loan book (with an average weighting of under 20%). The fully loaded ratio, i.e. without the Danish Compromise, that is, with the Assicurazioni Generali deducted in full, and with full application of the IFRS 9 effect, is 12.83% (30/6/18: 13.15%). The total capital ratio declined from 18.11% to 17.46% (16.46% fully loaded).

* * *

The Group's progress towards the targets set in the 2016-19 strategic plan continued during the year under review, with the following developments particularly worthy of note:

– As part of the drive to strengthen Corporate and Investment Banking activities in the capital-light businesses and towards countries offering potential cross-border synergies, on 11 April 2019 a long-term strategic partnership was announced between Mediobanca and Messier Maris & Associés, a French company specializing in corporate finance and M&A services. Mediobanca acquired a 66% stake in the company financed entirely with treasury shares. The company is fully consolidated as from this year;

– With a view to achieving long-term growth in consumer credit operations in markets with high potential, in August 2018 Compass reached an agreement with Trinugraha (the consortium which currently owns 45.7% of the share capital) to acquire 19.9% of PT BFI Finance Indonesia Tbk ("BFI Finance").[4] Twelve months since the agreement was signed, certain contractual formalities required in order to launch the local authorization process and receive clearance from the ECB, which are prerequisites to closing, are still pending (these are expected to be obtained by March 2020);

– Francesco Grosoli was appointed as the new CEO of Compagnie Monégasque de Banque, replacing Werner Peyer who has taken up the position of non-executive Deputy Chairman;

– Launch of a share buyback scheme[5] involving a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 30 June 2019 Mediobanca had a total of 15.3 million treasury shares (or 1.7% of its share capital), following purchases of 20.1 million treasury shares and uses of 13.4 million;

– Continuation of the roll-out plan for the Group's internal PD and LGD models for use in calculating the capital requirements to cover credit risk, with authorization received for the CheBanca! mortgage lending asset;

– Confirmation of the existing prudential treatment for the Assicurazioni Generali investment (known as the "Danish Compromise" under Article 471 of the recently-approved CRR II) until year-end 2024;

– On 5 February 2019, Mediobanca received the results of the supervisory review and evaluation process from the supervisory authority (the "SREP 2018 Decision"). The authority has asked Mediobanca to maintain, as from March 2019, a CET 1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2

[4] BFI Finance, set up in 1982 and listed on the Jakarta stock market since 1990 with a market capitalization of approx. €625m, is one of the leading independent Indonesian consumer credit companies, with an extensive distribution network (over 350 outlets, major partnership agreements in force with car dealers and independent agents, and telemarketing systems).

[5] Authorized by its shareholders at the ordinary Annual General Meeting held on 27 October 2018, and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) no. 575/2013 (the "CRR") on 23 October 2018.

("P2R") requirement of 1.25%, unchanged from last year, bearing out the Group's asset quality and the adequacy of its risk management. The decision reflects the results of the Group's stress test, which confirmed our solidity even in negative scenarios (the impact on CET1 fully loaded is 182 bps, one of the lowest levels among EU banks);

- During 3Q, the Bank of Italy, at the proposal of the Single Resolution Board ("SRB") pursuant to the BRRD, informed the Group that its MREL limit was 15.48% of its total eligible liabilities, equal to 21.43% of RWAs. This requirement is compulsory as from 1 January 2019, but given that Mediobanca is not subject to the subordination requirement, the effective MREL ratio is comfortably above the minimum set;
- Among the Group's CSR initiatives: the CheBanca! Academy of Woodworking has been opened, in conjunction with the *Fondazione Cometa*. The initiative aims to offer work opportunities to young people who are unemployed and/or have personal difficulties; and the INSIEME/TOGETHER project has continued, which promotes sport for young people in the most vulnerable categories of society who are at risk of social exclusion, in certain disadvantaged suburban areas of Milan.

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Developments in capital markets

Recourse by companies to the Italian capital market showed a substantial reduction in the twelve months ended 30 June 2019 of €8bn, or 73%, to just €3bn. The value of public tender offers also declined, from €3.1bn to €2.6bn, with dividends totalling €20.2bn (30/6/18: €20bn). The net outflow of funds to companies totalled €19.9bn (€12.2bn), meaning the aggregate balance for the past ten years reflects a net outflow of €89bn, approx. 18% of the stock market capitalization at end-June 2019:

(€m)

	12 mths to 30/6/17		12 mths to 30/6/18		12 mths to 30/6/19	
Issues and placements of:						
convertible ordinary and saving shares		14.806		10.893		2.952
non-convertible preference and saving shares		—		—		—
convertible and cum warrant bond		1		—		—
Total		14.807		10.893		2.952
*of which, for rights issues *:*						
par value	*457*		*331*		*100*	
share premiums	*13.020*	*13.477*	*1.511*	*1.842*	*869*	*969*
Dividends distribution		17.627		19.974		20.243
Public tender offers		2.198		3.096		2.647
Balance		**(5.018)**		**(12.177)**		**(19.938)**

* Excluding IPOs and other public offers, offers restricted to employees, and offers without option rights

Fund raising is no longer concentrated primarily at banks, as had been the case in eight out of the last ten years, but at industrial groups instead, which accounted for more than nine-tenths of the rights issues carried out during the period. Public tender offers recovered slightly at €677m (€582m). Issues reserved to employees, generally as part of stock option schemes, increased substantially, from €59m to €1,141m, due primarily to issues made by one leading banking group in particular, while the number of companies involved in fact decreased, from ten to seven. The most recent convertible issues for significant amounts date back to 2010-11.

Dividends increased, albeit marginally, for the fifth year running, up approx. 1%, from €20bn to €20.2bn, the highest amount since 2008-9, with the payout ratio up to 54% (compared with 46% the previous year). The amounts distributed by segment – and the respective percentages – were similar to those for last year as well: the banks paid out a total of €5.5bn (27.4% of the total dividends paid by listed companies), the industrials €12.1bn (59.8%), and the insurances €2.6bn (12.8%). Some 36% of listed companies failed to pay dividends, although in the aggregate such companies account for barely 4% of the total market capitalization (compared with 6% last year). Public tender offers resulted in eight companies being delisted (versus seven in FY 2017-18).

The net 2018 aggregate results posted by Italian companies listed at end-June 2019 reflect combined earnings of €32bn, compared with €33.8bn in 2017. The reduction in net profit earned by the banking groups (which posted a bottom line of €10bn, compared with €13.8bn last year, at a ROE of 6.8%, as against 9% in 2017), was in part mitigated by further recovery in the industrial groups' net profits (from €18.2bn to €19.3bn, at a ROE of 10.1%), while the insurance companies built on the previous twelve months' result with net profit rising from €1.8bn to €2.8bn.

Contributing factors to the banks' performance included an increase in overheads, which accounted for €0.3bn, a marked deterioration in net writebacks (€7.5bn) and in net gains on disposals and buybacks (€3.7bn), only in part offset by the reductions in loan loss provisions (down €4.7bn) and labour costs (€1.9bn), the growth in net revenues (which contributed €0.6bn) and the reduced taxation (€0.5bn). In 2018, weakening regulatory capital (which was 7.3% lower) drove a decrease in the total capital ratio, from 17.1% to 16.1%, despite the 2% reduction in risk-weighted assets. Leverage, expressed in terms of the ratio between total assets and tangible net equity, in turn increased from 15.5x to 16.7x (compared with an average for the leading European banking groups of 19.1x, up from 18.9 in 2017).

The insurance companies' profits recovered from €1.8bn to €2.8bn in 2018 (ROE up from 5.9% to 10.2%). The €3.3bn reduction in claims-related expenses, the €1.2bn increase in sundry insurance revenues, plus improvement in non-insurance revenues adding €1.3bn, were in part offset by the contraction in underwriting income (€4.4bn) plus the rising tax burden (up €0.4bn).

Industrial groups posted further growth in operating profit, from €18.2bn to €19.3bn, with ROE up from 9.5% to 10.1%. The €7.1bn increase in value added, higher depreciation charges on tangible assets (€0.4bn) and net interest expense (€2bn) and the reduction in net ordinary expenses (€0.2bn), were only in part offset by the higher cost of labour (€0.7bn), the higher long-term depreciation/amortization charges (€0.6bn), the increase in writedowns to goodwill (€2.4bn) and net writedowns (€0.4bn), lower net gains on disposals (€2.2bn), the increase in the tax burden (€2bn) and higher minority interest (€0.3bn).

Profits earned by companies listed on the STAR segment also rose further, from €1.4bn to €1.6bn (ROE up from 11.8% to 12.6%). The net profits earned by companies listed on the AIM also recovered, up from €42m to €178m (ROE up from 1.5% to 4.3%).

The 18% growth in net debt, against a more modest, 3% increase in net equity for the industrial companies, drove an increase in the debt/equity compared to 2017, from 94% to 107%.

The Mediobanca share price index retreated slightly, by 3% (but climbed 2% in the total return version); like last year, the increases posted by the industrial companies (up 4%) and insurers (up 18%) were offset by the pronounced, 21% reduction reported by the banks. Since end-June there has been a slight recovery in stock market prices, which put on 1% in the period to 30 August 2019). The average daily value of stocks traded on the MTA in the twelve months ended 30 June 2019 showed an 18% reduction on the previous year, from €2.6bn to €2.1bn per session. The free float remained close to its all-time highs, at 62% (61%), while the turnover ratio fell from 12.3% to 11.5%), the lowest levels seen in the past twenty years; volatility, meanwhile, increased slightly, from 1.4% to 1.6%.

In the twelve months ended 1 April 2019 the changes in share prices which affected all Western markets were generally, with the exception of the United States and Switzerland, reflected in the changes recorded in the dividend yield and also in the price/earnings ratios, as follows:

	% Dividend/ price ratio		% Earnings/ price ratio	
	2017	2018	2017	2018
Benelux **	3.2	2.7	5.7	5.4
France *	2.7	2.8	5.5	4.3
Germany *	2.4	2.6	5.6	6.4
Italy *	2.9	3.4	6.2	6.2
United Kingdom *	3.7	3	6.1	5.6
United States *	2.1	2.2	4.3	4.7
Switzerland **	3.1	3.1	4	4.5

* 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 2019. The changes in prices on the principal stock markets between 1 April 2018 and 1 April 2019 were as follows (indexes used are in brackets): Belgium down 4.5% (BAS), Netherlands up 4.6% (AEX), France up 2.6% (SBF 250), Germany down 6.8% (CDAX), Italy down 4.6% (Mediobanca MTA), United Kingdom up 2.7% (FTSE All-Share), United States up 11.1% (S&P 500), Switzerland up 9.1%.

Assets managed by mutual funds incorporated under Italian law (including funds of funds, closed and hedge funds) saw a reduction in assets under management, from €254.8bn at end-June 2018 to €243.4bn, reflected in net outflows of €13bn, mitigated by the operating profit for the twelve months (€1.6bn). Roundtrip funds also showed an increase in equity, with subscriptions outweighing redemptions by €4.4bn, and operating profit in a similar amount (€4.3bn); as at end-June 2019 total assets managed by such funds had increased in the twelve months, from €316.3bn to €325bn.

The aggregate market capitalization of listed companies at 30 June 2019 totalled €495bn, compared with €533bn twelve months previously, with the free float declining from €325bn to €306bn; the €10bn reduction, net of rights issues and changes to the stock market composition, is largely due to changes in market prices.

* * *

The Italian consumer credit market continued its upward trend in the first six months of 2019, albeit more slowly than in previous years. New loans in the period ended 30 June 2019 totalled €33.5bn, 5.1% higher than in the same period last year.

Various factors contributed to this result, chiefly attributable to the positive trend in household consumption, albeit slower than in the past.

During the period under review the fastest growth was in vehicle credit (up 8.2% on the first six months of last year) and other special purpose loans (up 14.1%), while the growth was slower in other segments such as personal loans (up 4.2%), credit cards (up 3.9%), and salary/pension-backed finance (up 3.2%).

	2015		2016		2017		2018		1H 2019	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	11,805	22.6	13,687	22.6	8,619	14.7	5,861	9.9	3,232	9.7
Personal loans	17,570	33.6	20,137	33.2	22,441	38.2	24,499	41.1	14,076	42.1
Specific purpose loans	3,931	7.5	4,075	6.7	3,782	6.4	4,778	8.0	2,486	7.4
Credit cards	14,474	27.7	17,472	28.8	18,759	32	19,064	32.0	10,608	31.7
Salary-backed finance	4,484	8.6	5,221	8.6	5,103	8.7	5,339	9.0	3,049	9.1
	52,264	100.0	60,592	100.0	58,705	100.0	59,541	100.0	33,451	100.0

In 2018, the Italian real estate market continued its recovery of recent years, with the number of properties sold rising to 578,000, up more than 6.7% on 2017. This trend was confirmed in 1Q 2019, with an increase of 8.8%. The mortgage lending market for house purchases by households, with new loans of €50.5bn, reflects practically the same growth rate as that in the number of transactions (up 6.5%).

The Italian leasing market in 2018 saw the positive trend recorded in 2017 continue. Overall 725,000 new leases were executed, an increase of 2.8%, for a total of €29.8bn, up 5.3% on 2017. In the first six months of 2019 the market continued to grow, with more than 381,000 new contracts (down 7% year-on-year) and approx. €14.3bn financed (down 9.8%).

New loans	2016		2017		2018		1H 2019	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicles	11,809	50.1	13,371	50.2	15,722	52.8	7,767	54.3
Core goods	7,640	32.4	8,993	33.8	9,426	31.7	4,419	30.9
Property	3,809	16.1	3,742	14.0	4,110	13.8	1,854	13.0
Yachts	328	1.4	522	2.0	516	1.7	253	1.8
	23,586	100.0	26,628	100.0	29,774	100.0	14,293	100.0

Source: Dataforce data processed by Assilea.

* * *

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30/6/18 (*)	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss data	*IAS39*	*IFRS9*	
Net interest income	1,359.4	1,395.6	2.7
Net treasury income	157.4	196.7	25.0
Net fee and commission income	622.2	611.2	-1.8
Equity-accounted companies	280.3	321.2	14.6
Total income	**2,419.3**	**2,524.7**	**4.4**
Labour costs	(557.8)	(581.7)	4.3
Administrative expenses	(557.1)	(580.2)	4.1
Operating costs	**(1,114.9)**	**(1,161.9)**	**4.2**
Gains (losses) on disposal of equity holdings	98.3	—	n.m.
Loan loss provisions	(247.2)	(222.6)	-10.0
Provisions for other financial assets	(1.3)	(2.1)	61.5
Other income (losses)	(58.4)	(54.0)	-7.5
Profit before tax	**1,095.8**	**1,084.1**	**-1.1**
Income tax for the period	(228.1)	(256.5)	12.5
Minority interest	(3.8)	(4.6)	21.1
Net profit	**863.9**	**823.0**	**-4.7**
Gross operating profit from banking activities	**767.0**	**812.9**	**6.0**

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

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

CONSOLIDATED BALANCE SHEET

(€m)

	IAS39 30/6/18	IFRS9 1/7/18	30/6/19
Assets			
Financial assets held for trading	8,204.9	8,008.5	9,765.7
Treasury financial assets	8,358.2	8,358.1	10,170.2
Banking book securities	7,744.7	7,943.7	6,695.9
Customer loans	41,127.9	41,019.1	44,393.7
Equity Investments	3,983.1	3,983.0	3,980.3
Tangible and intangible assets	1,027.7	1,027.7	1,187.6
Other assets	1,854.0	1,892.2	2,051.3
Total assets	**72,300.5**	**72,232.3**	**78,244,7**
Liabilities and net equity			
Funding	48,893.2	48,855.7	51,393.2
Treasury financial liabilities	5,290.4	5,290.3	6,565.6
Financial liabilities held for trading	6,462.4	6,462.4	8,027.8
Other liabilities	1,709.3	1,749.5	2,168.9
Provisions	213.0	227.1	190.3
Net equity	8,780.4	8,700.6	8,986.2
Minority interests	87.9	82.8	89.7
Profit for the period	863.9	863.9	823.0
Total liabilities and net equity	**72,300.5**	**72,232.3**	**78,244.7**
Tier 1 capital	*6,746.6*	*6,743.6*	*6,524.4*
Regulatory capital	*8,575.3*	*8,572.3*	*8,085.6*
Risk-weighted assets	*47,362.7*	*47,362.4*	*46,309.9*
Tier 1 capital/risk-weightes assets	*14.24%*	*14.24%*	*14.09%*
Regulatory capita/risk-weighted assets	*18.11%*	*18.10%*	*17.46%*
No. of shares in issue (million)	*886.6*	*886.6*	*887.2*

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

(€m)

30 June 2019 IFRS9	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	1,395.6
Net treasury income	6.2	—	126.8	18.3	45.0	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	611.2
Equity-accounted companies	—	—	—	321.2	—	321.2
Total income	**547.3**	**1.026.9**	**627.1**	**332.4**	**5.3**	**2,524.7**
Labour costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**(1,161.9)**
Gains (losses) on disposal of equity holdings	—	—	—	—	—	—
Loan loss provisions	(11.8)	(237.8)	36.2	—	(9.0)	(222.6)
Provisions for other financial assets	0.3	—	0.9	(3.3)	0.1	(2.1)
Other income (losses)	0.6	—	—	—	(54.8)	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(256.5)
Minority interests	(2.5)	—	—	—	(2.1)	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**823.0**
Cost/Income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*46.0*
Balance-sheet data						
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Risk-weighted assets	4,533.8	12,564.1	20,065.8	5,641.6	3,504.7	46,309.9
No. of staff	1,936	1,427	621	11	810	4,805

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 and Mediobanca International, Mediobanca Securities and Messier Maris & Associés);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CB): 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): recently set up division, bringing 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 and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Asset Management & Alternative, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
  - 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 and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €2.9m).

(€m)

30 June 2018 IAS39	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	255.2	868.8	266.1	(7.2)	(37.5)	1,359.4
Net treasury income	12.1	—	110.5	21.9	13.1	157.4
Net fee and commission income	258.7	127.4	254.4	—	15.5	622.2
Equity-accounted companies	—	—	—	280.3	—	280.3
Total income	**526.0**	**996.2**	**631.0**	**295.–**	**(8.9)**	**2,419.3**
Labour costs	(201.1)	(96.1)	(137.4)	(3.8)	(118.2)	(557.8)
Administrative expenses	(215.7)	(188.4)	(118.5)	(1.0)	(55.1)	(557.1)
Operating costs	**(416.8)**	**(284.5)**	**(255.9)**	**(4.8)**	**(173.3)**	**(1,114.9)**
Gains (losses) on disposal of equity holdings	2.0	—	—	96.3	—	98.3
Loan loss provisions	(16.4)	(241.9)	19.0	(1.8)	(7.5)	(248.5)
Other income (losses)	(0.6)	(6.6)	(2.0)	—	(49.3)	(58.4)
Profit before tax	**94.2**	**463.2**	**392.1**	**384.7**	**(239.0)**	**1,095.8**
Income tax for the period	(24.4)	(147.9)	(127.6)	(10.9)	83.3	(228.1)
Minority interests	(0.6)	—	—	—	(3.2)	(3.8)
Net profit	**69.2**	**315.3**	**264.5**	**373.8**	**(158.9)**	**863.9**
Cost/Income ratio (%)	*79.2*	*28.6*	*40.6*	*n.m.*	*n.m.*	*46.1*
Balance-sheet data						
Loans and advances to customers	10,359.2	12.517.8	16,134.2	—	2,116.7	41,127.9
Risk-weighted assets	5,757.2	11,822.0	19,510.9	6,256.6	4,016.0	47,362.7
No. of staff	1,888	1,429	587	12	801	4.717

Balance sheet

The Group's total assets increased by 8.2%, from €72.3bn to €78.2bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54.7%, showed the following trends for the twelve months under review (comparative data as at 30 June 2018 prior to IFRS 9 FTA).[6]

Funding – funding increased from €48.9bn to €51.4bn, reflecting the increase in deposits in Private Banking (up from €4.9bn to €7.4bn) and CheBanca! retail operations (up from €14.2bn to €15bn), which offset the slight reduction in debt security funding. New issuers worth approx. €3.1bn were made during the twelve months (around fifteen deals, including a securitization of consumer banking receivables for €600m and a covered bond for €750m), against redemptions and buybacks on the market totalling €3.8bn. Diversification of funding channels and instruments, in a particularly challenging market scenario in the mid-part of the year especially, enabled the average cost of funding to be reduced from 90 bps to 80 bps.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,179.4	39%	19,185.3	39%	18,531.3	36%	-3.4%
CheBanca! retail funding	14,163.0	29%	14,163.0	29%	15,032.0	29%	6.1%
Private Banking deposits	4,933.7	10%	4,933.4	10%	7,417.6	14%	50.3%
Interbank funding (+CD/CP)	5,031.5	11%	5,031.2	11%	5,484.4	11%	9.0%
LTRO	4,336.5	9%	4,336.5	9%	4,322.4	9%	-0.3%
Other funding	1,249.1	2%	1,206.3	2%	605.5	1%	-51.5%
Total funding	**48,893.2**	**100%**	**48,855.7**	**100%**	**51,393.2**	**100%**	**5.1%**

Loans and advances to customers – rose by 7.9%, from €41.1bn to €44.4bn, with all segments contributing positively: CIB posted an increase of 10.7% in lendings (to €17.9bn), with positive contributions from Wholesale Banking (up 11.2% to €15.6bn, on new loans totalling €5.8bn (down 21.2%) and redemptions of €4.3bn) and Specialty Finance (up 7.8 % to €2.3bn), factoring increasing by 4.7% to €1.9bn (turnover up from €5.2bn to €6.5bn) and MBCredit Solutions up 28% to €369m (following the acquisitions of NPLs made in the retail and SME unsecured segments for a nominal amount of €1.5bn, against a €117.9m outlay). Wealth Management delivered a 9.6% increase to €11.4bn, with positive

[6] For further details and full disclosure on the effects of first-time adoption of IFRS 9, which replaces IAS 39, please refer to the document entitled "Summary of IFRS 9 accounting standard adoption" published on the Group's website at www.mediobanca.com.

contributions from both CheBanca! mortgage loans (up 11% to €9bn and new loans up 11.8% to €1.8bn) and private banking clients (up 4.4% to €2.4bn). Consumer Banking was up 5.6%, from €12.5bn to €13.2bn. Leasing continues to gradually decrease, with leases down 8%, to €2bn.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Wholesale Banking	13,996.9	34%	14,002.0	34%	15,560.8	36%	11.2%
Specialty Finance	2,137.3	5%	2,128.5	5%	2,304.5	5%	7.8%
Consumer Banking	12,517.8	30%	12,469.8	30%	13,223.0	30%	5.6%
Retail Banking	8,107.1	20%	8,067.5	20%	9,001.9	20%	11.0%
Private Banking	2,252.1	6%	2,251.8	6%	2,351.9	5%	4.4%
Leasing	2,116.7	5%	2,099.5	5%	1,951.6	4%	-7.8%
Total loans and advances to customers	**41,127.9**	**100%**	**41,019.1**	**100%**	**44,393.7**	**100%**	**7.9%**

Gross NPLs reduced by 8%, from €1,943.1m to €1,782.3m, in particular in CheBanca! mortgage lending (down 46.4%, from €332.1m to €178m, following the sale of the former Micos Banca bad debts) and Wholesale Banking (down 2.9%, from €648m to €628.9m); they also reduced in relative terms, to 3.9% of total loans (from 4.6% last year). Net NPLs too reduced both in absolute terms (from €842.1m to €806m) and relative terms (from 2.1% of the total loan book last year to 1.8%), with a coverage ratio of 54.8% (56.7%). Net bad loans halved compared to last year, totalling €79.8m (€141.5m) and representing 0.18% of total loans (0.35% as at 30 June 2018) with a coverage ratio of 79.7% (73.3%); this item does not include NPLs acquired by MBCredit Solutions totalling €368.6m (€287.9m). The figures also do not include the bad debts originated by Micos Banca and the French branch (business discontinued at end-2009). During the year the process for disposing of these debts was launched: in February 2019, the entire French loan book was sold (88 loans, with a gross book value of €14.8m), while in June agreement was reached for sale of the Italian portfolio (1,601 loans, with a gross book value of €136.8m), booked as "Non-current assets held for sale and discontinued operations" pursuant to IFRS 5 at a net value of €22.2m, and the deal was finalized after the year under review had ended.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Wholesale Banking	341.7	47.3%	345.3	47.0%	384.4	38.9%
Specialty Finance	10.4	72.7%	10.2	72.8%	10.3	76.1%
Consumer Banking	186.0	73.4%	184.8	73.5%	189.0	74.4%
Retail Banking	155.1	53.3%	136.1	59.0%	102.5	42.4%
Private Banking	8.7	56.0%	9.0	56.0%	8.0	61.0%
Leasing	140.2	32.2%	124.7	39.7%	111.8	35.9%
Total net non-performing loans	**842.1**	**56.7%**	**810.1**	**58.5%**	**806.0**	**54.8%**
– of which: bad loans	*141.5*		*115.4*		*79.8*	
As % of total loans and advances	*2.1%*		*2.0%*		*1.8%*	
As % of gross total loans and advances	**4.6%**		**4.4%**		**3.9%**	

(€m)

	30/6/19			
	Stage 1	Stage 2	Stage 3	Total
Wholesale Banking	14,487.2	689.2	384.4	15,560.8
Specialty Finance	1,836.4	89.2	378.9	2,304.5
Consumer Banking	11,897.9	1,136.1	189.0	13,223.0
Retail Banking	8,323.7	575.7	102.5	9,001.9
Private Banking	2,278.0	65.9	8.0	2,351.9
Leasing	1,719.7	120.1	111.8	1,951.6
Total loans and advances to customers	**40,542.9**	**2,676.2**	**1,174.6**	**44,393.7**
As % of total	91.3%	6.0%	2.7%	100%
Total loans and advances to customers (excluding NPLs purchased by MBCredit Solutions)	**40,542.9**	**2,676.2**	**806.0**	**44,025.1**
As % of total	92.1%	6.1%	1.8%	**100%**

Investment holdings – as from this financial year, this heading brings together investments covered by IAS 28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) that must be recognized at fair value through profit and loss. Investments in associates (up from €3,210.8m to €3,259.8m) consist almost entirely of the Assicurazioni Generali investment, the value of which rose from €3,171.4m to €3,219.3m, on profits of €320m (adjusted to reflect the €182.4m dividend collected), and lower valuation reserves of €89.7m. The Group's stake in the Istituto Europeo di Oncologia reflected a value of €40.5m (€39.4m), as a result of a pro rata increase in the Institute's profits (€1.2m). Equities (listed and unlisted) reduced from €260.5m to €138.6m, following sales of equities totalling €145.3m (yielding gains of €3.7m taken directly through other comprehensive income) and downward adjustments to reflect fair value at the period-end totalling €4.2m (also taken through OCI). Movements in seed capital reflect net investments of €74.6m, and net gains of €3.3m (taken through profit and loss); while other funds, including private equity, declined slightly, from €177.3m to €168.4m, after losses charged to earnings of €3.1m (covered by €4.9m in dividends) and net redemptions totalling €5.8m.

(€m)

	30/6/18		1/7/18		30/6/19	
	Book value	AFS reserve	Book value	HTC&S reserve	Book value	HTC&S reserve
IAS28 investments	3,210.8	—	3,210.8	—	3,259.8	—
Listed shares	239.3	51.3	239.3	51.3	102.6	52.6
Other unlisted shares	21.6	5.8	21.6	5.8	36.0	12.2
Seed capital	334.2	7.1	334.2	—	413.5	—
Private equity	71.5	23.2	71.5	—	66.1	—
Other funds	105.7	6.8	105.6	—	102.3	—
Total equity holdings	**3,983.1**	**94.2**	**3,983.0**	**57.1**	**3,980.3**	**64.8**

The Group's stake in Assicurazioni Generali (representing 12.92% of the company's share capital) is booked at a value which is below the stock market price as at 28 June 2019 (€3,356.9m) and current prices (€3,356.9m).

(€m)

	% share capital	30/6/18	30/6/19
Assicurazioni Generali	12.92	3,171.4	3,219.3
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	39.4	40.5
Total IAS28 investments		**3,210.8**	**3,259.8**

Banking book bonds – this heading comprises both debt securities recognized at cost and those measured at fair value through other comprehensive income (OCI), plus those bonds which under IFRS 9 must be measured at fair value through profit and loss.

	30/6/18		1/7/18		30/6/19	
	(€m)	%	(€m)	%	(€m)	%
Hold to Collect	4,949.7	64%	3,443.2	43%	2,892.0	43%
Hold to Collect & Sell	2,795.0	36%	4,442.7	56%	3,748.2	56%
Other (mandatorily measured at FV)	—	n.a.	57.8	1%	55.7	1%
Total banking book securities	**7,744.7**	**100%**	**7,943.7**	**100%**	**6,695.9**	**100%**

The portfolio shows a value of €6.7bn, following purchases of €5.7bn and sales and redemptions totalling €7bn which includes some profit-taking; the OCI reserve was positive, at €36.2m (30/6/18: €64.4m), despite reflecting €58.3bn in sales for the period, and upward adjustments at the period-end totalling €25.6m.

Government securities total €4.6bn (or 69% of the total portfolio), almost half of which (€2.2bn) is Italian sovereign debt with a duration of three years, and an OCI reserve in positive territory at €4.8m.

Hold-to-collect securities recognized at cost reflect unrealized gains of €52m (€20m as at 30 June 2018).

	30/6/18			1/7/18			30/6/19		
	Book value		AFS reserve	Book value		OCI reserve	Book value		OCI reserve
	AFS	HTM - LR		HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,132.1	1,612.9	19.6	1,296.5	1,456.9	25.2	1,088.6	1,161.3	4.8
Foreign government bonds	739.3	1,931.2	14.5	848.3	1,821.6	13.5	644.9	1,701.8	5.0
Bond issued by financial institutions	580.1	949.7	14.3	800.0	849.3	12.5	864.2	663.3	15.6
Corporate bonds	343.5	455.9	16.0	498.4	314.9	11.6	294.3	221.8	10.8
Total banking book securities	**2,795.0**	**4,949.7**	**64.4**	**3,443.2**	**4,442.7**	**62.8**	**2,892.0**	**3,748.2**	**36.2**

Net treasury funds – these rose from €4,810.3m to €5,342.5m, with a view to preserving a substantial liquidity provision in a period of strong volatility and uncertainty on the Italian domestic market in particular. The heading comprises equity holdings worth €2,620.4m (€1,658.3m), hedged by derivatives, the valuation of which contributes €955.7m to the overall total, cash and liquid assets of €1,510.2m (€1,969.2m), and other net deposits (including repos) totalling €2,094.4m (€1,098.5m).

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Financial assets held for trading	8,204.9	8,008.5	9,765.7	19.0 %
Treasury financial assets	8,358.2	8,358.0	10,170.2	21.7%
Financial liabilities held for trading	(6,462.4)	(6,462.4)	(8,027.8)	24.2%
Treasury financial liabilities	(5,290.4)	(5,290.4)	(6,565.6)	24.1%
Net treasury assets	**4,810.3**	**4,613.7**	**5,342.5**	**11.1%**

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Loan trading	25.0	25.0	6.9	-72.4%
Derivative contract valuations	(253.4)	(253.4)	(955.7)	n.m.
Equities	1,658.3	1,658.3	2,620.4	58.0%
Bond securities	312.7	116.1	66.3	-78.8%
Financial instruments held for trading	**1,742.6**	**1,546.0**	**1,737.9**	**-0.3%**

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Cash and banks	1,969.2	1,969.2	1,510.2	-23.3%
REPOs	(605.1)	(605.1)	2,140.3	n.m.
Financial assets deposits	426.9	426.9	61.0	-85.7%
Stock lending	1,276.7	1.276.7	(106.9)	n.m.
Other net treasury assets	**3,067.7**	**3,067.7**	**3,604.6**	**17.5%**

Tangible and intangible assets – this item increased from €1,027.7m to €1,187.6m, due chiefly to goodwill being recorded in connection with the Messier Maris & Associés[7] acquisition for €149m, plus the "Messier Maris" brand previously booked to the company's own accounts in an amount of €17m. During the twelve months under review, the purchase price allocation process for the RAM acquisition made in February 2018 was completed, resulting in identification of a brand (considered as having an indefinite lifetime with an estimated fair value of €37.7m) and an AUM management contract (with a fair value of €2.4m, to be amortized over five years), which, net of the deferred tax, is balanced by the lower goodwill attributable (€155m, net of exchange rate adjustments). It should also be noted that the sale of Spafid's Market Connect business to Norwegian listed company Infront generated a reduction in the goodwill, from €12.8m to €9m. There were also depreciation and amortization charges totalling €44.2m, and acquisitions of other tangible assets amounting to €10m.

Following a careful internal assessment process, no items showed any evidence of impairment.

[7] The acquisition of Messier Maris was finalized on 10 April 2019. Under the terms of the agreement, a 66.4% stake was acquired and a put-and-call agreement entered into, which will allow the Bank to increase its interest to 100% if exercised. Under IFRS 3 the buyer has twelve months in which to complete the purchase price allocation process, hence the valuation of goodwill used here is provisional.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Land and properties	262.3	26%	256.7	22%	-2.1%
- of which: core	*184.9*	*18%*	*181.8*	*15%*	*-1.7%*
Other tangible assets	25.5	2%	29.1	3%	14.1%
Goodwill	649.8	63%	772.4	65%	18.9%
Other intangible assets	90.1	9%	129.4	10%	43.6%
Total tangible and intangible assets	**1,027.7**	**100%**	**1,187.6**	**100%**	**15.6%**

(€m)

Transaction	30/6/18	30/6/19
Compass-Linea	365.9	365.9
Spafid	12.8	9.0
Cairn Capital	41.9	41.4
Banca Esperia Private Banking	52.1	52.1
RAM	177.0	155.0
MMA	—	149.0
Total goodwill	**649.7**	**772.4**

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

			30/6/19
	Squ. m	Book value (€m)	Book value per squ.m (€ 000)
Milan:			
– Piazzetta Enrico Cuccia n. 1 *	9,318	14.8	1.6
– Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari n. 6 *	13,390	62.7	4.7
– Foro Buonaparte n. 10 *	2,926	8.7	3.0
– Via Siusi n. 1-7	22,608	24.9	1.1
Rome **	1,790	8.1	4.5
Vicenza	4,239	5.0	1.2
Luxembourg	442	3.8	8.6
Monaco	4,576	52.4	11.5
Other minor properties	3,611	1.4	0.4
Total	**62,900**	**181.8**	

* After updating the related plans.

** The Piazza di Spagna property, carried at a book value of €24.9m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties were worth €74.9m (30/6/18: €77.4m), following depreciation of €1.9m and €9.1m in assets collected under leasing agreements being restated as "Tangible asset inventories" (in accordance with IAS 2); no new properties were acquired or sold during the period.

Provisions – as from this year, this heading includes provisions set aside to meet commitments to disburse funds and financial guarantees issued, in a total amount of €10.5m. Provisions for risks and charges decreased from €185.5m to €150.1m, and regard Mediobanca as to €96.2m (€95.8m), CheBanca! as to €32.9m (€59m), and SelmaBipiemme as to €10.3m (€9.4m). Withdrawals from provisions totalling €40.3m were made during the period, chiefly by CheBanca! (€26.4m), as part of restructuring following the Barclays acquisition, and by Compass (€6.6m) from the redundancy provision; new transfers to provisions totalled €4.9m, €2.8m of which regards leasing.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given *	N/A	N/A	10.5	6%	N/A
Provisions for risks and charges	185.5	87%	150.1	79%	-19.1%
Staff severance indemnity provision	27.5	13%	29.7	16%	8.0%
of which: staff severance provision discount	*2.2*	—	*3.7*	—	*68.2%*
Total provision	**213.0**	**100%**	**190.3**	**100%**	**-10.7%**

* Following the fifth update to Bank of Italy circular 262/2005, total amounts set aside in respect of commitments to disburse funds and guarantees issued, which previously were accounted for as "Other liabilities", are now treated as "Provisions for risks and charges".

Net equity – net equity increased from €9,644.3m to €9,809.2m, reflecting profit for the period (€823m), most of which was absorbed by the negative movements in other components, as follows:

– Distribution of the dividend for FY 2017-18 (€411.2m);

– First-time adoption (FTA)[8] of the new reporting standards on financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15), impacting negatively on net equity by €80.9m and €4m respectively;

– Launch of the share buyback scheme approved by shareholders at the annual general meeting held on 27 October 2018, with 20.1 million shares acquired for an outlay of €162.5m[9] and 13.4 million shares used, 11.6 million of which to acquire Messier Maris & Associés and 1.8 million in connection with the performance share schemes; including the shares already owned at 30 June 2018, a total of 15.3 million treasury shares are now held, equal to 1.7% of the Group's share capital;

– The lower valuation reserves (which were from €764.3m to €597.5m) reflect the reduction in financial assets measured at FVOCI (down €15.9m),

[8] See Part A of the Notes to the Accounts for further details.

[9] A further 99,500 shares have been purchased since the reporting date (for €0.9m).

application of the equity method to the Assicurazioni Generali investment (from €663.7m to €560.6m), and the increase in the negative cash flow hedge reserve (from €15.7m to €45m, due to market rate and volume trends).

The Group's share capital increased from €443.3m to €443.6m, following the exercise of 642,500 stock options with a total value of €4.2m, including the share premium; a total of 1,827,063 performance shares were also awarded during the period under review, from the treasury shares already owned by the Bank.

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Share capital	443.3	443.3	443.6	0.1%
Other reserves	7,572.8	7,510.8	7,945.1	4.9%
Valuation reserves	764.3	746.5	597.5	-21.8%
- of which: OCI	*121.5*	*100.5*	*84.6*	*-30.4%*
cash flow hedge	*(15.7)*	*(12.5)*	*(45.0)*	*n.m.*
equity investments	*663.7*	*663.7*	*560.6*	*-15.5%*
Profit for the period	863.9	863.9	823.0	-4.7%
Total Group net equity	**9,644.3**	**9,564.5**	**9,809.2**	**1.7%**

The OCI reserve involves equities as to €64.8m, and bonds and other securities as to €36.2m (€4.8m of which Italian government securities), net of the tax effect of €16.4m.

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Equity shares	94.2	56.3	64.8	-31.2%
Bonds	64.3	70.7	36.2	-43.7%
of which: Italian government bonds	*19.6*	*25.2*	*4.8*	*-75.6%*
Tax effect	(37.0)	(26.5)	(16.4)	-55.4%
Total OCI reserve	**121.5**	**100.5**	**84.6**	**-30.4%**

Profit and loss account

Net interest income – net interest income rose by 2.7%, from €1,359.4m to €1,395.6m. reflecting good performances by all business lines, in particular Consumer Banking (up 3.5%, on higher volumes with profitability largely resilient) which contributes nearly two-thirds of the total. The performance of Specialty Finance was especially impressive, posting growth of 22.9% split equally between factoring and NPL portfolio management. The 4.5% reduction in net interest income earned by Wholesale Banking (down from €198.5m to €189.6m) reflects repositioning in favour of higher-rated clients in a scenario of strongly reducing spreads. The liability run on treasury operations increased slightly, from €82.9m to €87.4m, despite the improved cost of funding (down from 90 bps to 80 bps), due to the effect of the negative market interest rates on the substantial short-term liquidity position.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Consumer Banking	868.8	898.8	3.5%
Wealth Management	255.2	260.2	2.0%
Corporate and Investment Banking	266.1	272.7	2.5%
Holding Functions and other (including intercompany)	(30.7)	(36.1)	17.6%
Net interest income	**1,359.4**	**1,395.6**	**2.7%**

Net treasury income – net treasury income increased from €157.4m to €196.7m, due to the higher contribution from Capital Market Solutions activity which totalled €130.4m (€82.3m) and higher revenues from the portfolio managed by the centralized Group treasury of €45.2m (€13.6m); these were only partly offset by the proprietary trading portfolio, which delivered a negative result due to the market instability seen in the second half of the financial year.

Dividends on OCI equities and other income from funds declined from €22.1m to €18.5m. The fixed-income segment increased from €79.6m to €120.2m, chiefly due to the banking book contribution of €60.1m (€14.7m), while the equity segment was basically stable at €58m (€55.7m).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Dividends	22.1	18.5	-16.3%
Fixed income trading profit	79.6	120.2	51.0%
of which: banking book	*14.7*	*60.1*	*n.m.*
Equity trading profit	55.7	58.0	4.1%
Net treasury	**157.4**	**196.7**	**25.0%**

Net fee and commission income – net fees declined from €622.2m to €611.2m, reflecting the performance in capital market activities, which, in line with the market, halved from €65.8m to €28.9m. Net of this fees would have increased by 4%, due principally to growth in Wealth Management (up 8.6%, from €258.7m to €280.9m) and Corporate Finance (up 35.3%, from €64.7m to €87.5m), with Consumer Banking and Specialty Finance basically stable. Wealth Management now contributes 46% of the Group's fee income, despite a reduction in performance fees (from €12m to €2.9m), helped by the consolidation of RAM which added €19.7m (being consolidated for twelve rather than four months as last year) and by growth in CheBanca! management fees (up 7.5%), Mediobanca Private Banking (up 1%) and CMB (up 2%). Fee income earned from Wholesale Banking operations decreased from €207.3m to €178.6m, reflecting the trends in capital market and lending activities, despite the performance of Corporate Finance which as from this quarter includes MMA, contributing €5.3m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Wealth Management	258.7	280.9	8.6%
Wholesale Banking	207.3	178.6	-13.8%
Consumer Banking	127.4	128.1	0.5%
Specialty Finance	47.1	49.0	4.0%
Holding Functions and other (including intercompany)	(18.3)	(25.4)	38.8%
Net fee and commission income	**622.2**	**611.2**	**-1.8%**

Equity-accounted companies – the €321.2m profit reported by the equity-accounted companies (€280.3m) reflects the higher contribution by Assicurazioni Generali, which increased from €279.9m to €320m, plus the marginal contribution from the IEO of €1.2m (€0.4m).

Operating costs – operating costs rose by 4.2%, from €1,114.9m to €1,161.9m, due chiefly to the increased scope of consolidation (RAM added €13m and MMA €5.4m), and were split equally between labour costs (up 4.3%, or 1.9% on a like-for-like basis) and administrative expenses (up 4.1% and 3% respectively). Ordinary growth of 2.6% was concentrated in Consumer Banking, with 18 new Compass agencies and higher credit recovery expenses, due to higher volumes, and in Wealth Management (with the addition of 48 new bankers and 23 new CheBanca!, POS, plus costs linked to the FAs network expansion and strengthening). Administrative expenses reflect growth of 17% in IT costs due to regulatory projects (MiFID II, IFRS 9, AIRB) and work required to develop the business platforms (Group Treasury, CRM and e-commerce) and to increase digitalization at branch offices.

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
			(€m)
Labour costs	557.8	581.7	4.3%
of which: directors	*8.0*	*9.8*	*22.5%*
stock option and performance share schemes	*7.8*	*12.0*	*53.8%*
Sundry operating costs and expenses	557.1	580.2	4.1%
of which: depreciation and amortizations	*43.9*	*43.0*	*-2.1%*
administrative expenses	*512.1*	*533.0*	*4.1%*
Operating costs	**1,114.9**	**1,161.9**	**4.2%**

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
			(€m)
Legal, tax and professional services	16.8	10.5	-37.5%
Other consultancy expenses	45.7	48.8	6.8%
Credit recovery activities	50.4	55.6	10.3%
Marketing and communication	47.7	42.3	-11.3%
Rent and property maintenance	52.6	53.2	1.1%
EDP	107.6	125.9	17.0%
Financial information subscriptions	37.6	41.0	9.0%
Bank services, collection and payment commissions	19.7	21.6	9.6%
Operating expenses	65.6	63.6	-3.0%
Other labour costs	23.5	22.5	-4.3%
Other costs	25.0	25.8	3.2%
Direct and indirect taxes	19.9	22.2	11.6%
Total administrative expenses	**512.1**	**533.0**	**4.1%**

Gains (losses) on investment holdings – in the financial statements as at 30 June 2018, this heading included gains and losses realized on disposal of AFS equities amounting to €98.3m, which as from this year no longer pass through profit and loss.

Loan loss provisions – these decreased by 10%, from €247.2m to €222.6m, and reflect a cost of risk at an all-time low of 52 bps (62 bps). In Wholesale Banking net writebacks of €62.7m were credited (€44m), following a reduction in provisioning (due in part to collections) for certain UTP positions which reflect ongoing earnings and financial improvement. Provisioning for Consumer Banking decreased slightly from €241.9m to €237.8m, which, given the higher volumes, drove the cost of risk down to 185 bps (versus 199 bps last year). Wealth Management reduced its impact on profit and loss from €16.4m to €11.8m (with the cost of risk reducing from 16 bps to 11 bps), on the back of a widespread improvement in the mortgage loan book and business with collateralized clients.

Conversely, there were increases in Specialty Finance (from €25.7m to €26.5m) for the higher NPLs acquired, and leasing (from €7.3m to €8.6m).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Wholesale Banking	(44.0)	(62.7)	42.5%
Specialty Finance	25.7	26.5	3.1%
Consumer Banking	241.9	237.8	-1.7%
Wealth Management	16.4	11.8	-28.0%
Holding Functions	7.2	9.2	27.8%
Loan loss provisions	**247.2**	**222.6**	**-10.0%**
Cost of risk (bps)	**62**	**52**	**-16.1%**

Provisions for other financial assets – under IFRS 9, the impairment process applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the "Hold to collect" model) and to all bonds recognized at fair value through other comprehensive income (the "Hold to collect and sell" model). For the twelve months under review, application of these models impacted on earnings in an amount of €1.3m. This heading also reflects the valuations of other mandatory financial assets (other than loans), totalling €0.8m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Hold-to-Collect securities	(3.4)	0.5	n.m.
Hold-to-Collect & Sell securities	4.7	0.8	-83.0%
Others	—	0.8	n.m.
Total	**1.3**	**2.1**	**61.5%**

Income tax – income tax for the twelve months totalled €256.5m, at an effective tax rate of 23.7%, slightly higher than last year's figures of €228.1m and 20.82% respectively, due to the reduced percentage of PEX income and the effect of intercompany dividends.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions, Spafid Connect 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

WEALTH MANAGEMENT

This division brings together all asset administration and 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 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	255.2	260.2	2.0
Net trading income	12.1	6.2	-48.8
Net fee and commission income	258.7	280.9	8.6
Total income	**526.0**	**547.3**	**4.0**
Labour costs	(201.1)	(221.8)	10.3
Administrative expenses	(215.7)	(212.2)	-1.6
Operating costs	**(416.8)**	**(434.0)**	**4.1**
Gains (losses) on disposal of equity holdings	2.0	—	n.m.
Loan loss provisions	(16.4)	(11.8)	-28.0
Provisions for other financial assets	—	0.3	n.m.
Other income (losses)	(0.6)	0.6	n.m.
Profit before tax	**94.2**	**102.4**	**8.7**
Income tax for the period	(24.4)	(28.7)	17.6
Minority interest	(0.6)	(2.5)	n.m.
Net profit	**69.2**	**71.2**	**2.9**
Cost/Income ratio (%)	*79.2*	*79.3*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	10,359.2	11.353.8
Loans	1,594.0	1.782.6
No. of staff	1,888	1,936
Risk-weighted assets	5,757.2	4,533.8

	30/6/18	30/6/19
AUM/AUA	37,108.2	38,964.2
AUC	7,646.8	6,461.5
Direct funding	19,096.5	22,449.5
Total assets under management, advice and custody	**63,851.5**	**67,875.2**

CHEBANCA!

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	212.0	210.6	-0.7
Net treasury income	0.8	0.8	n.m.
Net fee and commission income	79.7	85.7	7.5
Total income	**292.5**	**297.1**	**1.6**
Labour costs	(102.6)	(105.8)	3.1
Administrative expenses	(132.7)	(130.5)	-1.7
Operating costs	**(235.3)**	**(236.3)**	**0.4**
Loan loss provisions	(16.5)	(13.7)	-17.0
Profit before tax	**40.7**	**47.1**	**15.7**
Income tax for the period	(13.0)	(15.6)	20.0
Net profit	**27.7**	**31.5**	**13.7**
Cost/Income ratio (%)	*80.4*	*79.5*	

Over the three years of the plan, CheBanca! has definitively evolved from deposit-gatherer to asset-gatherer, becoming a key player in the Italian wealth management industry in the affluent-premier client segment. This achievement has been accompanied by a major transformation in terms of scale: CheBanca! today has a network of 780 advisors, five times the figures reported at end-June 2016: 445 relationship managers (29 added in twelve months, 275 since 2016) now work alongside 335 FAs (compared with none three years ago). It also has a wide and strongly increasing client base (865,000 clients, versus 807,000 at end-June 2018, and 570,000 at end-June 2016) with banking activity strongly concentrated in remote channels (97% of money transfers, 95% of tied deposit accounts through digital channels; 95% of payments/withdrawals via ATM). The "open-guided" investment platform has been enriched by the addition of new funds such as Mediobanca Global Multiasset (MGM), Mediobanca Long Short Sector Rotation, and Mediobanca Defensive Portfolio, as well as placement of the Mediobanca High Yield Credit Portfolio 2025 fund as part of the co-operation with Mediobanca SGR. In June 2019 the bank's first artificial intelligence application was launched, a chatbot to respond to chats from clients and non-clients, which in its first month of operation answered 56% of client requests autonomously.

Net profit was up 13.7% in the twelve months, to €31.5m, on revenues of €297.1m (an increase of 1.6%), operating costs basically flat (up just 0.4%), and loan loss provisions declining.

The increase in revenues, from €292.5m to €297.1m, reflects the healthy performance in fee income which offset the reduction in net interest income. The main income items performed as follows:

– Net interest income was down 0.7%, from €212m to €210.6m, helped by an 11% increase in mortgage lending volumes, but at the same time adversely affected by lower returns (due chiefly to early repayments) and a slight increase in the cost of funding (from 41 bps to 43 bps following promotional offers);

– Fees were up 7.5%, from €79.7m to €85.7m, reflecting 16% growth in asset management fees, from €52.9m to €61.1m including fees paid back to FAs, with over 90% recurring; bank commissions increased from €28.2m to €30.9m, while acquisition costs rose from €1.4m to €6.3m following the arrival of 109 new FAs.

Labour costs rose grew from €102.6m to €105.8m, in line with the distribution structure enhancement (with 29 new bankers added, mostly concentrated in 2H), almost entirely compensated by the reduction in administrative expenses to €130.5m (€132.7m) which also absorbed the franchise development (a total of 23 new branches were opened during the period).

Loan loss provisions were down 17%, from €16.5m to €13.7m, helped by lower new NPLs plus the risk parameters being adapted to the new internal models, and also reflect the net losses deriving from the disposal of bad debts generated by the former Micos Banca; the cost of risk fell from 21 bps to 16 bps.

	30/6/18	30/6/19
AUM/AUA	8,435.1	10,333.8
Direct funding	14,163.0	15,032.1
Total assets under management	**22,598.1**	**25,365.9**

Total financial assets (“TFAs”) rose by 12.2% to €25.4bn, €15bn of which in deposits (up 6.1%) and €10.3bn in AUM/AUA (up 22.5%). Net New Money (“NNM”) totalled €2.6bn, €0.9bn of which direct and €1.7bn in AUM/AUA, with a growing trend in the two half-years (€1bn in 1H, €1.6bn in 2H). AUM and AUA totalled €1.9bn, reflecting the market effect (€133m) and deposit conversion (€364m). Growth in volumes derives from balanced contribution from the main distribution channels, namely the proprietary network (TFAs €22.2bn) and FAs (TFAs €3.1bn, €2bn of which is in AUM/AUA). Current accounts totalled €8.8bn (up 17%, almost 60% of total direct funding), whereas deposit accounts decreased by 6% to €6.2bn.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	8,107.1	9,001.9
New loans	1,594.0	1,782.6
No. of branches	111	110
No. of staff	1,321	1,364
Risk-weighted assets	3,713.8	2,581.5

Mortgage loans climbed from €8.1bn to €9bn, on new mortgage loans of €1.8bn (up 11.8% on the €1.6bn reported last year) and early repayments declining slightly to €604.5m. Asset quality remained at excellent levels: gross NPLs declined from €332.1m to €178m, accounting for 2% of total loans (versus 4%); net NPLs declined from €155.1m to €102.5m and account for 1.1% of net total loans, with a coverage ratio of 42.4% compared with 53.3% last year. Net NPLs totalled €39.9m (0.4% of the total net loan book), with a coverage ratio of 56.9% (60.9%). These figures reflect the bad loans attributable to the French branch (business discontinued at end-2009), which were sold, and the former Micos Banca loans in the process of being sold. In February the entire French loan book was sold (consisting of 88 loans with a gross book value of €14.8m), while in June 2019 agreement was reached to sell the Italian portfolio (1,601 loans with a gross book value of €136.8m) which has been booked as "Non-current assets held for sale and discontinued operations" pursuant to IFRS 5 at their estimated realizable value (€22.2m).

PRIVATE BANKING

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

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	43.2	49.6	14.8
Net treasury income	11.3	5.4	-52.2
Net fee and commission income	179.0	195.2	9.1
Total income	**233.5**	**250.2**	**7.2**
Labour costs	(98.5)	(116.0)	17.8
Administrative expenses	(83.0)	(81.7)	-1.6
Operating costs	**(181.5)**	**(197.7)**	**8.9**
Gains (losses) on disposal of equity holdings	2.0	—	n.m.
Loan loss provisions	0.1	1.9	n.m.
Provisions for other financial assets	—	0.3	n.m.
Other income (losses)	(0.6)	0.6	n.m.
Profit before tax	**53.5**	**55.3**	**3.4**
Income tax for the period	(11.4)	(13.1)	14.9
Minority interests	(0.6)	(2.5)	n.m.
Net profit	**41.5**	**39.7**	**-4.3**
Cost/Income ratio (%)	*77.7*	*79.0*	

Private Banking delivered a gross operating profit of €55.3m, up 3.4% on last year. The change in contributions from the different companies drove an increase in the tax burden and minority interest, reducing the division's net profit from €41.5m to €39.7m.

Revenues were up 7.2%, from €233.5m to €250.2m, due in particular to 9.1% growth in fees (up 9.1%, €179m to €195.2m), boosted by the enlarged scope of operations[10] (which added €15m), partially offset by the reduction in performance fees (from €9.5m to €1.9m);[11] net of these items growth of 6% would have been reported (from €135.1m to €143.3m), an impressive result if the market scenario and clients' scarce propensity to invest are considered.

[10] RAM's figures refer to the full twelve months rather than four last year, resulting in a €20.3m increase, from €15.4m to €35.7m, whereas from 1 January 2019 the figures for Spafid refer exclusively to financial services (which added approx. €5m in twelve months), as the corporate services business performed by Spafid Connect has been transferred to the Holding Functions division following the sale of the Market Connect business unit to Norwegian listed company Infront.

[11] Net of RAM.

Growth in net interest income (up 14.8%, from €43.2m to €49.6m), linked to the profitability of deposits in USD held by CMB clients, offset the reduction in net treasury income (from €11.3m to €5.4m) again attributable to CMB, due to lower profits on the banking book and broking with clients.

Operating costs rose by 8.9%, from €181.5m to €197.7m, reflecting 17.8% growth in labour costs (from €98.5m to €116m) relating to RAM coming fully onstream (adding €9.4m) and to enhancement of structures and the distribution network; in particular, four bankers joined Mediobanca Private Banking, five joined Mediobanca SGR, and a new management team was installed at CMB. By contrast, administrative expenses decreased from €83m to €81.7m, despite the increase due to RAM (which added €3.9m).

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,252.1	2,351.9
No. of staff	567	572
Risk-weighted assets	2,043.4	1,952.3

	30/6/18	30/6/19
AUM/AUA	28,673.1	28,630.4
AUC	7,646.8	6,461.5
Direct funding	4,933.5	7,417.4
Total assets under management	**41,253.4**	**42,509.3**

TFAs grew from €41.3bn to €42.5bn in the twelve months, of which €7.4bn in deposits (€4.9bn), €28.6bn in AUM and AUA (€28.7bn), and €6.5bn in assets under custody (€7.6bn). Net new money in the twelve months amounted to €2.2bn, with positive contributions from Mediobanca Private Banking (up €2.3bn) and Cairn (up €730m) offsetting the outflows recorded by RAM (€914m) concentrated in 2H. These results reflect a weak 4Q (with net outflows of €855m), the closure of certain low-margin mandates (€330m in institutional mandates and €340m in AUC), and outflows recorded by RAM (€480m), only in part offset by the contribution of Private Banking (up €260m).

By individual unit, CMB contributed a net profit of €27.5m, on revenues of €95.6m (€95m), costs of €62.5m (€59.5m), and tax of €6.1m (€5.7m); TFAs amounted to €10.bn, €3.4bn of which related to deposits and Net New Money for the 12 months equal to €308m. Mediobanca Private Banking and the asset management companies delivered a net profit of €11.2m, with revenues increasing (from €85.7m to €88.5m), despite lower performance fees of €1.7m (€4.7m), with costs largely unchanged at €73m (€71.7m); TFAs totalled €21.2bn, €4bn of which in deposits (NNM €2.3bn, €2.1bn of which cash and liquid assets). RAM reported a profit of €7.9m (net of minority interest totalling €2.4m), on revenues of €35.7m and costs of €21.5m; TFAs decreased from €4.1bn to €3.1bn, reflecting the outflows mentioned above. Cairn Capital contributed revenues of €16.3m (€18.2m), which reflects the absence of performance fees (€2.3m) and reduced advisory business of €1.3m (€2.6m), with costs rising from €19.5m to €22.3m due to a retention scheme. TFAs totalled €4bn (NNM €730m, €365m of which in CLOs). Spafid reported revenues of €14.1m and a bottom line at breakeven following the transfer of the remaining Spafid Connect activities (corporate services) to the Holding Functions.

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 to clients.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	868.8	898.8	3.5
Net fee and commission income	127.4	128.1	0.5
Total income	**996.2**	**1.026.9**	**3.1**
Labour costs	(96.1)	(99.4)	3.4
Administrative expenses	(188.4)	(194.1)	3.0
Operating costs	**(284.5)**	**(293.5)**	**3.2**
Loan loss provisions	(241.9)	(237.8)	-1.7
Other income (losses)	(6.6)	—	n.m.
Profit before tax	**463.2**	**495.6**	**7.0**
Income tax for the period	(147.9)	(159.2)	7.6
Net profit	**315.3**	**336.4**	**6.7**
Cost/Income ratio (%)	*28.6*	*28.6*	

The division delivered a net profit of €336.4m in the twelve months, up 6.7% on last year (€315.3m), after revenues of €1,026.9m (up 3.1%), costs of €293.5m (up 3.2%) and loan loss provisions totalling €237.8m (down 1.7%).

Revenues beat their all-time high, breaking through the €1bn mark for the first time, and now account for over 40% of the Group's top line. The main income sources performed as follows:

– Net interest income grew from €868.8m to €898.8m (up 3.5%), due to higher average volumes (up 6.1%) with margins largely resilient;

– Net fee income was unchanged at €128.1m (€127.4m), with the higher *rappel* fees paid to partners (up 8%) offset by the healthy performances in consumer credit product distribution and management.

Costs were up 3.2%, due to enhancement of the distribution network (a total of eighteen new POS were opened during the period, both proprietary branches and agencies) and IT projects supporting the business and for regulatory reasons (chiefly AIRB models).

Loan loss provisions decreased from €241.9m to €237.8m (down 1.7%), with the annualized cost of risk improving to 185bps (vs 199bps last year) without affecting the coverage levels.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	12,517.8	13,223.0
New loans	7,025.1	7,350.0
No. of branches	181	199
No. of staff	1,429	1,.427
Risk-weighted assets	11,822.0	12,564.1

Net loans increased from €12.5bn to €13.2bn, with new loans for the twelve months rising from €7bn to €7.4bn (up 4.6%); personal loans account for approx. 57% of the stock, while salary-backed finance amounts to just over €2bn (up 3%). Gross NPLs increased from €698.5m to €737.7m in absolute terms, but still account for 5.2% of the total loan book (unchanged); net NPLs totalled €189m (1.4% of total loans), at a coverage ratio of 74.4% (73.4%). Net bad debts amounted to €13.7m, representing just 0.1% of total loans (also unchanged) and reflecting a coverage ratio of 94.3% (93.9%). The coverage ratio for performing loans has increased since the introduction of IFRS 9 from 2.65% to 3.02%, with stage 2 items accounting for 8.6% of the total loan book (covered as to 20.7%).

CORPORATE AND INVESTMENT BANKING

This division provides services to customers 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 Messier Maris & Associés;
- Specialty Finance, factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. %
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	266.1	272.7	2.5
Net treasury income	110.5	126.8	14.8
Net fee and commission income	254.4	227.6	-10.5
Total income	**631.0**	**627.1**	**-0.6**
Labour costs	(137.4)	(139.4)	1.5
Administrative expenses	(118.5)	(129.9)	9.6
Operating costs	**(255.9)**	**(269.3)**	**5.2**
Loan loss provisions	18.3	36.2	n.m.
Provisions for other financial assets	0.7	0.9	28.6
Other income (losses)	(2.0)	—	n.m.
Profit before tax	**392.1**	**394.9**	**0.7**
Income tax for the period	(127.6)	(129.1)	1.2
Net profit	**264.5**	**265.8**	**0.5**
Cost/Income ratio (%)	*40.6*	*42.9*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	16,134.2	17,865.3
New loans	12,686.0	12,374.1
No. of staff	587	621
Risk-weighted assets	19,510.9	20,065.8

WHOLESALE BANKING

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	198.5	189.6	-4.5
Net treasury income	110.5	126.7	14.7
Net fee and commission income	207.3	178.6	-13.8
Total income	**516.3**	**494.9**	**-4.1**
Labour costs	(121.0)	(122.8)	1.5
Administrative expenses	(91.4)	(97.4)	6.6
Operating costs	**(212.4)**	**(220.2)**	**3.7**
Loan loss provisions	44.0	62.7	42.5
Provisions for other financial assets	0.7	0.5	-28.6
Other income (losses)	(2.0)	—	n.m.
Profit before tax	**346.6**	**337.9**	**-2.5**
Income tax for the period	(112.8)	(110.6)	-2.0
Net profit	**233.8**	**227.3**	**-2.8**
Cost/Income ratio (%)	*41.1*	*44.5*	

A net profit of €227.3m was earned from Wholesale Banking operations for the twelve months, largely unchanged from last year but with differing contributions: outstanding performances from client activity (corporate finance up 35%; CMS up 42%), compared with a substantial reduction in capital markets (down 56%) and proprietary trading, which were affected by the trend in spreads and market interest rates; while lending showed a reduction which was still better than expected.

In this scenario, revenues were down 4.1%, from €516.3m to €494.9m, and reflect the following performances:

– Net interest income decreased by 4.5%, from €198.5m to €189.6m, on growth in the loan book versus clients of higher standing (but yielding lower margins);

– Net treasury income climbed 14.7%, from €110.5m to €126.7m, driven by CMS client activity which added €130.4m (€82.3m) and was only in part offset by a reduced contribution from the proprietary trading book which showed a net loss of €11m at the year-end (versus €27m last year);

– Net fee and commission income fell by 13.8%, from €207.3m to €178.6m, with the excellent performance by advisory and M&A business (up from €64.7m to €87.5m) offset by lower capital market fees of €28.9m (€65.8m).

Conversely, operating costs were up from €212.4m to €220.2m, €5.4m of which in respect of MMA) as a result of the intense project activity chiefly in IT (infrastructure platform improvement) and regulation (MiFID II, AIRB models, IFRS 9 introduction and Brexit).

Loans loss provisions reflect writebacks of €62.7m, chiefly as a result of certain unlikely-to-pay positions being revised in view of more positive operating performances by the businesses concerned, which in some cases led to repayments exceeding expectations compared to the restructuring plans agreed.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	13,996.9	15,560.8
New loans	7,331.7	5,777.3
No. of staff	344	365
Risk-weighted assets	17,362.9	17,579.2

Loans and advances to customers rose from €14bn to €15.6bn, on new loans of €5.8bn, only in part offset by redemptions totalling €4.3bn, €1.8bn of which were early redemptions.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Italy	6,629.4	47%	7,884.0	51%	18.9%
France	1,202.8	9%	1,558.9	10%	29.6%
Spain	1,404.7	10%	941.2	6%	-33.0%
Germany	899.7	6%	904.8	6%	0.6%
U.K.	1,171.4	8%	1,131.3	7%	-3.4%
Other non resident	2,688.9	20%	3,140.6	20%	16.8%
Total loans and advances to customers	**13,996.9**	**100%**	**15,560.8**	**100%**	**11.2%**

Gross NPLs decreased in absolute terms, from €648m to €628.9m, and in relative terms, to 4% of the total loan book (4.5%); in addition to the collections referred to previously, a new unlikely-to-pay position was recorded with a nominal value of €50m. Net NPLs increased from €341.7m to €384.4m, but were unchanged in relative terms at 2.5% of the total loan book, with the coverage ratio decreasing from 47.3% to 38.9% as a result of the writebacks mentioned above.

A brief description of the main trends in the investment banking market and the results achieved by the Group is provided below:

- The European investment banking market reflects an increase in M&A activity, in Italy and Spain in particular which are two of the Bank's core markets. This drove an increase in fee income from advisory business, from €64.7m to €87.5m. In particular, the financial institutions segment covered over twenty deals (Intrum Justitia, Dovalure, Eurobank, Crédit Agricole, etc.), with an average fee of over €1.5m. Among the other industries the following deals were also significant: TMT (Mediaset, Vivendi, Cellnex, etc.); Transportation & Infrastructure (Abertis, Atlantia, etc.); industrial and automotive (Prysmian, Saes Getters, etc.); and real estate (Parco Leonardo, Fabrica Immobiliare, etc.). Ongoing coverage of the financial sponsors sector also resulted in an increasing number of deals involving private equity, in Italy (Basalt Infrastructure, BC Partners, Peninsula, etc.) and Spain (Victoria Capital Partners, Ardian, etc.). Meanwhile, the growing focus on the Italian mid-corp sector translated to a total of twenty deals closed, including Bain Capital Credit, 21 Investimenti, Ardian and Zephyro.

Newly-acquired MMA contributes to the above figures. Established in 2010, the company is a French operator of primary standing and is mainly focused on M&A activities for mid-cap to large corporates and a wide range of financial sponsors. The company employs some 40 staff, and in the 2018 calendar year generated turnover of approx. €50m, completing around thirty mandates.

- Debt capital market (DCM) activity grew in some of the main European countries (Italy and Spain), but the Bank was involved fewer transactions (around fifty, as opposed to sixty last year), with an equivalent reduction in the fees generated from them (from €24.9m to €18.6m;
- Equity capital market (ECM) activities showed a substantial downturn (over 50% in Italy, France, Spain and Germany); this trend was reflected in a sharp reduction in fees from this activity (from €40.9m to €10.3m), with involvement in only eight deals (compared with twenty last year), the largest of which was the Nexi IPO;
- The EMEA debt market showed an overall increase of 15% in the period (9% for the Italian domestic market); against this backdrop, lending fees reduced from €50.7m to €43.3m;

– The other segments (equity sales, markets and other income) generated €18.8m in revenues (€26.1m). This item includes fees credited back internal to the Group in return for placement of Wholesale Banking products to Wealth Management clients.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Capital Market	65.8	28.9	-56.0%
Lending	50.7	43.3	-14.6%
Advisory M&A	64.7	87.5	35.3%
Markets, sales and other gains	26.1	18.8	-27.9%
Net fee and commission income	**207.3**	**178.6**	**-13.8%**

SPECIALTY FINANCE

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	67.6	83.1	22.9
Net treasury income	—	0.1	n.m.
Net fee and commission income	47.1	49.0	4.0
Total income	**114.7**	**132.2**	**15.3**
Labour costs	(16.4)	(16.6)	1.2
Administrative expenses	(27.1)	(32.5)	19.9
Operating costs	**(43.5)**	**(49.1)**	**12.9**
Loan loss provisions	(25.7)	(26.5)	3.1
Provisions for other financial assets	—	0.4	n.m.
Profit before tax	**45.5**	**57.0**	**25.3**
Income tax for the period	(14.8)	(18.5)	25.0
Net profit	**30.7**	**38.5**	**25.4**
Cost/Income ratio (%)	*37.9*	*37.1*	

Specialty Finance delivered a 25.4% increase in net profit, from €30.7m to €38.5m, split equally between MBCredit Solutions (up from €16.2m to €18.3m) and MBFacta (up from €14.5m to €20.2m).

The 15.3% increase in revenues, from €114.7m to €132.2m, chiefly reflects the rise in net interest income (which was up 22.9%, from €67.6m to €83.1m), with fees and commission income more stable (up 4%, from €47.1m to €49m). MBFACTA contributed €52.4m (up 22%), €47.7m of which by way of net interest income (an increase of 21.6%); while MBCredit Solutions contributed €79.8m (up 11.5%), split between net interest income (€35.4m) and fee and commission income (€44.4m, €26.9m of which due to higher amounts collected on the NPL portfolio). At the same time, operating costs also increased, by 12.9% (from €43.5m to €49.1m), chiefly due to higher credit recovery expenses in connection with the NPL portfolios of €14.7m (€11.6m).

Loan loss provisions were virtually unchanged, up from €25.7m to €26.5m, with €14.9m attributable to factoring (€15.2m) and €11.6m to the NPLs portfolios (€10.5m).

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,137.3	2,304.5
New loans	5,353.9	6,596.8
No. of staff	243	256
Risk-weighted assets	2,148.0	2,486.6

The 7.8% increase in loans and advances to customers, from €2,137.3m to €2,304.5m, involved all segments: ordinary factoring (up from €1,449.8m to €1,520,8m); instalment factoring (up from €399.6m to €415.1m), and the NPL portfolios acquired (up from €287.9m to €368.6m). Gross NPLs in factoring business rose by 10.3%, from €37.4m to €41.3m, but were stable in relative terms at 2.1% of total loans; net NPLs meanwhile were flat at €10.3m.

The NPL portfolio is still concentrated in the retail unsecured segment (83.1%), and non-recourse acquisitions were made for a total of €117.9m in the twelve months (nominal value €1.5bn).

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)

	30/6/18	30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Other incomes	14.7	11.2	-23.8
Equity-accounted companies	280.3	321.2	14.6
Total income	**295.0**	**332.4**	**12.7**
Labour costs	(3.8)	(3.9)	2.6
Administrative expenses	(1.0)	(1.2)	20.0
Operating costs	**(4.8)**	**(5.1)**	**6.3**
Gains (losses) on disposal of equity holdings	96.3	—	n.m.
Net loss provisions	(1.8)	(3.3)	83.3
Profit before tax	**384.7**	**324.0**	**-15.8**
Income tax for the period	(10.9)	(9.8)	-10.1
Net profit	**373.8**	**314.2**	**-15.9**

Revenues from Principal Investing increased during the twelve months, from €295m to €332.4m, largely due to the higher contribution from Assicurazioni Generali (up from €279.9m to €320m). Net profit came in at €314.2m, compared with €373.8m last year which, however, was boosted by a gain on disposal of €96.3m.[12] Net losses of €3.3m on investment funds were recorded for the twelve months (compared with a loss of €1.8m last year).

	30/6/18	30/6/19
Balance-sheet data		
Banking book equity securities	718.5	656.7
IAS28 investments	3,210.8	3,259.8
Risk-weighted assets	6,256.6	5,641.6

The book value of the Assicurazioni Generali investment rose from €3,171.4m to €3,219.3m, after profits of €320m, adjusted for the dividend collected (€182.4m), and the €89.7m reduction in valuation reserves.

[12] With the introduction of IFRS 9, gains (losses) on disposals of investment securities held in the banking book (formerly "Available For Sale") no longer pass through profit and loss but are recognized directly in other comprehensive income. Conversely, the fair value of funds (including private equity and seed capital) is now taken through profit and loss.

As for banking book securities, holdings in funds increased from €459.8m to €520.4m, following net investments in seed capital of €62.7m and net redemptions for other funds totalling €1.6m, plus downward adjustments to reflect fair value in an amount of €1.9m; holdings in equities decreased from €258.7m to €136.3m, after sales of €145.3m, the gains on which (€3.7m) were taken through net equity along with the valuations at end-June 2019 (which together added €4.2m).

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

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 central Group functions. Since 1 January 2019 they have also included the corporate services provided by Spafid Connect, following the sale of the Market Connect business unit.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	(37.5)	(47.1)	-25.6
Net trading income	13.1	45.0	n.m.
Net fee and commission income	15.5	7.4	-52.3
Total income	**(8.9)**	**5.3**	**n.m.**
Labour costs	(118.2)	(117.1)	-0.9
Administrative expenses	(55.1)	(60.5)	9.8
Operating costs	**(173.3)**	**(177.6)**	**2.5**
Gains (losses) on disposal of equity holdings	—	—	n.m.
Loan loss provisions	(7.2)	(9.0)	25.0
Provisions for other financial assets	(0.3)	0.1	n.m.
Other income (losses)	(49.3)	(54.8)	-11.2
Profit before tax	**(239.0)**	**(236.0)**	**1.3**
Income tax for the period	83.3	70.6	-15.2
Minority interest	(3.2)	(2.1)	34.4
Net profit	**(158.9)**	**(167.5)**	**-5.4**

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2.116.7	1.951.6
Banking book securities	6.487.2	5.550.5
No. of staff	801	810
Risk-weighted assets	4.016.0	3.504.7

The pre-tax loss incurred by the Holding Functions division was slightly lower than the one last year, at €236m (€239m), reflecting higher trading income of €45m (€13.1m) which drove an improvement in the net result from treasury management (loss of €54.7m, compared with €66m last year), penalized by the substantial liquidity position held in a negative interest rate scenario. Operating costs rose by 2.5% (from €173.3m to €177.6m), on higher contributions from treasury, leasing and corporate services, with central structures virtually unchanged despite the high levels of regulatory project activity (MiFID II, Insurance Distribution Directive, Securities Finance Transactions Regulation, PSD 2, AML and Data Privacy); the impact of mandatory and voluntary contributions to resolution schemes on P&L increased from €46.3m to €53.5m, €6.4m of which due to the Carige subordinated bond subscribed for at end-2018 being written off on prudential grounds. The net loss increased from €158.9m to €167.5m, due solely to the higher tax burden as a result of the effects of distributing intercompany dividends.

The various segments performed as follows:

- Group Treasury and ALM delivered a net loss of €54.7m, better than the €66m loss posted last year, due to higher treasury income of €45.1m (€13.6m) which offset the increase in net interest expense (from €82.9m to €87.4m) as a result of holding a substantial liquidity position in a negative interest rate scenario, only in part mitigated by the reduction in the cost of funding due to use of diversified forms of funding (retail and secured) and the redemption of certain particularly expensive bond issues, and despite the particularly difficult market conditions caused by the sovereign debt spread trend;
- Leasing delivered a net profit of €3.2m, down from €4.8m last year, on an 11.9% reduction in revenues (to €42.3m) in line with the trend in average volumes (down 7%). Operating costs were basically unchanged at €27m (€26.3m), despite including charges due to project activities in connection with changes to regulations; loan loss provisions totalled €8.6m, slightly higher than last year (€7.3m). Leases outstanding declined from €2,116.7m to €1,951.6m, with new business virtually unchanged at €433m. Gross NPLs declined from €206.6m to €174.3m, and represent 8.6% (9.4%) of the total portfolio; net NPLs fell by 20.3%, from €140.2m to €111.8m, with a coverage ratio of 35.9% (32.2%). Bad debts totalled €24.1m (€33.1m), and represent 1.2% (1.6%) of the total portfolio, with a coverage ratio of 46.8% (47.4%).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	45.2	39.9	-11.7
Net treasury income	0.2	0.1	-50.0
Net fee and commission income	2.6	2.3	-11.5
Total income	**48.0**	**42.3**	**-11.9**
Labour costs	(13.8)	(12.7)	-8.0
Administrative expenses	(12.5)	(14.3)	14.4
Operating costs	**(26.3)**	**(27.0)**	**2.7**
Loan loss provisions	(7.3)	(8.6)	17.8
Other income (losses)	(2.9)	(0.1)	n.m.
Profit before tax	**11.5**	**6.6**	**-42.6**
Income tax for the period	(3.5)	(1.3)	-62.9
Risultato di pertinenza di terzi	(3.2)	(2.1)	-34.4
Net profit	**4.8**	**3.2**	**-33.3**
Cost Income ratio (%)	*54.8*	*63.8*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,116,7	1,951,6
New loans	423,0	433,0
No. of staff	142	129
Risk-weighted assets	1,879,0	1,727,4

* * *

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 staff
Mediobanca Securities (data in USDm)	100%	*Wholesale Banking*	7.0	—	5.5	4
Mediobanca Funding Luxembourg	100%	*Wholesale Banking*	11.0	10.0	0.8	—
Messier Maris et Associés S.C.A. ***	100%	*Wholesale Banking*	29.8	—	14.9	37
Messier Maris et Associés L.L.C. (data in USDm) ***	100%	*Wholesale Banking*	0.2	—	(0.8)	—
Mediobanca International	100%	*Wholesale Banking / Holding Functions*	7,888.6	5,147.1	338.2	17
MBFACTA	100%	*Specialty Finance*	2,003.2	1,936.1	132.8	30
MBCredit Solutions	100%	*Specialty Finance*	416.8	369.1	132.0	224
Compass Banca	100%	*Consumer Banking*	13,650.7	12,185.2	1,635.5	1.358
Futuro	100%	*Consumer Banking*	1,717.3	1,636.4	122.7	71
Quarzo S.r.l.	90%	*Consumer Banking*	0.4	—	—	—
Quarzo CQS S.r.l.	90%	*Consumer Banking*	0.5	—	—	—
Compass RE	100%	*Consumer Banking*	391.5	—	134.6	1
CheBanca!	100%	*Affluent & Premier*	21,542.8	9,001.9	328.2	1.363
Mediobanca Covered Bond	90%	*Affluent & Premier*	0.6	—	0.1	—
Compagnie Monégasque de Banque	100%	*Private Banking*	4,297.1	1,195.6	777.3	229
Spafid	100%	*Private Banking*	56.9	—	49.4	48
Spafid Family Office SIM	100%	*Private Banking*	1.3	—	0.7	2
Cairn Capital Group Limited (data in GBPm) *	100%	*Private Banking*	12.2	—	8.8	54
CMB Wealth Management UK (in liquidation) (data in GBPm)	100%	*Private Banking*	0.1	—	—	—
RAM Active Investments (data in CHFm) **	89.3%	*Private Banking*	28.4	—	13.5	38
RAM Active Investments (Luxembourg) (data in CHFm)	100%	*Private Banking*	12.7	—	2.3	6
Compagnie Monégasque de Gestion	100%	*Private Banking*	5.5	—	—	9
Spafid Trust S.r.l.	100%	*Private Banking*	1.6	—	1.3	3
Mediobanca SGR S.p.A.	100%	*Private Banking*	37.9	—	24.3	47
Mediobanca Management Company S.A.	100%	*Private Banking*	11.9	—	5.8	6
Mediobanca International Immobilière	100%	*Holding Functions*	1.8	—	1.7	—
SelmaBipiemme Leasing	60%	*Holding Functions*	2,110.0	1,951.6	204.2	129
Prominvestment (under liquidation - under arrangement with creditors)	100%	*Holding Functions*	0.4	—	(0.4)	—
Mediobanca Innovation Services	100%	*Holding Functions*	100.2	—	37.5	120
Ricerche e Studi	100%	*Holding Functions*	1.1	—	—	14
Spafid Connect	100%	*Holding Functions*	18.4	—	18.1	9

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. 119.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 119.

*** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 119.

(€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*	2.8	(2.4)	—	0.2
Mediobanca Funding Luxembourg	100%	*Wholesale Banking*	0.5	(0.5)	—	—
Messier Maris et Associés S.C.A. ***	100%	*Wholesale Banking*	5.3	(5.0)	—	0.3
Messier Maris et Associés L.L.C. (data in USDm) ***	100%	*Wholesale Banking*	—	(0.4)	—	(0.4)
Mediobanca International	100%	*Wholesale Banking / Holding Functions*	18.0	(8.5)	(2.6)	3.2
MBFACTA	100%	*Specialty Finance*	52.4	(9.4)	(14.9)	18.9
MBCredit Solutions	100%	*Specialty Finance*	81.0	(40.9)	(11.6)	19.6
Compass Banca	100%	*Consumer Banking*	926.0	(275.7)	(234.9)	274.3
Futuro	100%	*Consumer Banking*	51.2	(16.8)	(3.4)	20.9
Quarzo S.r.l.	90%	*Consumer Banking*	0.2	(0.2)	—	—
Quarzo CQS S.r.l.	90%	*Consumer Banking*	—	—	—	—
Compass RE	100%	*Consumer Banking*	49.5	(0.8)	—	37.7
CheBanca!	100%	*Affluent & Premier*	297.1	(236.3)	(16.6)	17.2
Mediobanca Covered Bond	90%	*Affluent & Premier*	0.1	(0.1)	—	—
Compagnie Monégasque de Banque	100%	*Private Banking*	92.3	(58.5)	0.4	28.9
Spafid	100%	*Private Banking*	9.5	(9.2)	(0.3)	—
Spafid Family Office SIM	100%	*Private Banking*	1.7	(1.4)	—	0.2
Cairn Capital Group Limited (data in GBPm) *	100%	*Private Banking*	14.4	(19.7)	—	(4.2)
CMB Wealth Management UK (in liquidation) (data in GBPm)	100%	*Private Banking*	0.1	—	—	0.1
RAM Active Investments (data in CHFm) **	89.3%	*Private Banking*	36.2	(21.8)	—	10.7
RAM Active Investments (Luxembourg) (data in CHFm)	100%	*Private Banking*	4.3	(2.6)	—	1.3
Compagnie Monégasque de Gestion	100%	*Private Banking*	5.2	(2.7)	—	1.7
Spafid Trust S.r.l.	100%	*Private Banking*	0.8	(0.7)	—	0.1
Mediobanca SGR S.p.A.	100%	*Private Banking*	20.5	(13.9)	—	4.5
Mediobanca Management Company S.A.	100%	*Private Banking*	4.3	(2.7)	—	0.9
Mediobanca International Immobilière	100%	*Holding Functions*	0.2	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	*Holding Functions*	42.3	(27.0)	(8.6)	5.3
Prominvestment (under liquidation - under arrangement with creditors)	100%	*Holding Functions*	—	(0.2)	—	(0.2)
Mediobanca Innovation Services	100%	*Holding Functions*	0.1	0.1	—	—
Ricerche e Studi	100%	*Holding Functions*	2.2	(2.2)	—	—
Spafid Connect	100%	*Holding Functions*	4.0	(8.4)	(0.1)	(3.7)

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 119.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 119.

*** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 119.

Finally, it should be noted that:

– On 30 April 2019, Compagnie Monégasque de Banque approved its consolidated financial statements for 2018, which reflect a net profit of €12.3m. The reduction compared to last year (€16.6m) is chiefly due to lower revenues of €93.9m (€99.4m), which reflect the reduction in fees (from €61.2m to €58.3m, in particular performance fees on funds managed), the reduction in trading income from €19.7m to €3.6m, due chiefly to growth by the proprietary portfolio, only partly offset by the increase in net interest income, from €24.3m to €37.7m due to the increased profitability of USD assets, Costs were basically unchanged, at €59m (€58.3m), despite the investments in the new IT system, almost all of which was offset by lower amortization charges on acquisitions. Customer loans rose in the twelve months, from €1,201.5m to €1,250.2m, while deposits at other banks declined slightly, from €2,328.5m to €2,307.4m, on client funding down from €3,350.6m to €3,257m (absorbed by the reduction in treasury applications). Net AUM/AUA (including direct funding) were unchanged at €10bn.

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2019 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 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company affected by this 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 a description 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 presence in Consumer Banking and Affluent & Premier businesses on the domestic market, and its exposure to market volatility in respect of its securities portfolio in 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.

Consolidated non-financial statement

The Group publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures. This information is intended to facilitate understanding of the Group's activities, performance, results and impact generated.

The Consolidated Non-Financial Disclosure is published annually (www.mediobanca.com, "Sustainability"), 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 with its analysis of companies and capital markets as in the past. The company produced the forty-third 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 sixth edition of the survey of local utilities owned by the leading local authorities has been completed, as has the twenty-third edition of R&S's survey of the world's leading industrial and service multinationals, the seventeenth edition of its survey of the leading international banks, and the eighth edition of its review of industrial companies in southern Italy on behalf of the Fondazione Ugo La Malfa.

Rating

The leading agencies all revised their rating for the republic of Italy in the summer months of 2018, impacting on the nation's banking system as a whole. As for other banks with the same rating, in September 2018 Fitch cut Mediobanca's outlook from "stable" to "negative", while affirming its long-term ratings at BBB, following the same rating action on Italian sovereign debt; in October 2018, S&P cut Mediobanca's outlook from "stable" to "negative", maintaining the rating at "BBB" after the outlook for Italy was similarly downgraded; and the end of the same month, despite downgrading the republic of Italy from baa2 to baa3, Moody's confirmed Mediobanca's long-term rating at baa1, i.e. two notches higher than sovereign debt, with stable outlook.

Outlook

The performance for the next financial year should be in line with this one, although it will once again be affected by the low interest rate scenario and uncertainty over the trends in financial markets, the Italian market in particular. Net interest income should grow moderately, on higher lendings, a stable cost of funding and basically flat returns on assets. The development of the Wealth Management platform and expansion of the Corporate and Investment Banking scope of operations should lead to an increase in fee income. The cost trend will be impacted by the enhancement of the commercial structures and additional ICT investments linked to business development and regulatory requirements. The cost of risk should remain at favourable levels, albeit slightly higher than this year.

Reconciliation of shareholders' equity and net profit

		(€ 000)
	Shareholders' equity	**Net profit (loss)**
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,800,635	385,109
Net surplus over book value for consolidated companies	14,822	436,654
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(5,082)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	4,175,827	1,262
Dividends received during the period	—	—
Total	**8,986,202**	**823,025**

Milan, 19 September 2019

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 interim financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2019.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2019 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 frameworks).

3. It is further hereby declared that
   3.1 the consolidated financial statements:
      – has 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 account ledgers;
      – is 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, 19 September 2019

Chief Executive Officer
Alberto Nagel

Head of Company
Financial Reporting
Emanuele Flappini

EXTERNAL AUDITORS' REPORT

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 2019, 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 2019, 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 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.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*

First-time adoption of IFRS 9 – "Financial Instruments"

Notes to the accounts:
Part A – Accounting policies, Section 2, paragraph "Transition to IFRS 9 on financial instruments"

Starting from 1 July 2018 Mediobanca Group (the "Group") has adopted IFRS 9 – Financial Instruments which introduced new rules for the classification and measurement of financial instruments, the measurement of related impairment losses, and hedge accounting as compared to the IAS 39 applied by the Group up to 30 June 2018.
The adoption of the new financial reporting standard entailed a reduction of the Group's net equity on 1 July 2018 for Euro 80.9 million, after the related tax effect.

The new classification and measurement rules for financial assets are based on an entity's business model for managing the financial assets (Business Model) and on the characteristics of the related contractual cash flows (Solely Payments of Principal and Interest, "SPPI"); at the same time, for financial assets other than those carried at fair value through profit or loss, and for off-balance sheet exposures (guarantees and commitments), the new standard has replaced the impairment model of IAS 39 based on the Incurred Loss with an impairment model based on the Expected Credit Loss ("ECL"). As a consequence. by introducing significant changes in classification and measurement requirements, IFRS 9 has caused significant operating impacts, requiring the use of new models, more information, parameters and assumptions, thus determining a higher degree of complexity in estimation processes.

With reference to Hedge Accounting, the standard rewrote the rules for designating a hedging relationship and verifying its effectiveness, with the aim to align the accounting presentation with

Since the Group adopted IFRS 9 starting from 1 July 2018, our audit procedures were applied to the opening balances on that date, to verify the transition from IAS 39 to IFRS 9. Our procedures involved, among other things, assessing the compliance of the accounting decisions made for the transition to the new financial reporting standard and the disclosures provided.

In detail, to address this key audit matter we performed the following main activities, including the support of experts belonging to the PwC network:

- Understanding and performing critical analysis of the policies, procedures and solutions adopted by the Group with reference to relevant aspects (definition of the business model, analysis of contractual cash flows and measurement methods) to assess their compliance with the new standard, together with an analysis of the results of the validation activities performed by the Group's competent internal functions;
- Verification of the completeness and accuracy of the new accounting categories based on the *business model* defined and the results of the analysis of contractual cash flows (the "SPPI test");
- Verification of the SPPI test for a sample of financial assets;
- Understanding and verifying of the appropriateness of the policies, procedures and methods used to measure the Significant Increase in Credit Risk ("SICR"), for the Staging allocation both for performing loans (stage 1 and 2) and non-performing loans (stage 3), and for determining

the entity’s risk management activities and to strengthen disclosure of the risk management activities performed by the reporting entity. Starting from 1 July 2018, Mediobanca Group has opted to adopt the new requirements for general hedge accounting (opt-in), which did not generate a significant impact on the Group’s net equity as of 1 July 2018.

For the reasons set out above, we focused on the first-time application of IFRS 9 as a key audit matter in relation to the consolidated financial statements of Mediobanca Group as of 30 June 2019.

the ECL, also in regards to the matters connected with the application of multiple economic scenarios and the use of forward-looking information;

- Performed verification of the completeness and accuracy of the data bases used for the calculation of the ECL, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Performed, for non-performing loans (Stage 3), analysis and verification of the reasonableness of the assumptions underlying the recovery scenarios hypothesised (sale and internal recovery), the related probabilities assigned and the consequent estimated future cash flows
- Performed analysis of the completeness and appropriateness of disclosures in the consolidated financial statements.

Valuation of loans to customers carried at amortised cost

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 4 and Section 12
Part C – Notes to the consolidated profit and loss account, Section 8
Part E – Information on risks and related hedging policies – 1.1 Credit risks

As of 30 June 2019 loans to customers were equal to Euro 46,216 million, corresponding to 95% of line item “40 b) Financial assets at amortized cost – Due from customers”, equal to Euro 48,638 million and corresponding to 59% of total assets in the consolidated financial statements.

Financial line “Assets classified as held for sale”, equal to Euro 22.2 million, relates to a portfolio of

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. Also having regard our procedures on the first-time application of IFRS 9, these activities were performed also with the support of experts belonging to the PwC network.

In detail, 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 over the IT systems and software applications used;

non-performing loans of the subsidiary Chebanca! SpA that was sold after the closing date.

Net losses on loans to customers posted in the year amounted to Euro 213 million.

We paid special attention to the measurement of the above assets in the course of our audit considering the materiality of the balance as well as the measurement processes and methods that require complex estimations of a number of variables.

Estimation processes use significant assumptions, aside from the verification of the SICR and Staging allocation, also when determining the hypotheses and inputs to the ECL models and, for assets measured individually (Stage 3), when determining the alternative recovery scenarios hypothesised (sale or internal recovery), the related probabilities assigned, the estimated future cash flows, the timing of those cash flows, and the realisable value of any collateral.

- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of credit and tests of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and methods used to measure the SICR, for the Staging allocation and for determining the ECL;
- Verification of the correct application of the measurement methods defined for performing loans (Stage 1 and Stage 2), of the completeness and accuracy of the data bases used in the ECL calculation, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification of individual non-performing loans (Stage 3) based on the available information on the debtor's status and other available evidence, including from external sources, and the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collateral securing those exposures and the estimated timing of recovery;
- Analysis of the appropriateness and completeness of disclosures.

Measurement of financial instruments at fair value (securities and derivatives) not quoted in active markets

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 2, Section 3 and Section 5; Liabilities, Section 2, Section 3 and Section 4
Part C – Notes to the consolidated profit and loss account, Section 4, Section 5 and Section 7
Part E – Information on risks and related hedging policies – 1.2 Market risks

As part of our audit we paid special attention to the analysis of the valuation models of financial instruments not quoted in active markets and measured at fair value.
Certain types of securities and derivative financial instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, 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 over the IT systems and software applications used;
- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of financial instruments with fair value hierarchy levels 2 and 3 and tests of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and models used by the Group to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness the qualitative and quantitative assumptions made and inputs used; those analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the consolidated financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

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 either intend 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 auditor's 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 2019,

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 2019 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 2019 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 the 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 2019

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	**30/6/19**	**30/6/18**
	IFRS9	IAS39
10. Cash and cash equivalents	738,362	1,238,001
20. Financial assets at fair value with impact taken to profit and loss	10,622,973	
a) Financial assets held for trading	*9,765,653*	
b) Financial assets designated at fair value	*51,976*	
c) Other financial assets mandatorily at fair value	*805,344*	
Financial assets held for trading (formerly heading 20 under IAS 39)		8,204,911
Financial assets available-for-sale (formerly heading 40 under IAS 39)		5,721,877
30. Financial assets at fair value with impact taken to comprehensive income	3,886,771	
40. Financial assets at amortized cost	56,599,859	
a) Due from banks	*7,961,932*	
b) Due from customers	*48,637,927*	
Financial assets held-to-maturity (formerly heading 50 under IAS 39)		2,595,747
Due from banks (formerly heading 60 under IAS 39)		7,552,958
Due from customers (formerly heading 70 under IAS 39)		40,977,889
50. Hedging derivatives	412,234	225,814
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,259,777	3,210,839
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	285,849	287,809
100. Intangible assets	901,758	739,864
of which:		
goodwill	*772,427*	*649,781*
110. Tax assets	806,033	816,484
a) current	*146,550*	*181,771*
b) deferred	*659,483*	*634,713*
120. Assets classified as held for sale	22,168	—
130. Other assets	708,945	728,329
Total assets	**78,244,729**	**72,300,522**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IA S39, are not fully comparable.

(€ '000)

Liabilities and net equity	30/6/19	30/6/18
	IFRS9	IAS39
10. Financial liabilities at amortized cost	57,936,936	
a) Due to banks	*13,870,858*	
b) Due to customers	*23,987,882*	
c) Debt securities in issue	*20,078,196*	
Due to banks (formerly heading 10 under IAS 39)		12,263,459
Due to customers (formerly heading 20 under IAS 39)		21,320,043
Debt securities in issue (formerly heading 30 under IAS 39)		20,608,518
20. Trading financial liabilities	8,027,751	
Trading liabilities (formerly heading 40 under IAS 39)		6,462,404
30. Financial liabilities designated at fair value	55,859	—
40. Hedging derivatives	414,241	233,086
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	600,938	531,587
a) current	*281,766*	*191,999*
b) deferred	*319,172*	*339,588*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	948,958	760,375
90. Staff severance indemnity provision	27,808	27,510
100. Provisions	162,515	185,482
a) commitments and financial guarantees	*10,536*	—
b) post-employment and similar benefits	*1,840*	—
c) other provisions	*150,139*	*185,482*
110. Insurance reserves	170,838	175,853
120. Valuation reserves	597,504	764,255
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	5,891,473	5,490,450
160. Share premium reserve	2,195,606	2,191,743
170. Share capital	443,608	443,275
180. Treasury share (-)	(141,989)	(109,338)
190. Minority interests (+/-)	89,658	87,900
200. Profit/(loss) for the period (+/-)	823,025	863,920
Total liabilities and net equity	**78,244,729**	**72,300,522**

Consolidated Profit and Loss Account *

(€ '000)

Items	30/6/19	30/6/18
	IFRS9	IAS39
10. Interest and similar income	1,885,990	1,896,801
of which: interest income calculated according to the effective interest method	*1,618,642*	
20. Interest expense and similar charges	(481,792)	(530,760)
30. Net interest income	**1,404,198**	**1,366,041**
40. Fee and commission income	584,923	590,649
50. Fee and commission expense	(144,455)	(134,315)
60. Net fee and commission income	**440,468**	**456,334**
70. Dividends and similar income	105,803	84,323
80. Net trading income	(12,148)	
Net trading income (formerly heading 80 under IAS 39)		38,662
90. Net hedging income (expense)	5,426	2,857
100. Gain (loss) on disposal/repurchase:	79,359	
a) financial assets measured at amortized cost	*2,365*	
b) financial assets valued at fair value with impact taken to comprehensive income	*66,799*	
c) financial liabilities	*10,195*	
Gain (loss) on disposal/repurchase: (formerly heading 100 under IAS 39)		105,057
a) loans and advances		*(9,363)*
b) AFS securities		*123,066*
c) financial assets held to maturity		*(919)*
d) financial liabilities		*(7,727)*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	16,399	
a) financial assets and liabilities designated at fair value	*(28)*	
b) other financial assets mandatorily valued at fair value	*16,427*	
120. Total income	**2,039,505**	**2,053,274**
130. Net writeoffs (writebacks) for credit risk:	(210,291)	
a) financial assets measured at amortized cost	*(209,512)*	
b) financial assets valued at fair value with impact taken to comprehensive income	*(779)*	
Adjustments for impairment to: (formerly heading 130 under IAS 39)		(212,134)
a) loans and advances		*(209,231)*
b) AFS securities		*(4,658)*
c) financial assets held to maturity		*3,264*
d) other financial assets		*(1,509)*
140. Gains (losses) from contractual modifications without derecognition	(199)	
150. Net income from financial operations	**1,829,015**	**1,841,140**
160. Premiums earned (net)	59,173	57,867
170. Other income (net) from insurance activities	(12,715)	(8,989)
180. Net profit from financial and insurance activities	**1,875,473**	**1,890,018**
190. Administrative expenses:	(1,233,763)	(1,172,200)
a) personnel coss	*(581,141)*	*(557,824)*
b) other administrative expenses	*(652,622)*	*(614,376)*
200. Net transfers to provisions:	(23)	(26,677)
a) commitments and financial guarantees	*3,707*	
b) other sums set aside (net)	*(3,730)*	*(26,677)*
210. Net adjustments to tangible assets	(13,890)	(15,952)
220. Net adjustments to intangible assets	(30,274)	(27,928)
230. Other operating income (expense)	163,891	167,819
240. Operating costs	**(1,114,059)**	**(1,074,938)**
250. Gain (loss) on equity investments	321,157	280,291
260. Net result from fair value valuation of tangible and intangible assets	—	—
270. Goodwill writeoffs	—	—
280. Gain (loss) on disposal of investments	166	475
290. Profit (loss) on ordinary activity before tax	**1,082,737**	**1,095,846**
300. Income tax for the year on ordinary activities	(256,529)	(228,120)
310. Profit (loss) on ordinary activities after tax	**826,208**	**867,726**
320. Gain (loss) of ceded operating assets, net of tax	—	—
330. Net profit (loss) for the period	**826,208**	**867,726**
340. Net profit (loss) for the period attributabe to minorities	(3,183)	(3,806)
350. Net profit (loss) for the period attributable to Mediobanca	**823,025**	**863,920**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

Consolidated Comprehensive Profit and Loss Account *

(€ '000)

		30/6/19	30/6/18
		IFRS9	IAS39
10.	Profit (Loss) for the period	826,208	867,726
	Other income items net of tax without passing through profit and loss	**(11,923)**	**(1,085)**
20.	Equity securities designated at fair value with impact taken to comprehensive income	10,928	—
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	—	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(1,106)	(351)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	(21,745)	(734)
	Other income items net of tax passing through profit and loss	**(133,288)**	**(105,407)**
100.	Foreign investments hedges	(3,838)	—
110.	Exchange rate differences	3,706	(2,752)
120.	Cash flow hedges	(28,582)	29,254
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(23,179)	(197,816) [1]
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	(81,395)	65,907
170.	**Total other income items, net of tax**	**(145,211)**	**(106,492)**
180.	**Comprehensive income (Heading 10 + 170)**	**680,997**	**761,234**
190.	**Consolidated comprehensive income attributable to minorities**	**3,337**	**4,446**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**677,660**	**756,788**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

[1] This heading shows the change in item 100 "Financial assets available-for-sale" pursuant to Bank of Italy Circular 262/2005 fourth amendment.

Statement of Changes to Consolidated Net Equity

(€ ’000)

	Total Group net equity at 30/6/2018	Modification of start-of-period amounts [1]	Amounts at 01/07/2018	Allocation of profit for previous period		Changes during the reference period										Total net equity at 30/6/19	Net equity attributable to the group at 30/6/19	Net equity attributable to the minorities at 30/6/19
				Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity: New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]	Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/19				
Share capital:	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—		460,237	443,608	16,629
a) ordinary shares	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—		460,237	443,608	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—
Share premium reserve	2,193,591	—	2,193,591	—	—	—	3,863	—	—	—	—	—	—	—		2,197,454	2,195,606	1,848
Reserves:	5,559,032	(67,091)	5,491,941	867,726	(411,230)	23,672	(12)	(22,006)	—	—	—	12,205	—	—		5,962,296	5,891,473	70,823
a) retained earnings	5,412,494	(67,091)	5,345,403	867,726	(411,230)	20,019	(12)	—	—	—	—	—	—	—		5,821,906	5,751,710	70,196
b) others	146,538	—	146,538	—	—	3,653	—	(22,006)	—	—	—	12,205	—	—		140,390	139,763	627
Valuation reserves	761,276	(17,733)	743,543	—	—	(3,653)	—	—	—	—	—	—	—	(145,211)		594,679	597,504	(2,825)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—
Treasury shares	(109,338)	—	(109,338)	—	—	—	—	(32,651)	—	—	—	—	—	—		(141,989)	(141,989)	—
Profit (loss) for the period	867,726	—	867,726	(867,726)	—	—	—	—	—	—	—	—	—	826,208		826,208	823,025	3,183
Total net equity	9,732,205	(84,824)	9,647,381	—	(411,230)	20,005	4,184	(54,657)	—	—	—	12,205	—	680,997		9,898,885	X	X
Net equity attributable to the group	9,644,305	(79,773)	9,564,532	—	(411,230)	16,533	4,184	(54,657)	—	—	—	12,205	—	677,660		X	9,809,227	X
Net equity attributable to minorities	87,900	(5,051)	82,849	—	—	3,472	—	—	—	—	—	—	—	3,337		X	X	89,658

[1] Includes the effects of reclassification and revaluations of financial assets and liabilities in consequence of IFRS9 accounting standard first time adoption and effects of IFRS15 first time adoption, as described in dedicated paragraphs of Part A of Consolidated Accounts.

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

Statement of Changes to Consolidated Net Equity

(€ '000)

	Total Group net equity at 30/6/2017	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/06/18	Net equity attributable to the group at 30/6/18	Net equity attributable to the minorities at 30/6/18
					Transactions involving net equity										
		Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/18			
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.

Consolidated Cash Flow Statement Direct Method

(€ '000)

	Amount	
	30/6/19	**30/6/18**
A. Cash flows from operating activity	**IFRS9**	**IAS39**
1. Operating activity	**195,892**	**12,770**
- interest received	1,723,804	3,634,612
- interest paid	(678,589)	(2,526,513)
- dividends and similar income	94,091	77,882
- net fees and commission income	153,751	185,855
- cash payments to employees	(444,184)	(401,909)
- net premium income	57,263	76,483
- other premium from insurance activity	(129,294)	(149,360)
- other expenses paid	(768,217)	134,094
- other income received	411,928	(886,010)
- income taxes paid	(224,661)	(132,364)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(197,097)**	**5,259,240**
- financial assets held for trading	(813,289)	
- financial assets valued at fair value	—	
- financial assets mandatorily valued at fair value	(3,657)	
- financial assets valued at fair value with impact taken to profit and loss	961,638	
- financial assets valued at amortized cost	(1,307,743)	
- other assets	965,954	122,382
- financial assets held for trading (IAS39 pursuant)		(267,303)
- financial assets available for sale (IAS39 pursuant)		562,790
- due from customers (IAS39 pursuant)		(390,114)
- due from banks: on demand (IAS39 pursuant)		2,802,167
- due from banks: other (IAS39 pursuant)		2,429,318
3. Cash generated/absorbed by financial liabilities	**14,069**	**(4,890,687)**
- financial liabilities valued at amortized cost	(266,712)	
- financial liabilities held for trading	257,002	
- financial liabilities designated at fair value	—	
- other liabilities	23,779	(203,119)
- trading liabilities (IAS39 pursuant)		(290,366)
- due to banks: other (IAS39 pursuant)		(232,719)
- due to customers (IAS39 pursuant)		852,372
- debt securities (IAS39 pursuant)		(3,722,089)
- due to banks: on demand (IAS39 pursuant)		(1,294,766)
Net cash flow (outflow) from operating activities	**12,864**	**381,323**
B. Cash flows from investment activity		
1. Cash generated from:	**193,072**	**332,878**
- disposal of shareholdings	1,443	—
- dividends received in respect of equity investments	182,442	177,506
- disposals/redemptions of financial assets held to maturity (IAS39 pursuant)		128,126
- disposals of tangible assets	192	11,479
- disposals of intangible assets	27	1,138
- disposals of subsidiaries or business units	8,968	14,629
2. Cash absorbed by:	**(25,747)**	**(511,783)**
- purchases of shareholdings	—	(149,682)
- acquisitions of held-to-maturity investments		(332,583)
- purchases of tangible assets	(10,416)	(9,149)
- purchases of intangible assets	(15,331)	(20,369)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**167,325**	**(178,905)**
C. Cash flows from funding activity	**(679,828)**	**(294,641)**
- issuance/acquisition of treasury shares	(266,186)	24,835
- issuance/acquisition of capital instruments	(2,412)	(20)
- distribution of dividends and other purposes	(411,230)	(319,456)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(679,828)**	**(294,641)**
Net cash flow (outflow) during the period	**(499,639)**	**(92,223)**

Reconciliation of Movements in Cash Flow during the Period

(€ '000)

Accounting items	Amount	
	30/6/19	30/6/18
Cash and cash equivalents: balance at start of period	1,238,001	1,330,224
Total cash flow (ouflow) during the period	(499,639)	(92,223)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	738,362	1,238,001

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 2019 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 30 June 2019 have also been prepared on the basis of 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 (fifth update issued on 22 December 2017), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts. [1]

SECTION 2

General principles

These consolidated financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive income statement;

– Statement of changes to net equity;

[1] The Bank of Italy has published the sixth update to its circular no. 262/05 which the Mediobanca Group has applied starting from 1 July 2019.

– 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.

International financial reporting standards IFRS 9 and 15 came into force during the year under review, both of which have been incorporated into the Group's accounting policies.

The table below listes the regulations approved by the European Commission that have supplemented the regulations on accounting standards in force and have therefore been incorporated into the accounting policies, despite not having a significant impact on the Group's accounts:

Approval regulation	**Group application date**	**Topic**
2018/182 of 7 February 2018	1 July 2018	Amendments to IAS 28 – *Investments in Associates and Joint Ventures* Amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards*
2018/289 of 26 February 2018	1 July 2018	Amendments to IFRS 2 – *Share-Based Payment Transactions*
2018/400 of 14 March 2018	1 July 2018	Amendments to IAS 40 – *Investment Property*
2018/519 of 28 March 2018	1 July 2018	Adoption of IFRIC *22 – Foreign Currency Transaction and Advance Consideration*

The following table lists the regulations approved by the European Commission during the twelve months which will be applied as from the next financial year, which supplement the regulations on accounting standards in force and will be incorporated into the Group's accounting policies accordingly:

Approval regulation	**Group application date**	**Topic**
2017/1986 of 31 October 2017	1 July 2019	Adoption of IFRS 16 – *Leasing*
2018/498 of 22 March 2018	1 July 2019	Amendments to IFRS9 – *Prepayment features with negative compensation*
2018/1595 of 23 October 2018	1 July 2019	Adoption to IFRS9 – *Uncertainty over income tax treatments*
2019/237 of 8 February 2019	1 July 2019	Amendments to IAS 28 – *Investments in Associates and Joint Ventures*
2019/402 of 13 March 2019	1 July 2019	Amendments to IAS 19 – *Employee Benefits*
2019/412 OF 14 March 2019	1 July 2019	Amendments to IAS 12 – *Income Taxes*
		Amendments to IAS 23 – *Borrowing Costs*
		Amendments to IFRS 3 – *Business Combinations*
		Amendments to IFRS 11 – *Joint Arrangements*

Transition to IFRS 9 on financial instruments [2]

1. Regulatory framework

In July 2014, the International Accounting Standards Board (IASB) issued the new IFRS 9, "Financial Instruments", introducing new standards on the classification and measurement of financial instruments, on the criteria and means for calculating value adjustments, and on the hedge accounting model. The ratification process was completed with the issue of Regulation (EU) 2016/2067 by the European Commission on 22 November 2016, published in the Official Journal of the European Union (L 323) on 29 November 2016.

The Mediobanca Group adopted IFRS 9 as from 1 July 2018.

IFRS 9, with regard to financial instruments, is structured into three different areas: "Classification and measurement", "Impairment" and "Hedge accounting".

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:

– How financial assets (apart from shares) are classified and measured depends on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the "Solely Payments of Principal and Interest Test" (or SPPI). Only those instruments which pass both tests can be recognized at amortized cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio ("Hold to collect and sell"), for which, like with the previous Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income). Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account. No major changes will be made to the treatment

[2] A "Report on transition to IFRS 9" has been published on the Group's website at www.mediobanca.com.

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 moves from an incurred to an expected impairment model; provisioning will have to be carried out for the whole portfolio (i.e. for assets with no impairment as well) and based on estimates which reflect macroeconomic factors ("expected losses"). In particular, at stage 1 of the recognition process, the instrument will have to reflect the expected loss over a 12-month time horizon; if there is a significant increase in the credit risk, the asset is classified as under-performing (stage 2), meaning its valuation will have to factor in the expected loss over its whole life-time; and if further impairment is recorded, the asset will be classified as non-performing (stage 3), where the final recoverable value will be estimated. The expected loss will be based on point-in-time data reflecting the internal credit models.
– 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.

2. Impact on the Group

2.1 Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS 9 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 has been analysed by assessing the Group's entire financial assets portfolio in view of the strategy instituted by senior management, risk management on the portfolio, remuneration mechanisms, reporting methodologies and movements (past sales and future expectations). These considerations have been incorporated in the internal management policies, which as well as reiterating the link between the business model and accounting treatment, also introduce frequency and significance thresholds for portfolios recognized at cost.

The analysis performed showed that:

- The loan books – which under IAS 39 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 IAS 39, 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" 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 the business model associated with such instruments;
- 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 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”).

To complete the classification phase for financial instruments according to the new categories provided for by IFRS 9, 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, in which loans are analysed using a tool developed internally based on decision-making trees, for the individual financial instrument or product according to the degree of customization involved. 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.

Shares in investment funds previously treated as AFS which fail the SPPI test, in accordance with the recent guidance issued by the IFRS Interpretation Committee, are treated as equities obliged to be recognized at fair value through profit and loss.

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

2.2 Impairment

Under IFRS 9, 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, by adopting an "expected loss" approach, with the loss estimated at twelve months or the end of the instrument's remaining life. The losses must therefore 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, IFRS 9 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 IFRS 9 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, which are already used by Mediobanca, 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:

– Valuation of the significant increase in credit risk. This takes into account qualitative and quantitative items, and serves to identify significant deterioration in the counterparty's credit standing for each facility. The recognition of forbearance measures and the thirty days past due criterion are considered as backstop indicators. In accordance with the supervisory authority's expectations the simplified, or "low credit risk exemption" approach. has only been used to a very limited degree. The criteria defined for the purposes of transferring exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when significant deterioration indicators no longer apply, the exposure returns to stage 1);

- Inclusion of forward-looking information within the expected loss calculation model: forward-looking information is considered with reference to three possible scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, in order to ensure a time horizon considered to be reasonable. 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. In particular, 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: with reference to models based on detecting expected losses, a process for validation and retrospective testing has been finalized. The framework adopted provides for the unit responsible for model development to be independent of the unit responsible for validation, in view of the clear definition of roles and responsibilities. Provision is also made for regular analysis to be carried out to ensure that the assumptions underlying the model continue to be valid and that new information available is taken into account;
- Twelve-month and life-time expected loss calculations: the IFRS 9 estimate of the PD, LGD and EAD parameters is based on existing prudential models, adapted to incorporate forward-looking information and the multi-period time horizon.

2.3 Hedge Accounting

As for the IFRS 9 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 IAS 39, the Group has nonetheless chosen to opt into the new general hedging criteria, with no significant impact as a result.

3. Effects of first-time adoption (FTA)

The changes introduced by IFRS 9 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.

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 IAS 39 to IFRS 9 with reference to “Classification and Measurement” has entailed the following reclassifications (see tables 1 and 2 below for details):

- €219.4m of loans and receivables have been reclassified as FVPL in view of the fact that the instruments’ characteristics (subordination, equity convertible options, indirect exposure to equity) meant they did not pass the SPPI test. The impact in terms of measurement is €3.3m (see table 3 below);
- €649m of available-for-sale debt securities has been reclassified as HTC to provide a better representation of the business model’s strategies, which led to the net equity reserve accumulated written back and the historical acquisition cost being recovered. The impact in terms of measurement is €3.3m (see table 3 below);
- €53.5m of debt securities held as part of the banking book have been reclassified as FVPL;
- €511.4m 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;

– €260.8m in AFS equities have been reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
– €196.1m of held-for-trading financial assets have been reclassified as FVOCI following changes to the business model.

Moreover, with reference to the fifth update of Bank of Italy circular 262/05, the change in the method by which financial assets are classified compared to the fourth update should be noted:

4th update, Bank of Italy Circular 262	5th update, Bank of Italy Circular 262
20. Financial assets held for trading	20. Financial assets at fair value with impact taken to profit or loss: *a) Financial assets held for trading* *b) Financial assets designated at fair value* *c) Other financial assets mandatorily at fair value*
30. *Financial assets at fair value through profit or loss*	30. Financial assets at fair value with impact taken to comprehensive income
40. Financial assets available-for-sale	40. Financial assets at amortized cost:
50. Financial assets held-to-maturity	*a) Due from banks*
60. Due from banks	*b) Due from customers*
70. Due from customers	

* * *

As far as regards financial liabilities, no significant impact is estimated, apart from one restatement of loan loss provisions equal to €13.4m recorded in respect of commitments to disburse funds and financial guarantees given: in view of the fifth update of Bank of Italy circular 262/05, these amounts have to be reclassified under “Provisions” rather than as “Other liabilities”.

The Group has also chosen to apply the fair value option for a limited number of financial liabilities with a book value of €51.4m in order to eliminate accounting asymmetries with some financial assets.

With regard to the mandatory schemes required by the Bank of Italy, the change in the method by which financial liabilities are classified compared to the fourth update should be noted:

4th update, Bank of Italy Circular 262	5th update, Bank of Italy Circular 262
10. Due to banks	10. Financial liabilities at amortized cost:
20. Due to customers	*a) Due to banks*
30. Debt securities in issue	*b) Due to customers*
	c) Debt securities in issue
40. Trading liabilities	20. Trading liabilities
50. Financial liabilities designated at fair value	30. Financial liabilities designated at fair value

Adoption of the new classification rules for financial instruments generates an almost null effect on net equity, representing the balance between changes in business model (which added €3.4m) and instruments failing the SPPI test (which subtracted €3.4m).[3]

As mentioned, the most significant impact of the transition to IFRS 9 derives from changes in relation to "Impairment". Compared to the IAS 39 provisioning, the overall increase in the expected losses totals €118.7m, 67% of which is attributable to the performing exposures (stage 1 and stage 2) and the other 33% to the non-performing exposures (stage 3).

The increase in provisioning for performing exposures (€79.3m) is 96% attributable to the positions classified as stage 2, which account for approx. 4% of the performing exposures.

The increase in adjustments for non-performing exposures (€39.4m) chiefly involves the mortgages and leasing portfolios.

The reclassifications and increased provisioning referred to above drove a €37.8m increase in deferred tax assets.

The combined effect of the changes on the Group's net equity totals €118,7m (€80.9m net of the tax effects), and implies a reduction of some 20 bps in the Group's CET1 ratio.

In order to mitigate the impact of the new reporting standard on prudential ratios, Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", amending Regulation (EU) 575/2013 (the "CRR") to include a new Article 473-*bis*, "Introduction of

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

IFRS9", offers the possibility for banks to spread the impact deriving from the introduction of IFRS 9 on their own funds over a five-year transitional period by including a decreasing amount of such impact in their Common Equity Tier 1. The Mediobanca Group will apply the static approach, in order to neutralize the effect of the higher provisioning for performing assets, starting from the IFRS 9 FTA financial statements and for the next five years. [4]

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 IFRS 9 and IFRS 1 "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.

3.1 Reconciliation between IAS 39-compliant and IFRS 9-compliant balance-sheet data

The reconciliations between the published financial statements as at 30 June 2018 and the new schemes introduced by the fifth update of Bank of Italy circular 262 as at 1 July 2018 are shown below. IAS 39-compliant values as at 30 June 2018 are assigned to new headings, without taking into account the classification and measurement provisions introduced by IFRS 9 (i.e. the value of total assets and total liabilities remains unchanged).

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

Table 1: Reconciliation between IAS 39 and IFRS 9 – assets

IAS 39 / IFRS 9	10 Cash and cash equivalents	20 Financial assets held for trading	30 *Financial assets at fair value through profit or loss*	40 Financial assets available-for-sale	50 Financial assets held-to-maturity	60 Due from banks	70 Due from customers	80 Hedging derivatives	90 Adjustment of hedging financial assets (+/-)	100 Equity investments	110 Reinsured portion of technical reserves	120 Property, plant and equipments	130 Intangible assets	140 Tax assets	150 Assets classified as held for sale	160 Other assets	Total assets
10 Cash and cash equivalents	1,238,001	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,238,001
20 Financial assets at fair value with impact taken to profit and loss	—	8,008,776	—	565,431	2	—	219,394	—	—	—	—	—	—	—	—	3,842	8,797,445
a) Financial assets held for trading	—	8,008,494	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,008,494
b) Financial assets designated at fair value	—	—	—	53,509	—	—	—	—	—	—	—	—	—	—	—	—	53,509
c) Other financial assets mandatorily at fair value	—	282	—	511,922	2	—	219,394	—	—	—	—	—	—	—	—	3,842	735,442
30 Financial assets at fair value with impact taken to comprehensive income	—	196,134	—	4,507,087	—	—	—	—	—	—	—	—	—	—	—	—	4,703,221
40 Financial assets at amortized cost	—	1	—	649,000	2,595,745	7,552,958	40,758,495	—	—	—	—	—	—	—	—	4,080	51,560,279
50 Hedging derivatives	—	—	—	—	—	—	—	225,814	—	—	—	—	—	—	—	—	225,814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
70 Equity investments	—	—	—	—	—	—	—	—	—	3,210,839	—	—	—	—	—	—	3,210,839
80 Reinsured portion of technical reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
90 Property, plant and equipments	—	—	—	—	—	—	—	—	—	—	—	287,809	—	—	—	—	287,809
100 Intangible assets	—	—	—	—	—	—	—	—	—	—	—	—	739,864	—	—	—	739,864
110 Tax assets	—	—	—	—	—	—	—	—	—	—	—	—	—	816,484	—	—	816,484
120 Assets classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
130 Other assets	—	—	—	359	—	—	—	—	—	—	—	—	—	—	—	720,407	720,766
Total assets	**1,238,001**	**8,204,911**	**—**	**5,721,877**	**2,595,747**	**7,552,958**	**40,977,889**	**225,814**	**—**	**3,210,839**	**—**	**287,809**	**739,864**	**816,484**	**—**	**728,329**	**72,300,522**

Table 2: Reconciliation between IAS 39 and IFRS 9 - liabilities

IAS 39 / IFRS 9	10 Due to banks	20 Due to customers	30 *Debt securities in issue*	40 Trading liabilities	50 *Financial liabilities designated at fair value*	60 Hedging derivatives	70 Adjustment of hedging financial liabilities (+/-)	80 Tax liabilities	90 Liabilities included in disposal groups classified as held for sale	100 Other liabilities	110 Staff severance indemnity provision	120 Provisions	130 Insurance reserves	140 Revaluation reserves	150 Redeemable shares repayable on demand	160 Equity instruments repayable on demand	170 Reserves	180 Share premium reserve	190 Share capital	200 Treasury share (-)	210 Minority interests (+/-)	220 Profit/(loss) for the period (+/-)	Total liabilities and net equity
10 Financial liabilities at amortized cost	12,263,459	21,320,043	20,557,091	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	54,140,593
20 Trading financial liabilities	—	—	—	6,462,404	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,462,404
30 Financial liabilities designated at fair value	—	—	51,427	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	51,427
40 Hedging derivatives	—	—	—	—	—	233,086	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	233,086
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
60 Tax liabilities	—	—	—	—	—	—	—	531,587	—	—	—	—	—	—	—	—	—	—	—	—	—	—	531,587
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
80 Oher liabilities	—	—	—	—	—	—	—	—	—	746,945	—	—	—	—	—	—	—	—	—	—	—	—	746,945
90 Staff severance indemnity provision	—	—	—	—	—	—	—	—	—	—	27,510	—	—	—	—	—	—	—	—	—	—	—	27,510
100 Provisions	—	—	—	—	—	—	—	—	—	13,430	—	185,482	—	—	—	—	—	—	—	—	—	—	198,912
110 Insurance reserves	—	—	—	—	—	—	—	—	—	—	—	—	175,853	—	—	—	—	—	—	—	—	—	175,853
120 Revaluation reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	764,255	—	—	—	—	—	—	—	—	764,255
130 Redeemable shares repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
140 Equity instruments repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
150 Reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,490,450	—	—	—	—	—	5,490,450
160 Share premium reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,191,743	—	—	—	—	2,191,743
170 Share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	443,275	—	—	—	443,275
180 Treasury share (-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(109,338)	—	—	(109,338)
190 Minority interests (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	87,900	—	87,900
200 Profit/(loss) for the period (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	863,920	863,920
Total liabilities and net equity	**12,263,459**	**21,320,043**	**20,608,518**	**6,462,404**	**—**	**233,086**	**—**	**531,587**	**—**	**760,375**	**27,510**	**185,482**	**175,853**	**764,255**	**—**	**—**	**5,490,450**	**2,191,743**	**443,275**	**(109,338)**	**87,900**	**863,920**	**72,300,522**

3.2 Reconciliation of assets and liabilities

The table below shows, for each asset and liability heading pursuant to the fifth update of Bank of Italy circular 262/05, the impact arising from application of the new IFRS 9 accounting standard, for the "Classification and measurement" and "Impairment" work streams.

The column headed "Classification and measurement" shows the value changes arising from the different valuation criterion. The column entitled "Impairment" shows value changes arising from the adoption of the new impairment model introduced by IFRS 9.

Table 3: Reconciliation of balance-sheet items - assets

Heading	30/6/18	Transition effect		IFRS 9 1/7/18
		Classification and measurement	Impairment	
10 Cash and cash equivalent	1,238,001	—	—	1,238,001
20 Financial assets at at fair value with impact taken to profit and loss	8,797,445	(411)	—	8,797,034
a) financial assets held for trading	*8,008,494*	—	—	*8,008,494*
b) Financial assets designated at fair value	*53,509*	—	—	*53,509*
c) Other financial assets mandatorily at fair value	*735,442*	*(411)*	—	*735,031*
30 Financial assets at fair value with impact taken to comprehensive income	4,703,221	—	—	4,703,221
40 Financial assets at amortized cost	51,560,279	5,751	(118,767)	51,447,263
50 Hedging derivatives	225,814	—	—	225,814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—
70 Equity investments	3,210,839	—	—	3,210,839
80 Reinsured portion of technical reserves	—	—	—	—
90 Property, plant and equipment	287,809	—	—	287,809
100 Intangible assets	739,864	—	—	739,864
110 Tax assets	816,484	3,847	41,345	861,676
120 Assets classified as held for sale	—	—	—	—
130 Other assets	720,766	—	—	720,766
Total assets	**72,300,522**	**9,187**	**(77,422)**	**72,232,287**

Table 4: Reconciliation of balance-sheet items – liabilities

Heading	30/6/18	Transition effect		IFRS 9 1/7/18
		Classification and measurement	Impairment	
10 Financial liabilities at amortized cost	54,140,593	—	—	54,140,593
20 Trading liabilities	6,462,404	—	—	6,462,404
30 Financial liabilities designated at fair value	51,427	5,938	—	57,365
40 Hedging derivatives	233,086	—	—	233,086
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—
60 Tax liabilities	531,587	5,413	1,927	538,927
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—
80 Oher liabilities	746,945	457	(1,829)	745,573
90 Staff severance indemnity provision	27,510	—	—	27,510
100 Provisions	198,912	(1,015)	1,728	199,625
110 Insurance reserves	175,853	—	—	175,853
120 Revaluation reserves	764,255	(19,930)	2,197	746,522
130 Redeemable shares repayable on demand	—	—	—	—
140 Equity instruments repayable on demand	—	—	—	—
150 Reserves	5,490,450	18,324	(76,394)	5,432,380
160 Share premium reserve	2,191,743	—	—	2,191,743
170 Share capital	443,275	—	—	443,275
180 Treasury share (-)	(109,338)	—	—	(109,338)
190 Minority interests (+/-)	87,900	—	(5,051)	82,849
200 Profit/(loss) for the period (+/-)	863,920	—	—	863,920
Total liabilities and net equity	**72,300,522**	**9,187**	**(77,422)**	**72,232,287**

3.3 Reconciliation of post-FTA net equity

The following table shows the reconciliation for net equity between IAS 39-compliant values as at 30 June 2018 and the corresponding headings introduced by the new classification, measurement and impairment requirements introduced by IFRS 9.

	Values
Net equity as at 30 June 2018	**9,732,205**
- Group	*9,644,305*
- of which: minorities	*87,900*
Total effects of IFRS 9 transition - 1 July 2018	
of which: Classification	*(80,859)*
of which: Impairment	**(19)**
of which: Impairment	**(118,666)**
- Stage 1 and 2	*(79,257)*
- Stage 3	*(39,409)*
of which: Tax effect	**37,826**
Net equity (IFRS 9) as at 1 July 2018	**9,689,172**
- Group	*9,606,323*
- of which: minorities	*82,849*

Transition to IFRS 15 “Revenue 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: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective for the Mediobanca Group starting from 1 July 2018, and requires revenues to be recognized on the basis of 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.

Implementation of the standard was co-ordinated centrally by Mediobanca S.p.A. through an *ad hoc* working group to extend the analysis to the whol Group involving the subsidiaries as and where necessary.

The analysis led to all types of contracts with customers being identified, and the means by which to record the revenues generated by them to establish their compliance with the new standard's provisions. No significant impact emerged from application of the new standard, except for contingent liabilities arising to cover the early collection of insurance premiums in respect of mortgage loans which would then have to be written back in the event of early repayment of the mortgages themselves (for a total of €5.9m, €4m net of the tax effect).

New IFRS 16: "Leases"

Regulatory provisions

In 2016, the IASB issued the new IFRS 16 on "Leases" to replace IAS 17 previously in force and its respective interpretations.[5] IFRS 16 was adopted by the European Commission under Commission Regulation (EU) 1986/2017 and as far as the Mediobanca Group is concerned, takes effect from the new financial year starting on 1 July 2019.

The main changes introduced by the new reporting standard are a change in the definition of leasing and a single accounting model for operating and financial contracts. Under the new standard, a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, which means that long-term rental or hire contracts are also included.

[5] IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The new standard requires the lessee to represent the amount of the “right of use” for the asset covered by the leasing/rental agreement in its accounts, matched by the future instalments due on it discounted as at the reporting date. Thereafter the “right of use” asset will be ammortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in continuity with the existing IAS 17.

IFRS 16 project

The Mediobanca Group has launched a project to manage transition to the new reporting standard, which involves analysis of the contracts , definition of the choices, assessment of the estimated impact and adaptation of the internal regulations;

The Group has adopted an IT solution to manage the new reporting standard in terms of quantifying and accounting for amounts payable and receivable in respect of leases, based on the application currently used to manage such contracts.

Mediobanca Group choices

At the first-time adoption stage for the new reporting standard, the Mediobanca Group has decided to use the “modified retrospective approach”, i.e. recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption.

The Group has also elected to adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months or less calculated at FTA, contracts involving amounts of less than €5,000 (“low value”), and contracts for intangible assets.

The Group has also decided not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question in view of the contract's duration.

If the original contract has been sub-leased to a counterparty and the conditions apply for it to be treated as a finance sub-lease, the liability in respect of the original list is balanced by an amount receivable from the subscriber rather than by the value in use.

Results

Overall, the changes introduced by IFRS 16 will generate an increase in assets of some estimated €200m,[6] 95% of which relating renting contracts for offices and branches, matched by payables (amounts due to the lessor) for the same amount without impacting on net equity.

SECTION 3

Area and methods of consolidation

The consolidated financial statements comprise the financial/earnings results of the Group companies and the companies directly or indirectly controlled by them, including those operating in sectors dissimilar to the one in which the parent company operates.

Based on the combined provisions of IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "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.

[6] The increase in assets will determine a rise in RWAs of the same amount (i.e. risk weighting 100%), impacting on the CET1 ratios by around 6 bps.

The following events should be noted:

– The liquidation procedure for Quarzo MB (owned by Mediobanca S.p.A.) was completed and the company's name removed from the company register, as was that of Société Monégasque des Études Financières ("SMEF"), owned CMB S.A., and MB Advisory Turkey;

– On 12 March 2019, the liquidation procedure for CMB Wealth Assets Management (owned by CMB S.A.) was commenced;

– On 10 April 2019 the acquisition of French company Messier Maris & Associés specializing in corporate finance and M&A was finalized. Mediobanca acquired 66.4% of the share capital outright, and entered into put-and-call agreements which, when exercised, will allow the Bank to increase its interest to 100% of the share capital consolidated as from 1 April 2019; MMA in turn owns Messier Maris & Associés LLC (50%, here too with provision for the stake to be increased to 100%).

It should also be noted that ownership of Spafid Connect has been transferred from Spafid to MIS at book value.

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.1.5	100.0	100.0
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.	Monte Carlo	1	A.1.1	100.0	100.0
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.92	99.92
8.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.0	99.0
9.	CMB WEALTH MANAGEMENT LIMITED - *under liquidation*	London	1	A.1.1	100.0	100.0
10.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			1	A.1.11	1.0	1.0
11.	COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
12.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
13.	MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.11	100.0	100.0
14.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
15.	MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
16.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
17.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
18.	MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
19.	QUARZO S.R.L.	Milan	1	A.1.11	90.0	90.0
20.	FUTURO S.P.A	Milan	1	A.1.11	100.0	100.0
21.	QUARZO CQS S.R.L.	Milan	1	A.1.20	90.0	90.0
22.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
23.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
24.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
25.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0*	60.8
26.	CAIRN CAPITAL LIMITED	London	1	A.1.25	100.0	100.0
27.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.25	100.0	100.0
28.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.25	100.0	100.0
29.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
30.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
31.	AMPLUS FINANCE (non operating)	London	1	A.1.25	100.0	100.0
32.	SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
33.	SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
34.	MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
35.	MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
36.	RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	89.3**	69.0
37.	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.36	100.0	100.0
38.	MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0***	66.4
39.	MESSIER MARIS & ASSOCIES LLC.	New York	1	A.1.38	100.0***	50.0

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

Legend

1 Type of relationship:
1 = majority of voting rights 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 IFRS 10, "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 IFRS 11, 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.

The financial statements of the consolidated companies represented in currencies other than the Euro are converted by applying the exchange rate prevailing at the end of the accounting period to the balance-sheet items, and the average exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS 39 rather than IFRS 9 adopted by the Mediobanca Group since 1 July 2018, having opted for the deferred approach provided by IFRS 9 as governed by IFRS 4. Accordingly, in the Mediobanca Group's consolidated financial statements, the figures shown under "Value reserves for investments accounted for using the equity method" will be calculated in accordance with IAS 39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS 39 with no adjustments.

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 (IAS 28, par. 24-25), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date. As mentioned previously, Assicurazioni Generali has opted for the deferred approach governed by IFRS 4, and will therefore continue to apply IAS 39 until 1 January 2021.

SECTION 4

Events subsequent to the reporting date

Since the reporting date, the sale of the CheBanca! French branch office's portfolio of bad debts has been completed.

No events have taken place that cause the results presented in the consolidated report for the twelve months ended 30 June 2019 to be amended.

SECTION 5

Other aspects

The consolidated financial statements and the individual accounts of Mediobanca S.p.A. have been audited by external auditors PricewaterhouseCoopers S.p.A. as required by Italian Legislative Decree 39/10 and under the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012, for the 2013-21 financial years.

A.2 - Significant accounting policies

Financial assets recognized at amortized cost

These include loans and advances to customers and banks, debt securities and repo transactions which meet the following conditions:

– The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;

– Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS 17 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

The Group business model should reflect the ways in which financial assets are managed at a portfolio level (and not at instrument level), on the basis of factors observable at a portfolio level (and not at instrument level):

– Operating procedure adopted by management in the process of performance evaluation;

– Risk type and procedure for managing risks taken, including indicators for portfolio rotation;

– Means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering “worst case” and “best case” scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.

At initial recognition, the Group analyses contractual cash flows for the instrument as part of the SPPI test; when contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

The instrument is recognized at amortized cost, i.e. the initial value less/plus the repayments of principal made, writedowns/writebacks, and amortization – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, adjusted to reflect expected losses.

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate 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.

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.

Following initial recognition, all financial assets recognized at amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing assets.

Impairment regards losses which are expected to materialize in the twelve months following the reference date of the financial statement, or, in cases where a significant increase in credit risk is noted, the losses which are expected to materialize throughout the rest of the instrument's life. Both the twelve-month and outstanding life expected losses can be calculated on an individual or collective basis according to the nature of the underlying portfolio.

In accordance with the provisions of IFRS 9, the financial assets are split into three different categories:

– Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
– Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
– Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. The Group uses the simplified, low credit risk exemption approach only to a very limited extent.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, with interest calculated later using an internal rate of return adapted to the circumstances. The expected credit losses are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default (for further details see the section specifically on credit quality in Part E of the Notes to the Accounts), the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value.[7]

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. 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).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost.

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

[7] See Part A – Information on fair value on pp. 144-151.

the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

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 respective headings.

Assets which must be recognized at fair value also include loans which do not guarantee full repayment of principal in the event of the counterparty finding itself in financial difficulties and which therefore do not pass the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

Financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

Financial assets recognized at fair value through other comprehensive income

These are financial instruments, mostly debt securities, for which both the following conditions are met:

- The instruments are on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments;
- The contractual terms which pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in te same way as financial assets recotnized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

The category also includes equities not held for trading which meet the definition provided by IAS 32, and which the Group decided to classify irrevocably in this category at the initial recognition stage. As the instruments in question are equities they are not subject to impairment, and the gains/losses on equities are never taken through profit and loss, even following the sale of the instrument. Conversely, dividends on the instruments are recorded through profit and loss when the right of collection takes effect.

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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.

When a financial asset recognized at amortized cost is renegotiated, the Group derccognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument's carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as stage 1 for purposes of calculating the expected loss (save in cases where the new instrument is classified as a POCI).

In cases where the renegotiation does not result in substantially different cash flows, the Group does not derecognize the instrument, but the difference between the original carrying value and the estimated cash flows discounted using the original internal rate of return must be recorded through profit and loss (taking due account of any provisions already set aside to cover it).

Leasing

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods), even if the good itself is not stated explicitly in the agreement.

A leasing contract must be classified at the execution date as either a financial lease or an operating lease.

A lease which transfers basically all risks and benefits typical of ownership to the lessee is a financial lease.

Financial leases in which the Group is the lessor are capitalized at the start of the transaction based on the fair value of the good at the execution date, or the current value of the minimum payments provided for by the agreement if lower. Payments are split into the two components of interest payable and repayment of the amount due under the lease itself based on methods which reflect a constant, regular return on the lessor's net investment.

The good being leased is recorded in the accounts and amortized over the course of its useful life. If there is no reasonable certainty that the Group will acquire the good at the end of the lease, it is amortized over its useful life or the duration of the lease itself, whichever is shorter.

Payments made in respect of operating lease contracts are recorded through profit and loss as costs on a straight-line basis throughout the life of the leasing contract itself.

Leases in which the Group is the lessor and does not transfer basically all risks and benefits associated with ownership of the good are classified as operating leases. Revenues generated from contracts such as these are recorded through profit and loss on a straight-line basis throughout the life of the leasing contract. Any costs incurred to negotiate the contract are added to the value of the good and recorded throughout the life of the contract using the same criterion adopted to record the revenues.

Hedges

For hedging transactions, the Group has adopted the provisions of IFRS 9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS 39 to this type of operation.

Two types of hedge are used by the Group:

- 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.

At inception, the Group formally designates and documents the hedging relationship, with an indication of the risk management objectives and strategy for the hedge. The documentation includes identification of the hedging instrument, the item hedged, the nature of the risk hedged and how the entity intends to assess if the hedging relationship meets the requisites for the hedge to be considered effective (including analysis of the sources of any ineffectiveness and how this affects the hedging relationship). The hedging relationship meets the eligibility criteria for accounting treatment reserved for hedges if, and only if, the following conditions are met:

– The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
– The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Bank actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

Fair value hedges

As long as the fair value hedge meets the criteria for eligibility, the profit or loss on the hedge instrument must be recorded in the profit and loss account or under one of the other comprehensive income headings if the hedge instrument hedges another instrument representative of equity for which the Group has chosen to recognize changes in fair value through OCI. The hedge profit or loss is recorded as an adjustment to the book value of the hedged item with a matching entry through the profit and loss account, even in cases where the item hedged is a financial asset (or one of its components) recognized at fair value with changes taken through OCI. However, if the item hedged is an equity instrument for which the entity has opted to recognize changes in fair value through OCI, the amounts remain in the other items in the comprehensive income statement.

If the item hedged is an irrevocable commitment (or one of its components) not booked to the accounts, the cumulative change in the fair value of the item hedged resulting from its designation as such is recorded as an asset or liability with corresponding gain or loss recorded in the profit (loss) for the period.

Cash flow hedges

As long as the cash flow hedge meets the criteria for eligibility, it is accounted for as follows:

– The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.

- The cash flow reserve is adjusted to reflect the lower amount of:
- The gain or loss accumulated on the hedge instrument since the hedge's inception; and
- The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception;

The amount accumulated in the cash flow hedge reserve must be reclassified from the cash flow hedge reserve to profit (loss) for the period as an adjustment due to reclassification in the same period or periods in which the estimated future cash flows hedged impact on the profit (loss) for the period (e.g. in periods when interest receivable or payable are recorded, or when the planned sale takes place). However, if the amount constitutes a loss and the entity does not expect to recover the whole loss or part of it in one or more future periods, the entity must classify the amount it does not expect to recover in the profit (loss) for the period (as an adjustment due to reclassification) immediately.

Equity investments

This heading consists of interests held in jointly-controlled companies and associates. Companies subject to joint control, otherwise known as joint ventures, are defined as entities of which control is contractually stipulated as being shared between the Group and one or more other parties, or when for decisions regarding relevant activities, the unanimous consent of all parties which share control of the entity is required.

Companies subject to significant influence, otherwise known as associates, are defined as entities in which the Group holds at least 20% of the voting rights (including "potential" voting rights) or for which – despite holding a lower share of the voting rights – it is entitled to participate in deciding the financial and management policies of the investee company under specific legal arrangements, e.g. participation in shareholder agreements.

The Group uses the net equity method to account for these investments; hence they are initially recognized at cost and subsequently adjusted to reflect changes in the net assets attributable to the Group since the acquisition date.

Following application of the net equity method, if there is objective evidence that the value of an investment may have reduced, estimates are made of its recoverable value, taking into account the value of the discounted cash flows which the investment might generate, including the final sale value of the investment itself.

If the recoverable value is lower than the book value, the difference is taken through profit and loss.

If, in a period following the year in which a long-term reduction in value is recorded, a change occurs in the estimates used to determine the recoverable value, the book value of the investment will be revised to reflect the recoverable value and the adjustment will give rise to a writeback.

In cases where significant influence or joint control are lost, the Group recognizes and values any residual share still held at fair value. Any difference between the book value at the date on which the loss of significant influence or joint control occurs, plus the fair value of the share still held and the consideration received on disposal, are taken through the profit and loss account.

Property, plant and equipment

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

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

The heading also includes tangible assets classified pursuant to IAS 2 – *Inventories*, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

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 deriving from business combinations subject to IFRS 3R.

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.

Financial liabilities recognized at amortized cost

These include the items *Due to banks*, *Due to customers* and *Debt securities in issue* less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IAS 17 but which are also affected by the IFRS 9impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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 when they are not closely correlated to the host instrument. 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 an dthe changes are taken through the profit and loss account.

Financial liabilities designated at fair value

They include the value of financial liabilities recognized at fair value through profit and loss based on the fair value option permitted under IFRS 9 and in accordance with the cases permitted under the regulation itself.

Provisions for liabilities and charges

These regard risks linked to commitments to disburse funds and guarantees issued, and to the Group's operations which could lead to expenses in the future (cf. below).

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment introduced by IFRS 9. In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is 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 IAS 37, para. 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

The staff severance indemnity provision qualifies as a defined-contribution benefit scheme for units accruing starting from 1 January 2007 (the date on which the reform of complementary pension schemes came into force under Italian Legislative Decree 252/05), for cases where the employee opts into a complementary pension scheme, and also for cases where contributions are paid to the treasury fund held with the Italian national pension scheme (INPS). For such payments, the amount accounted for under labour costs is determined on the basis of the contributions due without application of actuarial calculation methods.

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, 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 using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

Actuarial gains and/or losses are recorded in the Other Comprehensive Income statement, while the interest component is taken through profit and loss.

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 using the average of the average monthly exchange rate readings 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.

Contributions to Deposits Guarantee Schemes and resolution funds are accounted for according to IFRIC 21.

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.

Schemes which involve payment through the award of shares are recognized through profit and loss, with a corresponding increase in net equity, based on the fair value of the financial instruments allocated at the award date, thus spreading the cost of the scheme throughout the period of time in which the requisites in terms of service and performance where appropriate) are met.

The overall cost of the scheme is recorded in each financial year up to the date on which the plan vests, so as to reflect the best possible estimate of the number of shares that will actually vest. Requisites in terms of service and performance objectives are not considered in determining the fair value of the instruments awarded, but the probability of such objectives being reached is estimated by the Group and this is factored into the decision as to the number of instruments that will vest. Conversely, market conditions will be included in establishing the fair value, whereas conditions unrelated to the requisites in terms of service are considered "non-vesting conditions" and are reflected in the fair value established for the instruments, and result in the full cost of the scheme being recorded in the profit and loss account immediately in the absence of any service requisites and/or performance conditions.

In the event of performance or service conditions not being met and the benefit failing to be allocated as a result, the cost of the scheme is written back. However, if any market conditions fail to be reached, the cost must be recorded in full if the other conditions have been met.

In the event of changes to the scheme, the minimum cost to be recorded is the fair value at the scheme award date pre-change, if the original conditions for vesting have been met. An additional cost, established at the date on which the change is made to the scheme, must be recorded if the change has entailed an increase in the overall fair value of the scheme for the beneficiary.

For schemes which will involve payments in cash, the Group records an amount payable equal to the fair value of the scheme measured at the award date of the scheme and at every reporting date thereafter, up to and including the settlement date, with any changes recorded as labour costs.

Treasury shares

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

Fees and commissions receivable in respect of services

This heading includes all revenues deriving from the provision of services to customers with the expectation of those relating to financial instruments, leases and insurance contracts.

Revenues from contracts with clients are recorded through profit and loss when ownership of the service is transferred to the client, in an amount that reflects the consideration to which the Group considers it is entitled in return for the service rendered.

In order to record the revenues, the Group analyses the contracts to establish whether they contain more than one obligation to provide services to which the price of the transaction should be allocated. The revenues are then recorded throughout the time horizon over which the service is rendered, using suitable methods to recognize the measurement in which the service is provided. The Group also takes into consideration the effects of any variable commissions, and whether or not a significant financial component is involved.

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requisites of IFRS 15, the Group will assess whether to capitalize them and then amortize them through the life of the contract, or to make use of the exemption provided by IFRS 15 to expense the costs immediately in cases where the amortization period for them would be complete within twelve months.

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

Recognition of costs

Costs are recorded through profit and loss in accordance with the revenues to which they refer, save in cases where the requisites for capitalizing them apply and where provided in order to determine amortized cost. Any other costs which cannot be associated with revenues are accounted for immediately in profit and loss.

Related parties

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

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in Mediobanca's share capital,[8] 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.

[8] Excluding market-makers and asset managers, Italian and international, which, in the exercise of their collective fund management activity, undertake not to take an active part in the management of the companies in which they are investing.

A.3 - Information on transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: change in business model, book value and interest income

(€ '000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt securites	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	112,742	5,837
Total				112,742	5,837

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.

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 [9].

In accordance with the provisions of IFRS 13 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 (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:

– 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.

[9] Cf. IFRS 13, 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 IFRS 13, paragraphs 72-90

– 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/debt valuation adjustment;

– Other adjustments.

Credit/debt 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 (FVA)

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 and to take account of 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. To take account of 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 in 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. Basically ABS 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;
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
- 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

and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;

– 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 Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as 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 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 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), 30/6/19	+/- delta vs MtM (€'000), 30/6/18
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)	460	620
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	612	325

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	*Non-observable inputs*	Fair value * Assets 30/6/19 (€m)	Fair value * Liabilities 30/6/19 (€m)	Fair value * Assets 30/6/18 (€m)	Fair value * Liabilities 30/6/18 (€m)
OTC equity single name options, variance swap	Black-Scholes/ Black model	Implicit volatility[1]	0.81	(3.89)	1.46	(7.81)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation[2]	9.85	(9.40)	2.70	(4.84)

* 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.

A.4.3 Fair value ranking

Transfers between 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 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.

Conversely, transfers from Level 2 to Level 3 (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.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, 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 recognized at fair value on a non-recurring basis, by fair value ranking

(€ '000)

Financial assets/liabilities measured at fair value	30/6/19		
	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	7,393,508	2,575,250	654,215
a) financial assets held for trading	7,054,588	2,321,359	389,706
b) financial assets designated at fair value	—	51,976	—
c) other financial assets mandatorily valued at fair value	338,920	201,915	264,509
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,613,361	240,572	32,838
3. Hedging derivatives	—	412,234	—
4. Tangible assets	—	—	—
5. Intangible assets	—	—	—
Total	11,006,869	3,228,056	687,053
1. Financial liabilities held for trading	4,948,023	2,829,951	249,777
2. Financial liabilities valued at fair value	—	55,859	—
3. Hedging derivatives	—	414,241	—
Total	4,948,023	3,300,051	249,777

The Level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, totalled €236m (30/6/18: €72.6m), plus €0.5m (€1.9m) in options linked to bonds issued and hedged on the market. Net of these items, the Level

3 assets increased from €110.2m to €153.2m, following new deals of €51.1m (deriving chiefly from the bridge subscribed to by Mediobanca in its role as arranger with Intesa/ICCREA receivables as the underlying instrument, amounting to approx. €246.2m, which is gradually being sold, in an amount of €186.7m during the twelve months under review), redemptions totalling €3.8m, and other reductions, including downward movements in fair value, totalling €4.3m.

Financial assets compulsorily recognized at fair value,[10] which mostly consist of investments in funds (including seed capital) decreased from €309m to €264.5m, following investments of €22.2m, sales and redemptions totalling €58.6m (mostly in respect of a Cairn fund, for €39.2m), and other negative changes of €8.1m. Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), rose slightly from €19.5m to €32.8m.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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**		
	Level 1	**Level 2**	**Level 3**
1. Financial assets held for trading	4,805,779	3,214,454	184,678
2. Financial assets recognized at fair value	—	—	—
3. AFS securities	5,107,728	303,178	310,971
4. Hedge derivatives	—	225,814	—
5. Tangible assets	—	—	—
6. Intangible assets	—	—	—
Total	9,913,507	3,743,446	495,649
1. Financial liabilities held for trading	3,206,919	3,168,354	87,131
2. Financial liabilities recognized at fair value	—	—	—
3. Hedge derivatives	—	233,086	—
Total	3,206,919	3,401,440	87,131

[10] A financial asset is classified as a financial asset which must compulsorily be recognized at fair value if it does not meet the conditions, in terms of business model and cash flow characteristics ("solely payment of principal and interest" – i.e. if it does not pass the SPPI test) to be recognized at amortized cost or at fair value through Other Comprehensive Income.

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

(€ '000)

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	**of which: a) financial assets held for trading** [1]	***of which: b) financial assets designated at fair value***	***of which: c) other financial assets mandatorily valued at fair value***				
1. Opening balance	438,690	110,201	—	309,015	19,474	—	—	—
2. Increases	303,308	254,237	—	33,786	15,285	—	—	—
2.1 Acquisti	282,225	251,245	—	22,193	8,787	—	—	—
2.2 Purchases	19,200	1,681	—	11,021	6,498	—	—	—
2.2.1 profit and loss	12,702	1,681	—	11,021	—	—	—	—
- of which, gains	*1,035*	*1,035*	—	—	—	—	—	—
2.2.2 net equity	6,498	X	X	X	6,498	—	—	—
2.3 Transfers from other levels	—	—	—	—	—	—	—	—
2.4 Other increases	1,883	1,311	—	572	—	—	—	—
3. Decreases	291,436	211,223	—	78,292	1,921	—	—	—
3.1 Disposals	254,663	200,103	—	53,360	1,200	—	—	—
3.2 Redemptions	9,071	3,789	—	5,282	—	—	—	—
3.3 Losses recognized in:	25,924	5,553	—	19,650	721	—	—	—
3.3.1 profit and loss	25,211	5,553	—	19,650	8	—	—	—
- of which, losses	*5,553*	*5,553*	—	—	—	—	—	—
3.3.2 net equity	713	X	X	X	713	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	1,778	1,778	—	—	—	—	—	—
4. Closing balance	450,562	153,215	—	264,509	32,838	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level 3 liabilities)

(€ '000)

	Financial liabilities		
	Held for trading [1]	Designated at fair value	Hedging derivatives
1. Opening balance	12,651	—	—
2. Increases	6,722	—	—
2.1 Issuance	4,935	—	—
2.2 Losses recognized in:	1,607	—	—
2.2.1 profit and loss	1,607	—	—
- of which, losses	*1,607*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	180	—	—
2.4 Other increases	—	—	—
3. Decreases	6,088	—	—
3.1 Redemptions	3,192	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2,896	—	—
3.3.1 profit and loss	2,896	—	—
- of which, gains	*442*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	13,285	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), 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	30/6/19			
	Book value	Level 1	Level 2	Level 3
1. Financial assets valued at amortised cost	56,599,859	2,487,696	19,157,722	38,229,986
2. Tangible assets held for investment purposes	66,883	—	—	141,764
3. Non-current assets and groups of assets being sold	22,168	—	—	22,168
Total	56,688,910	2,487,696	19,157,722	38,393,918
1. Financial liabilities valued at amortised cost	57,936,936	1,109,322	57,136,709	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—
Total	57,936,936	1,109,322	57,136,709	48,237

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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**			
	Book value	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held to maturity	2,595,747	2,586,499	28,086	—
2. Due from banks	7,552,958	—	5,934,247	1,637,891
3. Due from customers	40,977,889	—	8,334,617	33,696,913
4. Tangible assets held for investment purposes	77,388	—	—	154,516
5. Non-current assets and groups of assets being sold	—	—	—	—
Total	51,203,982	2,586,499	14,296,950	35,489,320
1. Due to banks	12,263,459	—	12,263,459	—
2. Due to customers	21,320,043	—	21,317,138	—
3. Debt securities in issue	20,608,518	704,927	20,118,202	49,719
4. Liabilities in respect of noncurrent assets being sold	—	—	—	—
Total	54,192,020	704,927	53,698,799	49,719

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.

The only transaction of this kind involved 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 in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument which, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €5.9m, and the portion that passed through profit and loss during the period totalled €2.5m.

Part B - Notes to consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/19	30/6/18
a) Cash	106,260	65,410
b) Demand deposits with Central Banks	632,102	1,172,591
Total	738,362	1,238,001

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

SECTION 2

Heading 20: Financial assets at fair value with impact taken to profit and loss

2.1 Financial assets held for trading: composition *

Items/values	30/6/19		
	Level 1	Level 2	Level 3
A. Balance-sheet assets			
1. Debt securities	3,857,970	297,582	58,831
1.1 Structured securities	17,251	10,451	—
1.2 Other securietes	3,840,719	287,131	58,831
2. Equity securites [1]	2,441,048	—	76,336
3. UCITs	245,002	3	7,385
4. Loans	6,894	—	—
4.1 REPOs	—	—	—
4.2 Others	6,894	—	—
Total (A)	6,550,914	297,585	142,552
B. Derivative instruments			
1. Financial derivates	503,674	1,533,275	247,154
1.1 trading	503,674	1,488,740	246,957 [2]
1.2 related to the fair value option	—	—	—
1.3 others	—	44,535	197 [3]
2. Credit derivates	—	490,499	—
2.1 trading	—	490,499	—
2.2 related to the fair value option	—	—	—
2.3 others	—	—	—
Total (B)	503,674	2,023,774	247,154
Total (A+B)	7,054,588	2,321,359	389,706

* 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 include shares committed in securities lending transactions totalling €1,277,841,000.

[2] Includes €235,984,000 in options traded, with the matching amount booked as financial instruments held for trading.

[3] Includes the market value of options (30/6/19: €0.5m) matching those associated with bond issues booked as financial instruments held for trading.

2.2 Financial assets held for trading: by borrowers/issuers

Items/Values	**30/6/19**
A. Financial assets	
1. Debt securities	4,214,383
a) Central banks	—
b) Public administrations	3,398,524
c) Banks	553,734
d) Other financial companies	197,994
of which: insurance companies	—
e) Non-financial companies	64,131
2. Equity instruments	2,517,384
a) Banks	391,154
b) Other finanzial companies	205,008
of which: insurance companies	*94,336*
c) Non-financial companies	1,921,222
d) Other issuers	—
3. Units investment funds	252,390
4. Loans	6,894
a) Central banks	—
b) Public administrations	—
c) Banks	—
d) Other financial companies	2,031
of which: insurance companies	—
e) Non-financial companies	4,863
f) Families	—
Total (A)	6,991,051
B. Derivative instruments	
a) Central counterparties	95,465
b) Others	2,679,137
Total (B)	2,774,602
Total (A+B)	9,765,653

The tables below show the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

2.1 Financial assets held for trading: composition *

Items/Values	30/6/18		
	Level 1	Level 2	Level 3
A. Cash assets			
1. Debt securities	2,538,652	254,051	14,128
1.1 Structured securities	109	11,526	—
1.2 Other debt securities	2,538,543	242,525	14,128
2. Equity instruments [1]	1,616,416	—	81,402
3. Units in investment funds	101,499	—	10,504
4. Loans	24,966	—	—
4.1 Repos	—	—	—
4.2 Others	24,966	—	—
Total A	4,281,533	254,051	106,034
B. Derivative instruments			
1. Financial derivatives	524,246	2,754,834	78,644
1.1 Trading	524,246	2,685,191	77,072 [2]
1.2 Related to the fair value option	—	—	—
1.3 Others	—	69,643	1,572 [3]
2. Credit derivatives	—	205,569	—
2.1 Trading	—	205,569	—
2.2 Related to the fair value option	—	—	—
2.3 Others	—	—	—
Total B	524,246	2,960,403	78,644
Total (A+B)	4,805,779	3,214,454	184,678

* 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 totaling €982,223,000.

[2] Includes €72,603,000 related to options brokered, whose counterparty is booked into trading financial liabilities.

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

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	**30/6/18**
A. Financial assets (non-derivatives)	
1. Debt securities	2,806,831
a) Governments and Central banks	2,333,021
b) Other public-sector entities	20,680
c) Banks	120,732
d) Other issuers	332,398
2. Equity instruments	1,697,818
a) Banks	118,343
b) Other issuers:	1,579,475
- Insurance companies	16,939
- Financial companies	16,942
- Non-financial companies	1,545,594
- Other	—
3. Units in investment funds	112,003
4. Loans	24,966
a) Goverments and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other issuers	24,966
Total A	4,641,618
B. Derivative instruments	
a) Banks	2,400,466
- Fair Value	2,400,466
b) Customers	1,162,827
- Fair Value	1,162,827
Total B	3,563,293
Total (A+B)	8,204,911

2.3 Financial assets designated at fair value: composition

Items/Values	**Total**		
	30/6/19		
	Level 1	**Level 2**	**Level 3**
1.Debt securities	—	51,976	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	—	51,976	—
2. Loans	—	—	—
2.1 Structured	—	—	—
2.2 Others	—	—	—
Total	—	51,976	—

These financial assets recognized at fair value, which failed the SPPI test on first-time adoption, are matched by equivalent liabilities also designated at fair value.

2.4 Financial assets designated at fair value: by borrower/issuer

Items/Values	**30/6/19**
1. Debt securities	51,976
a) Central banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	51,976
of which: Insurance companies	—
e) Non-financial companies	—
2. Loans	—
a) Central banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	—
of which: Insurance companies	—
e) Non-financial companies	—
f) Households	—
Total	51,976

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	30/6/19		
	Level 1	Level 2	Level 3
1. Debt securities	489	—	3,146
1.1 Structured securities	—	—	—
1.2 Others	489	—	3,146
2. Equity instruments	—	—	2,330
3. Units investment funds	338,431	—	241,161
4. Loans	—	201,915	17,872
4.1 REPOs	—	—	—
4.2 Others	—	201,915	17,872
Total	338,920	201,915	264,509

This is a residual item consisting of banking book debt securities that have failed the SPPI test. The loans in particular include equity instruments deriving from the restructuring of unlikely-to-pay positions.

2.6 Other financial assets mandatorily at fair value: by borrower/issuer

Items/Values	30/6/19
1. Equity instruments	2,330
of which: banks	—
of which: other financial companies	*2,330*
of which: other non financial companies	—
2. Debts securities	3,635
a) Central banks	—
b) Public sector entities	489
c) Banks	—
d) Other financial companies	3,146
of which: insurance companies	—
e) Non-financial companies	—
3. Units investment funds	579,592
4. Loans	219,787
a) Central banks	—
b) Public sector entities	—
c) Banks	—
d) Other financial companies	202,305
of which: insurance companies	—
e) Non-financial companies	17,482
f) Households	—
Total	805,344

SECTION 3

Heading 30: Financial assets at fair value with impact taken to comprehensive income

3.1 Financial assets at fair value with impact taken to comprehensive income: composition *

Items/Values	30/6/19		
	Level 1	Level 2	Level 3 [1]
1. Debts securities	3,507,591	240,572	—
1.1 Structured securities	—	—	—
1.2 Other	3,507,591	240,572	—
2. Equity instruments	105,770	—	32,838
3. Loans	—	—	—
Total	3,613,361	240,572	32,838

* 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 investments in unlisted companies valued based on internal models.

3.2 Financial assets at fair value through other comprehensive income: by borrowers/issuers

Items/Values	30/6/19
1. Debt securities	3,748,163
a) Central banks	—
b) Public entities	2,863,097
c) Banks	507,767
d) Other financial companies	216,529
of which: insurance companies	*131,292*
e) Non-financial companies	160,770
2. Equity securities	138,608
a) Banks	114
b) Other issuers:	138,494
- other financial companies	33,690
of which: insurance companies	—
- non-financial companies	104,804
- others	—
3. Loans	—
a) Central banks	—
b) Public entities	—
c) Banks	—
d) Other financial companies	—
of which: insurance companies	—
e) Non-financial companies	—
f) Households	—
Total	3,886,771

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 AFS securities: composition *

Items/Values	30/6/18		
	Level 1	Level 2	Level 3 [1]
1. Debt securities	4,646,431	303,178	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	4,646,431	303,178	—
2. Equity instruments	240,994	—	24,704
2.1 Valued at fair value	240,994	—	24,704
2.2 Valued at cost	—	—	—
3. Units in investment funds	220,303	—	286,267
4. Loans	—	—	—
Total	5,107,728	303,178	310,971

* 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] These include investments in unlisted companies valued on the basis of internal models

4.2 AFS securities: by borrowers/issuers

Items/Values	30/6/18
1. Debt securities	4,949,609
a) Governments and Central banks	3,157,194
b) Other public-sector entities	386,845
c) Banks	861,526
d) Other entities	544,044
2. Equity instruments	265,698
a) Banks	471
b) Other issuers:	265,227
- Insurance companies	—
- Financial companies	26,080
- Non-financial companies	236,280
- Other	2,867
3. Units in investment funds (including Private Equity funds)	506,570
4. Loans	—
a) Governments and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other entities	—
Total	5,721,877

3.3 Financial assets at fair value through other comprehensive income: gross value and total accumulated impairments

	Gross value				Writedown			Write off partial total
	First stage	*of which: low credit risk* *	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	3,750,003	204,812	—	—	1,840	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/19	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	X	X	—	—	X	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

SECTION 4

Heading 40: Financial assets at amortized cost *

4.1 Financial assets at amortized cost: composition of due from banks

Type of transaction/Values	30/6/19					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks				—	211,382	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	259,120	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	7,702,812	—	—	275,178	6,625,844	853,304
1. Loans	7,232,563	—	—	—	6,469,971	669,363
1.1 Current accounts and demand deposits	898,595	—	—	X	X	X
1.2. Time deposits	63,653	—	—	X	X	X
1.3 Other loans:	6,270,315	—	—	X	X	X
- Repos	4,482,055	—	—	X	X	X
- Finance leases	4,634	—	—	X	X	X
- Others	1,783,626	—	—	X	X	X
2. Debts securities	470,249	—	—	275,178	155,873	183,941
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	470,249	—	—	275,178	155,873	183,941
Total	7,961,932	—	—	275,178	6,837,226	853,304

* 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".

4.2 Financial assets at amortized cost: composition of due from customers

Type of transaction/Values	30/6/19					
	Book value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
1. Loans	45,059,134	1,156,867	*368,637*	—	11,068,820	37,202,323
1.1. Current accounts	1,294,359	74,928	*74,913*	X	X	X
1.2. REPOs	2,550,975	—	—	X	X	X
1.3. Mortgages	23,317,445	489,194	*17,690*	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,947,099	406,187	*248,550*	X	X	X
1.5. Finance lease	1,810,589	138,369	*27,484*	X	X	X
1.6. Factoring	1,915,630	10,018	—	X	X	X
1.7. Other loans	4,223,037	38,171	—	X	X	X
2. Debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
2.1. Structured securities	—	—	—	—	—	—
2.2. Other debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
Total	47,481,060	1,156,867	*368,637*	2,212,518	12,320,496	37,376,682

The column headed "of which: impaired items acquired" contains the non-performing loans (NPLs) acquired by Group company MBCredit Solutions.

4.3 Financial leases

*Financial leasing: banks **

	30/6/19				
	Non performing exposures	Minimum payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	—	318	47	365	—
From 3 months up to 1 year	—	977	122	1,099	2
From 1 up to 5 years	—	2,664	224	2,887	—
Over 5 years	—	684	70	754	18
Unspecified	—	—	—	—	—
Total	—	4,643	463	5,105	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.

*Financial leasing: customers **

	30/6/19				
	Non performing exposures	Minimum payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	18,784	105,167	13,933	145,986	1,048
From 3 months up to 1 year	858	273,836	36,528	311,222	9,822
From 1 up to 5 years	91,243	916,593	106,919	1,114,755	101,674
Over 5 years	—	523,544	48,582	572,126	160,165
Unspecified	—	—	—	—	—
Total	110,885	1,819,140	205,962	2,144,089	272,709

* 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.

4.4 Financial assets at amortized cost: breakdown by borrowers/issuers of due from customers

Type of transaction / Values	30/6/19		
	First and second stage	Third stage	*of which: impaired assets aquired or created*
1. Debt securities	2,421,926	—	—
a) Public Administration	1,733,519	—	—
b) Other financial company	432,677	—	—
of which: insurance companies	229,762	—	—
c) Non financial companies	255,730	—	—
2. Loans to:	45,059,134	1,156,867	*368,637*
a) Public Administration	209,875	13,342	—
b) Other financial company	6,726,486	2,709	*412*
of which: insurance companies	695,307	—	—
c) Non financial companies	14,583,974	549,526	*63,562*
d) Households	23,538,799	591,290	*304,663*
Total	47,481,060	1,156,867	*368,637*

4.5 Financial assets at amortized cost: gross value and total accumulated impairments

	Gross value				Writedown			Writeoff partial total
	First stage	*of which: low credit risk **	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	2,868,057	*385,553*	28,069	—	3,547	404	—	—
Loans	50,267,598	*219,198*	2,796,101	2,017,484	193,777	319,105	860,617	9,948
Total	30/6/19	*604,751*	2,824,170	2,017,484	197,324	319,509	860,617	9,948
of which: impaired financial assets aquired or originated	X	X	—	*368,637*	X	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "of which" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

The tables below show the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

5.1 Financial assets held to maturity: composition *

	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Debt securities	2,595,747	2,586,499	28,086	—
- structured	—	—	—	—
- others	2,595,747	2,586,499	28,086	—
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" of Annual report as at 30/6/18.

5.2 Financial assets held to maturity: by borrower/issuer

	30/6/18
1. Debt securities	2,595,747
a) Government and Central banks	1,839,373
b) Other public-sector entities	—
c) Banks	176,968
d) Other issuers	579,406
2. Loans	—
a) Government and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other entities	—
Total	2,595,747
Total Fair Value	2,614,585

6.1 *Due from banks: composition* *

Type of transactions/Values	30/6/18			
	Book values	Fair value		
		Level 1	Level 2	Level 3
A. Loans to Central Banks	212,418	—	212,421	—
1. Time deposits	—	X	X	X
2. Compulsory reserve	212,418	X	X	X
3. Repos	—	X	X	X
4. Others	—	X	X	X
B. Loans to banks	7,340,540	—	5,721,826	1,637,891
1. Loans	7,340,540	—	5,721,826	1,637,891
1.1 Current accounts and demand deposits	849,094	X	X	X
1.2 Time deposits	25	X	X	X
1.3 Other loans	6,491,421	X	X	X
- Repos	4,902,337	X	X	X
- Finance lease	3,636	X	X	X
- Others	1,585,448	X	X	X
2. Debt securities	—	—	—	—
2.1 Structured	—	X	X	X
2.2 Others	—	X	X	X
Total	7,552,958	—	5,934,247	1,637,891

* 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" of Annual report as at 30/6/18.

7.1 *Due from customers: composition* *

Type of transactions/Values	30/6/18					
	Book values			Fair value		
	Performing	Non-performing		Level 1	Level 2	Level 3
		Purchased	Others			
Loans	39,648,585	287,927	842,061	—	8,300,289	33,532,861
1. Current accounts	1,250,480	137,715	345	X	X	X
2. Repos	446,410	—	—	X	X	X
3. Mortgages	20,904,933	—	498,750	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,595,332	123,658	156,048	X	X	X
5. Financial leases	1,970,491	22,638	138,321	X	X	X
6. Factoring	1,830,548	—	10,194	X	X	X
7. Other loans	3,650,391	3,916	38,403	X	X	X
Debt securities	199,316	—	—	—	34,328	164,052
8. Structured securities	—	—	—	X	X	X
9. Other debt securities	199,316	—	—	X	X	X
Total	39,847,901	287,927	842,061	—	8,334,617	33,696,913

* 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" of Annual report as at 30/6/18.

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/18		
	Performing	Non performing	
		Purchased	Other
1. Debt securities issued by:	199,300	—	—
a) Governments	—	—	—
b) Other public-sector entities	—	—	—
c) Other issuers	199,300	—	—
- Non-financial companies	38,536	—	—
- Financial companies	127,945	—	—
- Insurance companies	32,819	—	—
- Other	—	—	—
2. Loans to:	39,648,601	287,927	842,061
a) Governments	90,027	—	—
b) Other public-sector entities	175,342	—	14,140
c) Other entities	39,383,232	287,927	827,921
- Non-financial companies	12,482,850	53,541	474,224
- Financial companies	3,798,935	4,209	14,909
- Insurance companies	667,657	—	1
- Other	22,433,790	230,177	338,787
Total	39,847,901	287,927	842,061

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair value			Notional value	Fair value			Notional value
	30/6/19				30/6/18			
	Level 1	Level 2	Level 3	30/6/19	Level 1	Level 2	Level 3	30/6/18
A. Financial derivatives								
1. Fair value	—	410,675	—	15,223,497	—	225,814	—	9,590,262
2. Cash flows	—	1,559	—	30,000	—	—	—	—
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	412,234	—	15,253,497	—	225,814	—	9,590,262

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair value							Cashflow hedges		Net investments in non-Italian subsidiaries
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets vslued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	402	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	402	—	—	—	—	—	—	—	—	—
1. Financial liabilities	410,273	X	—	—	—	—	X	1,559	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	410,273	—	—	—	—	—	—	1,559	—	
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.9	12.9
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.

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

Company name	Book value	Fair value *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,219,257	3,356,936	182,442
2. Istituto Europeo di Oncologia S.r.l.	40,468	n.a.	
3. Burgo Group S.p.A.	—	n.a.	
Total [1]	3,259,725	—	—

1 The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€52,000).

* 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 2019, the book value carried under the "Equity investments" heading totalled €3,259.8m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,219.3m), and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €40.5m). The value of the stake held in Burgo (22.1%) has been written off entirely, on prudential grounds.

The Assicurazioni Generali and Istituto Europeo di Oncologia investments have been accounted for 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; the dividends collected are not taken through profit and loss but have been deducted from the carrying value.

Impairment testing of equity investments

The value of the equity investments has been subject to impairment testing, as required by IAS 28, IAS 36, IFRS 10 and IFRS 11, in order to ascertain whether or not there is objective evidence to suggest that the book value at which the assets are recognized might not be recovered in full.

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:

– Quantitative indicators: market capitalization below the company's net asset value, in cases where the securities are listed on active markets;

- 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 (in particular if to levels below investment grade).

IAS 28, paragraph 41A states that impairment charges must be taken for an asset if the book value is higher than the recoverable value, defined by IAS 36 as the higher of fair value (net of sales costs) and net present value:

- To calculate fair value (as governed by IFRS 13), 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 IAS 28 paragraph 42), one or other of the following methodologies may be used:
  - The discounted value of the cash flows generated by the investee company, as derived from the cash flows generated by the investments owned by the company and the proceeds deriving from the sale of those investments; or
  - The discounted value of the cash flows assumed to derive from dividends receivable and the eventual sale of the investment.

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

* * *

Accounting data for the investee companies consolidated using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2018.

7.3 Significant investments: accounting data

Company name	Entities under significant influence		
	Assicurazioni Generali S.p.A.	Istituto Europeo di Oncologia S.r.l.	Burgo Group S.p.A.
Cash and cash-convertible assets	X	X	X
Financial assets	412,228	106	503
Non-financial assets	96,902	114	990
Financial liabilities	38,540	84	1,065
Non-financial liabilities	452,644	66	181
Total revenues	74,699	348	1,883
Profit/(Loss) on ordinary activities before tax	3,450	11	11
Profit/(Loss) on ordinary activities after tax	2,324	8	10
Profit/(Loss) on held-for-sale assets after tax	173	—	—
Profir/(Loss) for the period (1)	2,497	8	10
Other profit/(loss) components after tax (2)	(2,564)	—	1
Total profit/(loss) for the period (3) = (1) + (2)	(67)	8	11

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

Company name	Aggregate net equity	Pro rata net equity	Differences arising upon consolidation	Consolidated book value
Entities under significant influence				
Assicurazioni Generali S.p.A.	24,895,814 [1]	3,216,260	2,997 [2]	3,219,257
Istituto Europeo di Oncologia S.r.l.	159,507 [3]	40,468	—	40,468

[1] The overall net equity reflects the dividend received in May 2019 (€1,413m).

[2] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €23.2m; pro rata €3m).

[3] The net equity value of €125.2m as at 31/12/18 (€31.8m pro rata) has been adjusted to reflect property revaluations totalling €8.7m pro rata (net of depreciation charges accrued).

For details on the nature of the relations between the companies, please refer to section 7.1.

At 30 June, for both the equity investments (Assicurazioni Generali and IEO) there has not been any indication of impairment.

– The Assicurazioni Generali stake has a fair value of €3,356.9m (based on a stock market price of €16.56 per share at 28/6/19), which is higher than its book value. The fair value is confirmed by the analysts' average target price which is now €17.2 per share (up from €16.8);

- The Istituto Europeo di Oncologia stake has a book value in line with its net present value, the latter having been adjusted upon acquisition to factor in the revaluation of the properties owned by the company based on market prices.

7.5 Equity investments: movements during the period

	30/6/19	30/6/19
A. Opening balance	3,210,839	3,036,541
B. Increases	321,161	346,604
B.1 Purchases	—	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	321,161	346,604
C. Decreases	272,223	172,306
C.1 Sales	—	—
C.2 Adjustments	—	—
C.3 Writeoffs	—	—
C.4 Other changes	272,223	172,306
D. Closing balance	3,259,777	3,210,839
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

SECTION 9

Heading 90: Property, plant and equipments

9.1 Core tangible assets stated at cost

Activities/Values	Total	Total
	30/6/19	30/6/18
1. Property assets	210,949	210,421
a) lands	84,895	84,883
b) buildings	96,912	100,044
c) furniture	12,994	10,630
d) electronic system	9,042	10,440
e) other	7,106	4,424
2. Leased assets	—	—
a) lands	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic system	—	—
e) other	—	—
Total	210,949	210,421
of which: arising from the recovery of guarantees received	*76*	—

9.2 Properties held for investment purposes stated at cost

Activities/Values	Total				Total			
	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	66,883	—	—	141,764	77,388	—	—	154,516
a) lands	29,054	—	—	84,398	30,224	—	—	85,092
b) buildings	37,829	—	—	57,366	47,164	—	—	69,424
2. Leased assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	66,883	—	—	141,764	77,388	—	—	154,516
of which: arising from the recovery of guarantees received	*41,999*	—	—	*47,590*	*43,857*	—	—	*47,790*

9.5 Inventories pursuant to IAS 2: composition

Items/Values	Total
	30/6/19
1. Inventories of tangible assets arising from the recovery of guarantees received	8,017
a) lands	1,100
b) buildings	6,917
c) furnitures	—
d) electronic systems	—
e) others	—
2. Other tangible assets	—
Total	8,017
of which: valued at fair value less costs to sell	—

The above includes assets received under leasing contracts, which were originally recorded as Investment Property (under IAS 40), and have now been restated as Inventories in accordance with IAS 2 in cases where only minor amounts are involved and where leasing the properties out is not economically feasible and sale is expected to take place within three or four years.

9.6 Core tangible assets: movements during the period

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	84,883	143,553	59,324	42,272	48,991	379,023
A.1 Total net reduction value	—	(43,509)	(48,694)	(31,832)	(44,567)	(168,602)
A.2 Net opening balance	84,883	100,044	10,630	10,440	4,424	210,421
B. Increase:	12	1,216	5,286	1,170	5,436	13,120
B.1 Purchasing	12	773	5,273	1,170	5,418	12,646
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised expenditure on improvements	—	428	—	—	—	428
B.3 Writebacks	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	15	2	—	8	25
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	—	11	—	10	21
C. Decrease:	—	4,348	2,922	2,568	2,754	12,592
C.1 Sales	—	—	61	3	2	66
- of which business combinations	—	—	—	—	—	—
C.2 Amorization	—	4,265	2,746	2,372	2,230	11,613
C.3 Impairment losses allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative exchange difference	—	—	4	1	—	5
C.6 Transfer to:	—	—	—	—	—	—
a) held for sale investment	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	83	111	192	522	908
D. Net closing balance	84,895	96,912	12,994	9,042	7,106	210,949
D.1 Total net write-down	—	(46,494)	(50,739)	(34,051)	(44,649)	(175,933)
D.2 Final gross balance	84,895	143,406	63,733	43,093	51,755	386,882
E. Carried at cost	—	—	—	—	—	—

9.7 Properties held for investment purposes: movements during the period

	Total	
	Land	Buildings
A. Opening balance	30,224	47,164
B. Increases	—	141
B.1 Purchases	—	—
- of which: business combinations	—	—
B.2 Capitalized improvement expenses	—	57
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange rates differences	—	—
B.6 Trasfers from core tangible assets	—	—
B.7 Other variations	—	84
C. Decreases	1,170	9,476
C.1 Disposals	—	—
- of which: business combinations	—	—
C.2 Depreciations	—	2,277
C.3 Negative exchange rate differences	—	—
C.4 Writedowns	—	—
C.5 Negative changes in fair value	—	—
C.6 Trasfers to:	—	—
a) core tangible assets	—	—
b) assets held for sale	—	—
C.7 Other variations	1,170	7,199
D. Closing balance	29,054	37,829
E. Valued at fair value	84,398	57,366

These consist of the following properties:

Properties	Squ.m	Book value (€'000)	Book value per Squ.m (€'000)
Rome	8,228	24,885	0.3
Lecce	21,024	17,994	1.2
Verona *	30,502	9,675	3.2
Bologna	6,913	5,887	1.2
Vicenza	8,491	7,245	1.2
Pavia	2,250	1,197	1.9
Total	77,408	66,883	

* Includes both warehouse and buildings used as offices.

9.8 Inventories pursuant to IAS 2: movements during the period

	Inventories of tangible assets obtained via the collection of guarantees received					Other inventories of tangible assets	Total
	Land	Buildings	Furniture	Electronic devices	Others		
A. Opening balance	—	—	—	—	—	—	—
B. Increases	1,260	7,577	—	—	—	—	8,837
B.1 Purchases	90	360	—	—	—	—	450
B.2 Writebacks	—	—	—	—	—	—	—
B.3 Positive exchange rates differences	—	—	—	—	—	—	—
B.4 Other variations	1,170	7,217	—	—	—	—	8,387
C. Decreases	160	660	—	—	—	—	820
C.1 Disposals	160	660	—	—	—	—	820
C.2 Writedowns	—	—	—	—	—	—	—
C.3 Negative exchange rates differences	—	—	—	—	—	—	—
C.4 Other variations	—	—	—	—	—	—	—
D. Closing balance	1,100	6,917	—	—	—	—	8,017

SECTION 10

Heading 100: Intangible assets

10.1 Intangible assets: composition

Activities/Values	30/6/19		30/6/18	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	772,427	X	649,781
A.1.1 attributable to the group	X	772,427	X	649,781
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	59,233	70,098	74,593	15,490
A.2.1 Assets valued at cost	47,976	70,098	58,140	15,490
a) intangible assets generated internally	—	—	—	—
b) other assets	47,976	70,098	58,140	15,490
A.2.2 Assets valued at fair value	11,257	—	16,453	—
a) intangible assets generated internally	—	—	—	—
b) other assets	11,257	—	16,453	—
Total	59,233	842,525	74,593	665,271

This item increased from €739.9m to €901.8m during the twelve months, chiefly due to the acquisition of Messier Maris & Associés, which added goodwill calculated provisionally at €149m, and entailed the consolidation of a new brand worth €17m. Other movements were recorded during the twelve months as a result of the purchase price allocation process for RAM and the sale of the Market Connect business unit.

10.2 Intangible assets: movements during the period

	Goodwill	Other internally-generated intangible assets		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	649,781	—	—	228,013	15,490	893,284
A.1 Total net writedowns	—	—	—	(153,420)	—	(153,420)
A.2 Net opening balance	649,781	—	—	74,593	15,490	739,864
B. Increases:	149,043	—	—	19,029	54,608	222,681
B.1 Purchases	149,043	—	—	18,167	53,806	221,016
B.2 Increases of internally-generated intangible assets	X	—	—	248	—	248
B.3 Writebacks	X	—	—	564	—	564
B.4 Positive changes in fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange rates differences	—	—	—	43	802	846
B.6 Other variations	—	—	—	7	—	7
C. Decreases:	26,397	—	—	34,389	—	60,787
C.1 Disposals	—	—	—	78	—	78
C.2 Writedowns	—	—	—	30,274	—	30,274
- Amortizations	X	—	—	29,096	—	29,096
- Writedowns	—	—	—	1,178	—	1,178
+ net equity	X	—	—	—	—	—
+ profit and loss	—	—	—	1,178	—	1,178
C.3 Negative changes in fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to assets held for sale	—	—	—	—	—	—
C.5 Negative exchange rates differences	22,563	—	—	—	—	22,563
C.6 Other variations	3,834	—	—	4,037	—	7,872
D. Net closing balance	772,427	—	—	59,233	70,098	901,758
D.1 Total net writedowns	—	—	—	(165,263)	—	(165,263)
E. Gross closing balance	772,427	—	—	224,496	70,098	1,067,021
F. Valued at cost	—	—	—	—	—	—

Information on intangible assets and goodwill

Intangible assets include the effects of transactions executed by the Group.

On 31 December 2018 the purchase price allocation process for the RAM AI acquisition was completed, leading to two new intangible assets being identified:

– The RAM brand, estimated at €37.7m, with an indefinite useful lifetime calculated using the market approach, taking into account the fact that some of RAM's main funds are among the top performers in the Morningstar rankings;

– The contract for AUM of a certain amount managed by one of the selling shareholders, with a value of €2.4m and a useful lifetime of five years.

Accordingly, the goodwill initially recorded of €177m reduces to €152.7m, including deferred tax of €7.1m (at 31/12 forex rates).

A table summarizing the effects of the PPA process is shown below:

Table 1: Summary of PPA effects

	Linea	IFID	Spafid Connect	Cairn [1]	Esperia	RAM [2]
Acquisition date	*27/6/2008*	*1/8/2014*	*18/6/2015*	*31/12/2015*	*6/4/2017*	*28/2/2018*
Price paid	406,938	3,600	5,124	31,476	233,920	190,528
of which: ancillary charges	*2,000*	*200*	—	—	—	—
Liabilities	—	—	—	19,476	—	42,188
Intangible assets, defined life	(44,200)	(700)	(3,250)	—	(4,508)	(2,159)
no. of years amortization	*8*	*7*	*10*	—	*5*	*5*
Brands	(6,300)	—	—	—	(15,489)	(33,674)
Fair value adjustments	—	—	—	—	11,232	—
Balance of other assets (liabilities)	(2,659)	420	(466)	(9,538)	(176,585)	(6,171)
Tax effects	12,155	220	934	—	6,613	6,450
Goodwill	**365,934**	**3,540**	**2,342**	**41,414**	**55,183**	**154,974**

[1] Based on exchange rate prevailing at 30 June 2019.

[2] All amounts are calculated pro rata (89.25%) and based the on exchange rate prevailing at 30 June 2019.

On 10 April 2019, Mediobanca completed the acquisition of a 66.4% stake in Messier Maris & Associés (MMA), a company mainly focused on M&A activities for mid-cap to large corporates and a wide range of financial sponsors, coupled with debt advisory and financing activities, as well as a counter-cyclical debt restructuring activity. The deal has been structured in such a way to ensure that the founder partners will remain involved and indeed continue to manage the company and fully committed to promoting future growth. The deal was paid for entirely with Mediobanca shares acquired from the buyback scheme currently in progress. Accordingly, the consideration paid consisted of 11.6 million Mediobanca (equal to 1.3% of the Bank's share capital), valued based on the stock market price as at 12 April 2019, for a total outlay of €107.9m. A put-and-call option was also signed which will allow the stake acquired to be increased to 100%. Upon closing, the Messier Maris brand worth €17m was transferred to Mediobanca, and will be consolidated accordingly.

On 20 December 2019, Spafid Connect sold Market Connect, the IT services platform acquired in March 2017 from Borsa Italiana, to Norwegian group Infront. The sale comprised staff, equipments, accounts receivable and payable, and intangible assets for a total amount of €7.9m, €3.8m of which in goodwill, €2.8m customer lists, €0.9m brands, and €0.3m software.

The tables below show a list of the intangible assets acquired as part of M&A transactions and summarizing the goodwill recognized in the accounts as broken down both by deal and cash-generating unit (CGU).

Table 2: Other intangible assets acquired through extraordinary transactions

Typology	Deal	30/6/19	30/6/18
Customer relationship		22,201	30,495
	IFID	208	308
	Spafid	390	588
	ISPS	—	2,915
	Barclays	11,258	16,454
	MB Private Banking	2,705	3,606
	CMB	5,865	6,624
	RAM Active Investments	1,774	—
Brand		53,219	16,422
	ISPS	—	933
	MB Private Banking	15,489	15,489
	RAM Active Investments	37,730	—
Acquired software	Spafid Connect	3,005	5,033
Total		**78,425**	**51,950**

Table 3: Goodwill

Deal	30/6/19	30/6/18
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	—	3,831
Spafid- Fiduciaria	3,080	3,080
Cairn Capital	41,414	41,905
Banca Esperia	52,103	52,103
RAM Active Investments	154,974	177,046
Messier Maris & Associés *	149,040	—
Total	**772,427**	**649,781**

* First estimates of goodwill; PPA to be completed by 31/3/20.

Table 4: Summary of Cash Generating Units

CGU	Deal	30/6/19	30/6/18
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	3,080
Corporate services	Spafid Connect	2,342	2,342
Information services	ISPS	—	3,831
Cairn Capital		41,414	41,905
Mid corporate	ex Esperia	22,650	22,650
MBPrivate Banking	ex Esperia	29,453	29,453
RAM		154,974	177,046
Messier Maris & Associés *		149,040	—
Total goodwill		**772,427**	**649,781**

* First estimates of goodwill, PPA to be completed by 31/3/20.

To complete the information given above, the situation regarding the Group's other main acquisitions is as follows:

– 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 with the useful life of the intangible assets 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 2019: €11.3m).

- 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 at the current exchange rate at €41.4m; Cairn Capital Group has been treated as a single CGU. A first tranche of the call option was exercised during the second half of the financial, increasing the stake owned from 51% to 60.8%; the liabilities reduced accordingly, from €24.2m to €19.5m, and a net gain of €0.6m was booked to profit and loss.
- In November 2016, Mediobanca acquired the 50% of Banca Esperia it did not already own from Banca Mediolanum in return for a consideration of €141m (the deal closed on 6 April 2017). In December 2017 Banca Esperia was merged into Mediobanca, and the purchase price allocation process was completed the same month. As a result of the PPA procees, a brand was recognized in an amount of €15.5m, a customer list of €4.5m to be amortized over five years (worth €2.7m at 30/6/19), and goodwill of €52.1m split between the Private Banking and MidCap CGUs (for €29.4m and €22.7m respectively).

Information on impairment testing

As stated in the Accounting Policies section, IAS 36 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 June 2019, governing the impairment testing process which incorporates the guidance issued jointly by the *Organismo Italiano di Valutazione* (Impairment testing of goodwill in financial crises, published on 14 June 2012, *Principi Italiani di Valutazione* (PIV) published in 2015, Discussion Paper dated 22 January 2019), the ESMA recommendations contained in its document entitled "European Common Enforcement Priorities for 2013 Financial Statements", the joint Bank of Italy-Consob-IVASS guidelines (document no. 4 issued on 3 March 2010) and Consob communications (DIE/17131 of 3 March 2014 and 3907 of 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 employed by financial institutions for this purpose and applied to capital-intensive CGUs, and the discounted cash flow methodology for the capital-light CGUs.

The cash flows have been projected over a time horizon of three-four years based on the Group's strategic plans and the annual budgets formulated by the management of the individual CGU.

To estimate the cost of equity, which is determined via the Capital Asset Model (CAPM) as required under IAS 36, certain parameters common to all CGUs have been used, namely:

– The risk-free rate, i.e. the return on investments which are risk-free or entail minimum risk over the near term and not exceeding one year, identified as the return on sovereign debt of the countries in which the asset being valued is headquartered;
– The market risk premium, i.e. the reward which investors require in order to increase the risk on their investments. This is obtained from 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 in the country where the specific CGU is based; in some cases, however, other factors are also considered, such as the real growth scenario in the sector where the CGU operates.

In calculating the cost of equity (Ke), account must also be taken of risk specific to the CGU, if any, through an additional risk (alpha coefficient/factor) to incorporate the risk perceived by the market but not fully reflected by the CAPM indicators.

Each CGU is also assigned a systemic risk indicator (Beta) considered over a two-year time horizon based on market peers.

Table 5: Cost of equity parameters per CGU

CGU	30/6/19					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	***β***	***α***	***Ke***	***g***
Consumer credit	2.82%	6.82	0.83	n.a.	8.50%	1.3
Credit cards	2.82%	6.82	0.83	n.a.	8.50%	1.3
Salary-backed finance	2.82%	6.82	0.83	n.a.	8.50%	1.3
Fiduciary services	2.82%	6.82	1.07	n.a.	10.09%	1.3
Private Banking	2.82%	6.82	1.07	n.a.	10.09%	1.3
Mid corporate	2.82%	6.82	1.07	n.a.	10.09%	1.3
Servizi emittenti	2.82%	6.82	0.90	n.a.	8.96%	2.0
Cairn Capital / UK	1.10%	6.20	1.05	1.80	9.56%	2.0
RAM AI / Suisse	1.26%	6.90	1.05	1.80	10.14%	2.0

CGU	30/6/18					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	***β***	***α***	***Ke***	***g***
Consumer credit	2.05%	6.4	0.79	n.a.	7.09%	1.5
Credit cards	2.05%	6.4	0.79	n.a.	7.09%	1.5
Salary-backed finance	2.05%	6.4	0.79	n.a.	7.09%	1.5
Fiduciary services	2.05%	6.4	1.06	n.a.	8.81%	1.5
Private Banking	2.05%	6.4	1.18	n.a.	9.59%	1.5
Mid corporate	2.05%	6.4	1.18	n.a.	9.59%	1.5
Services to issuers (former Corporate services)	2.05%	6.4	1.06	n.a.	8.81%	1.5
Cairn Capital / UK	1.37%	5.50	1.09	n.a.	7.34%	2.0

Compared to last year there was a widespread increase in the cost of equity used, in particular for the Italian CGUs which reflect an increase in the risk-free rate (from 2.05% to 2.82%) and the risk premium (from 6.40% to 6.82%), while the two alternative asset management CGUs Cairn and RAM reflect the risk inherent in their sector plus the market scenario uncertainty through the incorporation of an adjustment factor.

All the assets 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 10.09%. The testing has not shown the need for any adjustments.

As for the RAM AI brand, no changes have been observed to the estimates used when the PPA process was completed, thus the initial recognition value has been confirmed.

SECTION 11

Asset heading 110 and Liability heading 60: Tax assets and liabilities

11.1 Advance tax assets: composition

	Total 30/6/19	Total 30/6/18
- Against profit and loss	612,627	614,153
- Against net equity	46,856	20,560
Total	659,483	634,713

11.2 Deferred tax liabilities: composition

	Total 30/6/19	Total 30/6/18
- Against profit and loss	292,302	284,242
- Against net equity	26,870	55,346
Total	319,172	339,588

Tax assets and liabilities reflect the effects of IFRS 9 first-time adoption; for further details, see Part A of the Notes to the Accounts and/or the “Report on transition to IFRS 9” published on the Group’s website at www.mediobanca.com.

11.3 Changes in advance tax during the period (against profit and loss)

	Total 30/6/19	Total 30/6/18
1. Opening balance	614,153	700,672
2. Increases	47,119	51,140
2.1 Deferred tax assets for the year	47,111	50,518
a) relating to previous years	32	39,447
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	47,079	11,071
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	9	622
3. Decreases	48,646	137,659
3.1 Deferred tax assets derecognized in the year	47,915	95,353
a) reversals of temporary differences	47,515	92,789
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	400	2,564
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	731	42,306
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	731	42,306
4. Closing balance	612,627	614,153

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

	Total 30/6/19	Total 30/6/18
1. Opening balance	548,385	609,074
2. Increases	—	71
3. Decreases	—	60,760
3.1 Reversals of temporary differences	—	57,536
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	3,224
4. Closing balance	548,385	548,385

* Italian decree law 59/16 on 29 April 2016 on deferred tax receivable pursuant to Italian decree law 214/11, as amended by Italian decree law 237/16, provides that in order to be able to retain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be specifically exercised, which involves payment of an annual instalment equal to 1.5% of the difference between the increase in advance tax assets at the reporting date since 30 June 2008 and the tax paid during the same period each year until 2029. Mediobanca has exercised this option in order to retain the possibility of converting DTAs for all companies adhering to the tax consolidation. No payment shall be due in this respect, however, given that the payments made to the tax consolidation exceed the increase in DTAs recorded since 30 June 2008.

As a result of the provisions contained in the Italian 2019 budget law, the writeoff to current taxes has been postponed, hence no changes have been recorded.

11.5 Changes in deferred tax during the period (against profit and loss)

	Total 30/6/19	Total 30/6/18
1. Opening balance	284,242	290,368
2. Increases	105,501	8,217
2.1 Deferred tax liabilities of the year	1,095	4,392
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	1,095	4,392
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	104,406	3,825
3. Decreases	97,442	14,343
3.1 Deferred tax liabilities derecognized in the year	95,774	12,849
a) reversals of temporary differences	93,789	9,910
b) due to changes in accounting policies	—	—
c) others	1,985	2,939
3.2 Reductions in tax rates	32	—
3.3 Other decreases	1,636	1,494
4. Closing balance	292,302	284,242

11.6 Changes in advance tax during the period (against net equity)

	Total 30/6/19	Total 30/6/18
1. Opening balance [1]	69,542	14,687
2. Increases	37,358	16,281
2.1 Deferred tax liabilities of the year	37,269	16,175
a) relating to previous years	—	—
b) due to changes in accounting policies	942	—
c) others	36,327	16,175
2.2 New taxes or increases in tax rates	—	1
2.3 Other increases	89	105
3. Decreases	60,044	10,408
3.1 Deferred tax liabilities derecognized in the year	52,923	10,174
a) reversals of temporary differences	39,056	9,344
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	13,867	830
3.2 Reductions in tax rates	39	—
3.3 Other decreases	7,082	234
4. Closing balance	46,856	20,560

[1] Initial balance as at 31/12/18 includes the effects of FTA of the new financial reporting standards.

The change is mainly due to taxes being restated as a result of IFRS 9 first-time adoption.

11.7 Changes in deferred tax during the period (against net equity)

	Total 30/6/19	Total 30/6/18
1. Opening balance [1]	59,782	79,878
2. Increases	95,855	254,221
2.1 Deferred tax liabilities of the year	95,836	254,220
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	95,836	254,220
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	19	1
3. Decreases	128,767	278,753
3.1 Deferred tax liabilities derecognized in the year	128,767	278,753
a) reversals of temporary differences	128,577	277,861
b) due to changes in accounting policies	—	—
c) others	190	892
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Closing balance	26,870	55,346

[1] Initial balance as at 31/12/18 includes the effects of FTA of the new financial reporting standards.

The change is mainly due to taxes being restated as a result of IFRS 9 first-time adoption.

SECTION 12

Assets heading 120 and Liability heading 70: Non-current assets and disposal groups classified as held for sale

12.1 Non-current assets and disposal groups classified as held for sale: breakdown by asset type

	30/6/19
A. Assets held for sale	
A.1 Financial assets	22,168
A.2 Equity investments	—
A.3 Tangible assets	—
of which: obtained via the obtainment of the collateral	—
A.4 Intangible assets	—
A.5 Other non-current assets	—
Total (A)	22,168
of which: valued at cost	—
of which: valued at fair value, level 1	—
of which: valued at fair value, level 2	—
of which: valued at fair value, level 3	22,168

At end-December 2018, CheBanca! reached an agreement to dispose of its entire legacy of non-performing loans generated by the French branch office (this line of operations was discontinued in December 2009); as at end-June 2019, the sale of the remainder of the former Micos Banca bad debts was at an advanced stage, involving a net asset value of €22.2m to be transferred after the balance-sheet date.

The portfolio sold does not contain any items which would constitute “Discontinued operations liabilities” or “Liabilities in respect of discontinued operations”.

SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	30/6/19	30/6/18
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	26,024	26,765
3. Trade receivables or invoices to be issued	172,536	175,290
4. Amounts due from tax revenue authorities (not recorded under Heading 130)	179,658	213,004
5. Other items	330,032	312,575
- bills for collection	158,064	138,305
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	22,634	20,845
- advance payments on deposit commissions	2,859	3,178
- other items in transit	128,099	119,170
- amounts due from staff	390	348
- sundry other items [1]	16,244	28,880
- improvements on third parties' assets	1,626	1,849
- group VAT	116	—
Total	708,945	728,329

[1] Includes accrued income.

Liabilities

SECTION 1

Heading 10: Financial liabilities at amortized cost

1.1 Financial liabilities at amortized cost: composition of due to banks

Type of transaction/Values	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	4,367,257	X	X	X	4,384,592	X	X	X
2. Due to banks	9,503,601	X	X	X	7,878,867	X	X	X
2.1 Current accounts and on demand deposits	637,250	X	X	X	495,301	X	X	X
2.2 Deposits to maturity	52,759	X	X	X	—	X	X	X
2.3 Loans	8,307,212	X	X	X	7,242,932	X	X	X
2.3.1 Reverse repos	4,482,590	X	X	X	3,821,874	X	X	X
2.3.2 Other	3,824,622	X	X	X	3,421,058	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Other debt	506,380	X	X	X	140,634	X	X	X
Total	13,870,858	—	13,870,858	—	12,263,459	—	12,263,459	—

1.2 Financial liabilities at amortized cost: composition of due to customers

Type of transaction/Values	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	17,379,865	X	X	X	14,573,523	X	X	X
2. Deposits to maturity	5,813,091	X	X	X	4,966,008	X	X	X
3. Loans	676,049	X	X	X	1,646,122	X	X	X
3.1 Reverse repos	471,387	X	X	X	806,937	X	X	X
3.2 Other	204,662	X	X	X	839,185	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Other debt	118,877	X	X	X	134,390	X	X	X
Total	23,987,882	—	23,987,882	—	21,320,043	—	21,317,138	—

1.3 Financial liabilities at amortized cost: composition of debt securities in issue

Type of securities/ Values	30/6/19				30/6/18			
	Book value	Fair value*			Book value	Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. bonds	18,724,942	1,109,322	17,972,952	—	19,187,164	704,927	18,746,567	—
1.1 structured	4,058,647	—	4,238,889	—	5,089,072	—	5,212,649	—
1.2 other	14,666,295	1,109,322	13,734,063	—	14,098,092	704,927	13,533,918	—
2. other securities	1,353,254	—	1,305,017	48,237	1,421,354	—	1,371,635	49,719
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,353,254	—	1,305,017	48,237	1,421,354	—	1,371,635	49,719
Total	20,078,196	1,109,322	19,277,969	48,237	20,608,518	704,927	20,118,202	49,719

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2019 would show a gain of €295.5m (€260.3m).

Debt securities in issue declined from €20,608,518,000 to €20,078,196,000, on new issuance of €3.1bn, redemptions and buybacks of €3.8bn (generating gains of €10.2m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €173.2m.

1.4 Breakdown of subordinated debt securities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,452,216,000:

Issue	30/6/19		
	ISIN code	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,475
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	651,652
MB OPERA 3.75 2026	IT0005188351	299,820	307,309
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	394,424
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,897
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	541,459
Total subordinated securities		2,351,944	2,452,216

SECTION 2

Heading 20: Trading financial liabilities

2.1 Trading financial liabilities: composition

Operation type/Values	30/6/19				
	Notional value	Fair value			Fair value *
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X
3.2.2 Other	—	—	—	—	X
Total (A)	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments					
1. Financial derivatives	—	650,530	1,415,615	249,777	—
1.1 Trading	X	650,530	1,357,118	247,959 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Other	X	—	58,497	1,818 [2]	X
2. Credits derivatives	—	—	1,414,336	—	—
2.1 Trading	X	—	1,414,336	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Other	X	—	—	—	X
Total (B)	X	650,530	2,829,951	249,777	X
Total (A+B)	3,852,063	4,948,023	2,829,951	249,777	4,297,493

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

[1] Including €235,984,000 for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value of options (€0.5m as at 30/6/19) covering others attached to bonds issued, matching the amount booked as financial assets held for trading.

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 Trading liabilities: composition

Type of transactions/Values	30/6/18				Fair value *
	Nominal value	Fair value			
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210
2. Deposits from customers	213,819	246,452	—	—	246,452
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 structured	—	—	—	—	X
3.1.2 other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 structured	—	—	—	—	X
3.2.2 other bonds	—	—	—	—	X
Total A	2,295,648	2,645,662	—	—	2,645,662
B. Derivative instruments					
1. Financial derivatives	—	561,257	1,936,667	87,131	X
1.1 Trading	X	561,257	1,849,508	83,713 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Others	X	—	87,159	3,418 [2]	X
2. Credit derivatives	—	—	1,231,687	—	X
2.1 Trading	X	—	1,231,687	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Others	X	—	—	—	X
Total B	X	561,257	3,168,354	87,131	X
Total (A+B)	X	3,206,919	3,168,354	87,131	X

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

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

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

SECTION 3

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities designated at fair value: composition

Operation type/Values	Total				
	30/6/19				
	Nominal value	Fair value			Fair value
		Level 1	Level 2	Level 3	
1. Due to banks	—	—	—	—	—
1.1 Structured	—	—	—	—	X
1.2 Others	—	—	—	—	X
of which:					
- commitments to disburse funds	—	X	X	X	X
- financial guarantees given	—	X	X	X	X
2. Due to customers	—	—	—	—	—
2.1 Structured	—	—	—	—	X
2.2 Others	—	—	—	—	X
of which:					
- commitments to disburse funds	—	X	X	X	X
- financial guarantees given	—	X	X	X	X
3. Debt securities	50,000	—	55,859	—	55,859
3.1 Structured	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X
Total	50,000	—	55,859	—	55,859

The above financial liabilities recognized at fair value are matched by equivalent financial assets also recognized at fair value.

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by hedge type and level

	Notional value	Fair value 30/6/19			Notional value	Fair value 30/6/18		
	30/6/19	Level 1	Level 2	Level 3	30/6/18	Level 1	Level 2	Level 3
A. Financial derivatives	17,381,786	—	414,241	—	9,135,810	—	233,086	—
1) Fair value	12,536,786	—	349,007	—	9,095,810	—	227,445	—
2) Cash flow	4,845,000	—	65,234	—	40,000	—	5,641	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	17,381,786	—	414,241	—	9,135,810	—	233,086	—

4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/ Type of hedge	Fair value							Cash flow		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken on comprehensive income	63,980	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	267,927	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	331,907	—	—	—	—	—	—	—	—	—
1. Financial liabilities	17,100	X	—	—	—	—	X	65,234	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	17,100	—	—	—	—	—	—	65,234	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see asset section 11.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/19	30/6/18
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	15,404
3. Working capital payables and invoices pending receipt	327,037	308,165
4. Amounts due to revenue authorities [1]	76,186	67,468
5. Amounts due to staff	227,706	194,054
6. Other items:	318,029	175,284
- bills for collection	26,719	25,895
- coupons and dividends pending collection	2,564	2,326
- available sums payable to third parties	44,959	41,927
- premiums, grants and other items in respect of lending transactions	29,951	24,493
- credit notes to be issued	—	—
- other [2]	213,836	80,643
7. Adjustments upon consolidation	—	—
Total	948,958	760,375

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as “Other liabilities”, are now stated as “Provisions”.

[2] 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 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	30/6/19	30/6/18
A. Initial amount	27,510	29,779
B. Increases	9,093	10,038
B.1 Provision of the year	6,394	8,622
B.2 Other increases	2,699	1,416
C. Reductions	8,795	12,307
C.1 Severance payments	2,742	4,914
C.2 Other decreases [1]	6,053	7,393
D. Closing balance	27,808	27,510
Total	27,808	27,510

[1] Includes €3,904,000 in transfers to external, defined contribution pension schemes (30/6/18: €4,287,000).

The staff severance indemnity provision is for those of the Group companies headquartered in Italy. For a detailed description of the accounting standards used, please see Part A – Accounting Policies.

9.2 Other information

The staff severance indemnity provision is a defined benefit scheme, and the actuarial model used to account for it relies on a series of assumptions, both demographic and economic in nature.

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2019 has been used for similar companies to those being valued (equal to 0.77%), while the inflation rate is 1.50%.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	**30/6/19**	**30/6/18**
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given[1]	10,536	—
2. Funds on other commitments to disburse funds and guarantees given	—	—
3. Provision to retirement payments and similar [2]	1,840	—
4. Other provisions	150,139	185,482
4.1 Legal and fiscal controversies	—	—
4.2 Staff expenses	3,889	12,421
4.3 Others	146,250	173,061
Total	162,515	185,482

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as "Other liabilities", are now stated as "Provisions".

[2] These regard the Swiss company RAM AI, in line with Swiss regulations.

IAS 37 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 2019, the heading "Other provisions" totalled €162.5m, and includes €10.5m in commitments to disburse funds and financial guarantees issued (which until last year were accounted for as other liabilities), €5.7m in staff-related expenses and post-retirement provisions (following withdrawals of approx. €8.7m), plus €146.3m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca as to €100.8m (€95,8m), CheBanca! as to €33m (€59m), and SelmaBipiemme as to €10.3m (€9.4m).

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 participation in the alleged damages caused by 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 29 October 2019;
– 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 unduly favourable guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. Judgement is currently pending at the court of Milan; the next hearing – for the taking up of any means of test – has been set for 19 November 2019.

With reference to the disputes outstanding with the Italian revenue authorities, during the period under review Mediobanca S.p.A. received notification of the alleged failure to apply the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion. In particular, the notice of assessment regards the alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest). The same charge was made in a report of findings for FY 2014-15 (2014 earnings),[1] for which no notice of assessment has yet been issued.

The company is convinced there has been no wrongdoing, and has challenged the rulings and is waiting to hear when the appeal session will take place. Furthermore, since 2016 both Group companies have paid income tax in the Principality of Monaco, meaning they would be excluded from application of the CFC regulations.

[1] The allegation involved the failure to apply withholding tax to interest expense payable in connection with a secured financing transaction.

A total of eighteen disputes were outstanding as at 30 June 2019. In addition to the cases described above, the others were as follows:

- Eight claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €12m and currently pending with the Court of Cassation; for seven of these claims, approval is still pending from the Italian revenue authority for the voluntary application submitted by the company under Article 6 of Italian Decree Law 119/18 in respect of the remaining amount outstanding, after the disputed amount of €191,000 had been paid; during the twelve months, the Court of Cassation declared in favour of the company in one of the proceedings;
- Two cases 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: in the former case (involving higher tax worth a notified amount of €3.9m) the company has been victorious at both the first and second stages; and in the second case (involving higher tax worth a notified amount of €7.2m), the date for the appeal hearing is still pending, after the court ruled in the company's favour at the first stage. For both cases the amounts paid in taxation and provisional collection in a total amount of €9m were refunded during the twelve months under review;
- 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 paid the disputed amount accordingly; however, an appeal is still pending at the Court of Cassation;
- Seven claims in respect of direct and indirect taxes, for minor amounts and at different stages of the legal process, for a total notified amount of €1.1m.

Mediobanca SGR has also been charged, in its capacity as manager of the *Marsupio* real estate fund, for the alleged failure to charge withholding tax on three deals involving higher tax worth a notified amount of €746,000; to date the first-degree ruling has gone in favour of the company in two cases, and against it in the third, and the date for the second-degree hearing has still to be set.

On 26 June 2019, Mediobanca received a tax collection notice following an automatic check carried out on Banca Esperia's *Unico* tax return. The Bank has taken steps to defend itself and will appeal against the notice before the tax commission.

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca and the other Group companies (for which no other significant litigation is pending).

*10.2 Provisions: movements during the period **

	Funds on other commitments to disburse funds and guarantees given	Provision to retirement payments and similar	Other provisions	Total
A. Opening balance[1]	—	12,421	172,880	185,301
B. Increases	—	200	4,922	5,122
B.1 Provision for the year	—	200	4,682	4,882
B.2 Changes due to the passage of time	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—
B.4 Other increases:	—	—	240	240
- of which business aggregation operations	—	—	—	—
C. Decreases	—	8,732	31,552	40,284
C.1 Use during the year	—	8,732	31,552	40,284
C.2 Difference due to discount rate changes	—	—	—	—
C.3 Other decreases	—	—	—	—
- of which business aggregation operations	—	—	—	—
D. Closing balance	—	3,889	146,250	150,139

* The balance as at 30/6/19 includes the effects of the new reporting standards coming into force.

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Funds for credit risk related to commitments to disburse funds and financial guarantees given			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds	6,850	591	2,354	9,795
Financial guarantees given	358	383	—	741
Total	7,208	974	2,354	10,536

10.5 Defined benefit company retirement pension schemes

This refers to the defined benefit company retirement pension scheme operated by Caisse Bâloise on behalf of RAM AI staff as required by Swiss law. The provision is subject to actuarial quantification by an independent

[2] This method involves future outflows being projected on the basis of historical statistical analysis and the demographic curve, and then being discounted based on market interest rates.

actuary using the Projected Unit Credit Method.[2] The current value of the liability as at the reporting date has also been adjusted to reflect the fair value of any assets used in connection with the scheme, resulting in a liability of €1.8m (CHF 2m) has been booked to the accounts.

To determine the liability's value, certain financial and demographic assumptions have been used: the former include the discount rate being equal to 0.40%, and the increase in salaries 1%; for the latter, in some cases the company's own experience has been used, e.g. for data on advance withdrawals from the provision, frequency of early retirement, nuclear family composition, etc., while in other cases account has been taken of the relevant best practice or legislative provisions: for instance, for the mortality, turnover and invalidity rates the BVG 2015 tables have been used, for life expectancy of the populations the CMI 2016 tables – 1.25%, and for retirement age the legal provisions.

The following table shows the breakdown of the net defined benefit obligation:

IAS19 Net obligation	**30/6/19**
	CHF/1000
Present value of defined benefit obligation	-13,578
Present value of assets servicing the fund	11,536
Surplus/(deficit)	-2,042
IFRIC14 adjustment	—
Net accounting (liability)/asset	**-2,042**

A sensitivity analysis is performed on the DBO to measure its sensitivity to changes in the main assumptions adopted.

SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

	Direct business	Indirect business	30/6/19	30/6/18
A. Non-life insurance	—	170,838	170,838	175,853
A1. Premium reserves	—	162,203	162,203	165,752
A2. Accident reserves	—	8,635	8,635	10,101
A3. Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B1. Mathematical reserves	—	—	—	—
B2. Reserves for sums to pay	—	—	—	—
B3. Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C1. Reserves related to contract which performance are connected to investment funds and market index	—	—	—	—
C2. Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	170,838	170,838	175,853

11.2 Technical reserves: movements during the period

	30/6/19	30/6/18
A. Non-life business		
Balance at start of period	175,853	165,974
Combinations involving group companies	—	—
Changes to reserves (+/-)	(5,015)	9,879
Other additions	—	—
Balance at end of period	170,838	175,853
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	170,838	175,853

SECTION 13

Headings 120, 130, 140, 150, 160, 170 and 180: Net equity

13.1 "Capital" and "treasury shares": composition

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

On 8 November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the "CRR") on 23 October 2018. The buyback involves a maximum of 3% of the share capital (or some 26.6 million shares), at 30 June 2019, a total of 15.3 million shares have been purchased, for an outlay of €162.5m. Since the year-end a further 99,000 shares have been purchased, for an outlay of €0.9m.

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

Item/Type	Ordinary
A. Shares in issue at start of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—
A.1 Treasury shares (-)	(8,714,833)
A.2 Shares in issue: balance at start of period	877,835,607
B. Additions	14,122,756
B.1 New shares issuance as a result of:	665,737
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	665,737
- to staff members	665,737
- to Board members	—
- others	—
B.2 Treasury shares' disposals	13,457,019
B.3 Other additions	—
C. Reductions	(20,088,481)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(20,088,481)
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	871,869,882
D.1 Add: treasury shares	(15,346,295)
D.2 Shares in issue at end of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—

13.4 Profit reserves: other information

Item	30/6/19	30/6/18
Legal reserve	88,704	88,124
Statutory reserve	1,157,437	1,284,471
Treasury shares	141,989	109,338
Others	4,503,343	4,008,517
Total	5,891,473	5,490,450

SECTION 14

Heading 190: Minority interests

14.1 Heading 210: Minority interests: composition

Company name	30/6/19	30/6/18
1. SelmaBipiemme S.p.A.	83,792	86,603
2. RAM Active Investments S.A. [1]	5,856	1,290
3. Other minors	10	7
Total	89,658	87,900

[1] The change chiefly regards the effects of the PPA process.

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			30/6/19
	First stage	Second stage	Third stage	
1. Commitment to disburse funds	12,564,238	27,940	16,240	12,608,418
a) Central Banks	—	—	—	—
b) Public Administration	4,069,828	—	—	4,069,828
c) Banks	82,745	—	—	82,745
d) Other financial companies	1,043,680	—	—	1,043,680
e) Non-financial companies	5,845,296	20,512	15,345	5,881,153
f) Families	1,522,689	7,428	895	1,531,012
2. Financial guarantees given	270,313	11,904	47	282,264
a) Central Banks	—	—	—	—
b) Public Administration	—	—	—	—
c) Banks	26,407	—	—	26,407
d) Other financial companies	166,763	—	—	166,763
e) Non-financial companies	58,683	11,904	47	70,634
f) Families	18,460	—	—	18,460

2. Other commitments and guarantees given

	Nominal value
	Total 30/6/19
1. Other guarantees issued	123,463
of which: impaired credit exposures	—
a) Central Banks	—
b) Public Administration	—
c) Banks	5
d) Other financial companies	19,494
e) Non-financial companies	28,188
f) Families	75,776
2. Other commitment	129,299
of which: impaired credit exposures	—
a) Central Banks	—
b) Public Administration	—
c) Banks	111,319
d) Other financial companies	—
e) Non-financial companies	17,980
f) Families	—

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1. Commitments and financial guarantees given

Operations	30/6/18
1) Financial guarantees given to	295,211
a) Banks	17,256
b) Customers	277,955
2) Commercial guarantees given to	68,942
a) Banks	5
b) Customers	68,937
3) Irrevocable commitments to disburse funds	10,619,616
a) Banks	398,799
i) usage certain	398,709
ii) usage uncertain	90
b) Customers	10,220,817
i) usage certain	9,086,995
ii) usage uncertain	1,133,822
4) Commitments underlying credit derivatives protection sales	19,893,957
5) Assets formed as collateral for third-party obligations	—
6) Other commitments	4,081,688
Total	34,959,414

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amounts 30/6/19
1. Financial assets valued at FV with impact taken to profit and loss	4,816,803
2. Financial assets valued at FV with impact taken to other comprehensive income	1,817,460
3. Financial assets valued at amortized cost	15,371,083
4. Tangible assets	—
of which: tangible assets that constitute inventories	—

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

2. Other commitments and guarantees given

Portfolio	30/6/18
1. Financial instruments held for trading	3,089,233
2. Financial instruments designated at fair value	—
3. Financial instruments available for sale	1,333,617
4. Financial instruments held to maturity	823,976
5. Loans and receivables with banks	335,086
6. Loans and receivables with customers	8,992,820
7. Property, plant and equipments	—

6. Assets managed and traded on behalf of customers

Type of service	30/6/19	30/6/18
1. Orders execution on behalf of customers		
a) Purchases	14,820,923	16,781,417
1. settled	14,711,791	16,633,525
2. unsettled	109,132	147,892
b) Sales	14,199,338	16,400,545
1. settled	14,090,206	16,252,653
2. unsettled	109,132	147,892
2. Portfolio management		
a) Individual	12,358,038	13,010,988
b) Collective	16,117,972	16,956,851
3. Custody and administration of securities		
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	11,191,064	8,894,582
1. securities issued by companies included in the area of consolidation	160,049	194,759
2. other securities	11,031,015	8,699,823
b) Third-party securities held in deposits (excluding portfolio management): other	16,182,829	15,604,059
1. securities issued by companies included in the area of consolidation	164,398	151,740
2. other securities	16,018,431	15,452,319
c) Third-party securities deposited to third	23,131,120	18,026,801
d) Own securities deposited to third	9,922,561	8,570,108
4. Other operations	1,702,426	1,934,851

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/19	30/6/18
1. Derivatives	2,521,036	279,269	2,241,767	1,612,815	25,490	603,462	418,699
2. Repos	7,033,030	—	7,033,030	7,033,030	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/19	9,554,066	279,269	9,274,797	8,645,845	25,490	603,462	X
Total 30/6/18	8,483,882	—	8,483,882	7,709,586	355,597	X	418,699

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

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets offset in BS (b)	Net amount of the financial liabilities reportes in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash collateral placed (e)	30/6/19	30/6/18
1. Derivatives	2,222,114	—	2,222,114	1,612,815	390,526	218,773	217,203
2. Repos	4,953,977	—	4,953,977	4,953,977	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/19	7,176,091	—	7,176,091	6,566,792	390,526	218,773	X
Total 30/6/18	7,706,789	49,050	7,657,739	6,989,650	450,886	X	217,203

9. Securities lending operations

The tables below illustrate the Group's operations in securities lending (and borrowing), broken down by type of instrument (sovereign debt, bank bonds and others), market counterparty (banks, financial intermediaries and clients) and form (loan secured by cash, other instruments, or unsecured).

Securities lending transactions for which collateral is put up in the form of cash fully available to the borrower are represented in the balance sheet as amounts due to or from banks or customers under the heading "Repos". Securities lending transactions for which collateral is put up in the form of other instruments, or which are unsecured, are represented as "Off-balance-sheet exposures".

Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2019, in 52% the counterparty was three major banking groups, and in another 25% the deals involved other Group companies.

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	613,777	314,712	401,007
a) Banks	612,808	309,775	351,902
b) Financial institutions	969	4,937	41,993
c) Customers	—	—	7,112
2. Securities lended collateralized by cash - Due to:	(422,226)	(102,199)	(906,691)
a) Banks	(422,226)	(36,644)	(818,099)
b) Financial institutions	—	(65,555)	(88,592)
c) Customers	—	—	—
Total securities lending (book value)	191,551	212,513	(505,684)

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by other securities or unsecured:	2,248,654	588,000	395,909
a) Banks	552,110	588,000	231,519
b) Financial institutions	1,599,298	—	164,209
c) Customers	97,246	—	181
2. Securities lended collateralized by other securities or unsecured:	(2,611,606)	(772,251)	(1,179,181)
a) Banks	(1,593,336)	(241,980)	(470,679)
b) Financial institutions	(1,018,270)	(530,271)	(708,502)
c) Customers	—	—	—
Total securities lending (fair value)	(362,952)	(184,251)	(783,272)

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

Items/Technical forms	Debt securities	Loans	Other operations	12 mths ended 30/6/19
1. Financial assets at fair value with impact taken to P&L:	30,528	2,641	—	33,169
1.1 Financial assets held for trading	28,516	429	—	28,945
1.2 Financial assets designated at fair value	1,416	—	—	1,416
1.3 Other financial assets mandatorily at fair value	596	2,212	—	2,808
2. Financial assets at fair value with impact taken to comprehensive income	63,472	—	X	63,472
3. Financial assets at amortized cost	56,918	1,699,403		1,756,321
3.1 Due from banks	17,118	15,980	X	33,098
3.2 Due from customers	39,800	1,683,423	X	1,723,223
4. Hedging derivatives	X	X	12,355	12,355
5. Other assets	X	X	1,902	1,902
6. Financial liabilities	X	X	X	18,771
Total	150,918	1,702,044	14,257	1,885,990
of which: income interests on impaired financial assets	—	*64,554*	—	*64,554*

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.1 Interest and similar income: breakdown

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18
1. Financial assets held for trading	13,442	1,840	—	15,282
2. Financial assets designated at fair value through profit or loss	—	—	—	—
3. Available for sale financial assets	64,338	—	—	64,338
4. Held to maturity investments	41,844	—	—	41,844
5. Loans and receivables with banks	—	27,873	1	27,874
6. Loans and receivables with customers	7,100	1,623,211	—	1,630,311
7. Hedging derivatives	X	X	97,999	97,999
8. Other assets	X	X	19,154	19,154
Total	126,724	1,652,924	117,153	1,896,801

1.2 Interest and similar income: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest income on foreign currency financial assets	124,380	170,929
Interest income on finance leasing operations	49,935	85,985
Total	174,315	256,914

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	12 mths ended 30/6/19
1. Financial liabilities at amortized cost	(110,493)	(363,369)		(473,862)
1.1 Due to central banks	(761)	X	X	(761)
1.2 Due to banks	(25,875)	X	X	(25,875)
1.3 Due to customers	(83,857)	X	X	(83,857)
1.4 Debt securities in issue	X	(363,369)	X	(363,369)
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,450)	—	(2,450)
4. Other liabilities and funds	X	X	(519)	(519)
5. Hedging derivatives	X	X	—	—
6. Financial assets	X	X	X	(4,961)
Total	(110,493)	(365,819)	(519)	(481,792)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.4 Interest expense and similar charges: breakdown

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/18
1. Deposits from central banks	(714)	X	—	(714)
2. Deposits from banks	(21,160)	X	—	(21,160)
3. Deposits from customers	(60,318)	X	—	(60,318)
4. Debt securities in issue	X	(444,459)	—	(444,459)
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)
8. Hedging derivatives	X	X	—	—
Total	(82,192)	(444,459)	(4,109)	(530,760)

1.4 Interest expense and similar charges: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest expense on foreign currency financial liabilities	(105,528)	(71,992)
Interest expense on finance leasing operations	—	—
Total	(105,528)	(71,992)

1.5 Margins on hedging transactions

Items	Total 12 mths ended 30/6/19	Total 12 mths ended 30/6/18
A. Positive differentials related to hedging operations	175,774	1,533,193
B. Negative differentials related to hedging operations	(163,419)	(1,435,194)
C. Net balance (A-B)	12,355	97,999

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees given	2,359	2,076
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	345,530	353,706
1. securities trading	14,231	12,993
2. currency trading	—	—
3. portfolio management	124,266	100,565
3.1. individual	36,276	32,377
3.2. collective	87,990	68,188
4. custody and administration of securities	14,242	9,879
5. custodian bank	7,458	7,458
6. placement of securities	71,955	102,897
7. reception and transmission of orders	15,173	15,047
8. advisory services	11,793	8,976
8.1 related to investments	11,793	8,976
8.2 related to financial structure	—	—
9. distribution of third parties services	86,412	95,891
9.1 porfolio management	12,813	32,188
9.1.1 individual	12,035	31,887
9.1.2 collective	778	301
9.2 insurance products	70,005	59,761
9.3 other products	3,594	3,942
d) collection and payment services	11,559	21,238
e) securitization servicing	473	61
f) factoring services	6,382	5,786
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	4,752	5,042
j) other services	213,868	202,740
Total	584,923	590,649

This heading includes €42.8m from RAM AI (compared with €19.9m last year, when its results were consolidated for just four months), in connection with collective portfolio asset management activity, and €5.3m from the consolidation of Messier Maris et Associés, from 1 April 2019, in connection with advisory activity (other services).

2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees received	(34)	—
b) credit derivatives	—	—
c) management and brokerage services	(22,451)	(24,845)
1. trading in financial instruments	(7,740)	(8,544)
2. currency trading	—	—
3. portfolios management:	(10,882)	(9,839)
3.1 own portfolio	(100)	(345)
3.2 third parties portfolio	(10,782)	(9,494)
4. custody and administration securities	(3,448)	(3,577)
5. financial instruments placement	(381)	(2,885)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(13,892)	(13,027)
e) other services	(108,078)	(96,443)
Total	(144,455)	(134,315)

This heading includes €7.1m from RAM AI (compared with €4.4m, last year, when its results were consolidated for just four months), in connection with collective portfolio asset management activity.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/19	
	Dividends	Similar income
A. Financial assets held for trading	87,269	—
B. Other financial assets mandatorily measured at fair value	—	14,205
C. Financial assets measured at fair value with impact taken to other comprehensive income	4,329	—
D. Investments	—	—
Total	91,598	14,205

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions/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	166,352	191,020	(274,272)	(225,171)	(142,071)
1.1 Debt securities	97,619	57,661	(112,528)	(41,085)	1,667
1.2 Equity	62,307	132,236	(155,261)	(181,767)	(142,485)
1.3 Units in investments funds	6,301	953	(6,415)	(2,319)	(1,480)
1.4 Loans	125	170	(49)	—	246
1.5 Others	—	—	(19)	—	(19)
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 [2]	X	X	X	X	(49,650)
4. Derivatives	2,932,035	1,767,393	(2,960,382)	(1,629,848)	179,573
4.1 Financial derivatives:	2,343,836	1,265,245	(2,378,418)	(1,139,137)	161,901
- on debt securities and interest rates [1]	1,802,287	640,465	(1,821,743)	(619,743)	1,266
- on equity securities and shares indexes	541,549	624,780	(556,675)	(519,394)	90,260
- on currencies and gold	X	X	X	X	70,375
- other	—	—	—	—	—
4.2 Credit derivatives	588,199	502,148	(581,964)	(490,711)	17,672
of which: natural hedges connected to fv option	X	X	X	X	—
Total	3,098,387	1,958,413	(3,234,654)	(1,855,019)	(12,148)

[1] Of which €13,829,000 in negative margins on interest rate derivatives (30/6/18: minus €9,448,000).
[2] This item contains valuations for banking book positions based at current exchange rates totalling €18,137,000.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Income from:		
A.1 Fair value hedging instruments	168,235	289,223
A.2 Hedged asset items (in fair value hedge relationship)	239,391	51,784
A.3 Hedged liability items (in fair value hedge relationship)	30,895	269,236
A.4 Cash-flows hedging derivatives	2	—
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	438,523	610,243
B. Losses on:		
B.1 Fair value hedging instruments	(57,495)	(479,797)
B.2 Hedged asset items (in fair value hedge relationship)	(48,721)	(63,163)
B.3 Hedged liability items (in fair value hedge relationship)	(326,881)	(64,425)
B.4 Cash-flows hedging derivatives	—	(1)
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(433,097)	(607,386)
C. Net profit from hedging activities (A-B)	5,426	2,857
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposals/repurchases: breakdown

Items/Income	12 mths ended 30/6/19		
	Gains	Losses	Net profit
A. Financial assets			
1. Financial assets at amortized cost	17,863	(15,498)	2,365
1.1 Loans and receivables with banks	—	(150)	(150)
1.2 Loans and receivables with customers	17,863	(15,348)	2,515
2. Financial assets at fair value with impact taken to comprehensive income	73,260	(6,461)	66,799
2.1 Debt securities	73,260	(6,461)	66,799
2.2 Loans	—	—	—
Total assets (A)	91,123	(21,959)	69,164
B. Financial liabilities at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	10,787	(592)	10,195
Total liabilities (B)	10,787	(592)	10,195

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income include exchange rate valuations of €3.7m and €14.4m respectively.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

6.1 Gain (loss) on disposal/repurchases: breakdown

Items/Income	12 mths ended 30/6/18		
	Gains	Losses	Net profit
Financial assets			
1. Loans and receivables with banks	5,502	(7,350)	(1,848)
2. Loans and receivables with customers	11,502	(19,017)	(7,515)
3. Financial assets available for sale	133,371	(10,305)	123,066
3.1 Debt securities	34,836	(10,189)	24,647
3.2 Equity instruments	96,205	—	96,205
3.3 Units in investment funds	2,330	(116)	2,214
3.4 Loans	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)
Total assets	150,837	(38,053)	112,784
Financial liabilities			
1. Deposits with banks	2,183	—	2,183
2. Deposits with customers	—	—	—
3. Debt securities in issue	—	(9,910)	(9,910)
Total liabilities	2,183	(9,910)	(7,727)

The losses on debt securities (AFS and held to maturity) involve exclusively valuations of bonds denominated in foreign currencies (€11.6m, €10.2m of which in the AFS segment).

SECTION 7

Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Operation/Income item	Gains (A)	Proceeds (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(1,534)	—	(1,534)
1.1 Debt securities	—	—	(1,534)	—	(1,534)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	1,506	—	—	—	1,506
2.1 Debt securities in issue	1,506	—	—	—	1,506
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences	X	X	X	X	—
Total	1,506	—	(1,534)	—	(28)

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	40,962	1,331	(23,890)	(497)	17,906
1.1 Debt securities	—	984	(72)	—	912
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	16,202	347	(16,229)	(497)	(177)
1.4 Loans	24,760	—	(7,589)	—	17,171
2. Financial assets: exchange rate differences	X	X	X	X	(1,479)
Total	40,962	1,331	(23,890)	(497)	16,427

SECTION 8

Heading 130: Net writeoffs (writebacks) for credit risk

8.1 Net writeoffs for credit risk related to financial assets valued at amortized cost: breakdown

Transaction/Income	Writedowns (1)			Writebacks (2)		
	First and second stage	Third stage		First and second stage	Third stage	12 mths ended 30/6/19
		Write-off	Others			
A. Loans and receivables with banks	(356)	—	—	92	—	(264)
- Loans	(47)	—	—	92	—	45
- Debt receivables	(309)	—	—	—	—	(309)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	(290,633)	(44,621)	(283,508)	198,186	211,329	(209,247)
- Loans	(290,623)	(44,621)	(283,508)	194,459	211,329	(212,964)
- Debt receivables	(11)	—	—	3,727	—	3,716
of which: financial assets purchased or originated credit impaired	—	*(36,892)*	—	—	*52,965*	*16,073*
Total	(290,990)	(44,621)	(283,508)	198,278	211,329	(209,512)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

8.1 Net value adjustments for impairment: breakdown

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

[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 writeoffs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/Income	**Writedowns (1)**			**Writebacks (2)**		**Total**
	Stage 1 and stage 2	**Stage 3**		**Stage 1 and stage 2**	**Stage 3**	**12 mths ended 30/6/19**
		Write-off	**Others**			
A. Debt securities	(779)	—	—	—	—	(779)
B. Loans	—	—	—	—	—	—
- to customers	—	—	—	—	—	—
- to banks	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	(779)	—	—	—	—	(779)

SECTION 9

Heading 140: Gains (losses) from contractual modifications without derecognition

9.1 Gains (losses) from contractual modifications: breakdown

This heading, which reflects a loss of €199,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS 9 and the Group's own accounting policies, do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

SECTION 10

Heading 160: Net premium

10.1 Net premiums: breakdown

Premium for insurance	Direct business	Indirect business	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premium written (+)	—	55,625	55,625	72,812
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	3,548	3,548	(14,945)
B.4 Change in provision for unearned premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Total	—	59,173	59,173	57,867
C. Total net premiums	—	59,173	59,173	57,867

SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
1. Net change in insurance provisions	—	—
2. Claims paid for the period [1]	(7,056)	(3,028)
3. Other income and expense from insurance	(5,659)	(5,961)
Total	(12,715)	(8,989)

[1] The item "Claims paid for the period" includes writebacks in an amount of €6.4m for the six months ended 31/12/18, against the valuation reserve for risks in respect of claims estimated but not yet reported.

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

Changes for claims	12 mths ended 30/6/19	12 mths ended 30/6/18
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	(8,523)	(8,094)
C.1 Gross annual amount	(8,523)	(8,094)
C.2 Amount attributable to reinsurers (-)	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	1,467	5,066
E.1 Gross annual amount	1,467	5,066
E.2 Amount attributable to reinsurers (-)	—	—
Total non-life business claims	(7,056)	(3,028)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
1) Employees	(560,935)	(538,753)
a) wages and salaries	(408,011)	(390,024)
b) social security contributions	(89,579)	(86,670)
c) severance pay (only for Italian legal entities)	(3,656)	(1,901)
d) social security costs	—	—
e) allocation to employees severance pay provision	(11,718)	(11,368)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(15,488)	(15,517)
- defined contribution	(15,488)	(15,517)
- defined benefits	—	—
h) expenses resulting from share based payments	(12,022)	(10,980)
i) other employees' benefits	(20,461)	(22,293)
2) Other staff	(6,259)	(5,192)
3) Directors and Statutory Auditors	(9,296)	(8,047)
4) Early retirement costs	(4,651)	(5,832)
Total	(581,141)	(557,824)

The heading includes €15.8m from RAM AI (30/6/18: €6.4m, when its contribution was limited to just four months) and €3.2m deriving from the consolidation of Messier Maris et Associés, starting from 1 April 2019.

12.2 Average number of staff by category

	12 mths ended 30/6/19	12 mths ended 30/6/18
Employees:		
a) Senior executives	409	395
b) Executives	1,860	1,818
c) Other employees	2,417	2,482
Other staff	246	231
Total	4,932	4,925

The figures also include Messier Maris et Associés (37 staff).

12.5 Other administrative expenses: breakdown

Type of expense/Amounts	**12 mths ended 30/6/19**	**12 mths ended 30/6/18**
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(71,124)	(65,384)
- loan recovery activity	(66,467)	(62,695)
- marketing and communications	(42,268)	(47,683)
- property	(53,191)	(52,618)
- EDP	(125,900)	(107,616)
- info-provider	(40,985)	(37,627)
- bank charges, collection and payment fees	(21,645)	(19,747)
- operating expenses	(63,551)	(65,647)
- other staff expenses	(23,756)	(24,422)
- other costs [1]	(71,319)	(61,366)
- indirect and other taxes	(72,416)	(69,571)
Total other administrative expenses	(652,622)	(614,376)

[1] The item includes contributions to the various resolution funds: €53.5m for the year ended 30/6/19 and €46.3m for the year ended 30/6/18.

This heading includes €5.6m from RAM AI (compared with €1.8m last year, when its contribution was limited to just the four months) and €2.2m from Messier Maris et Associés, which has been consolidated since 1 April 2019.

SECTION 13

Heading 200: Net transfers to provisions

13.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	12 mths ended 30/6/19		
	Provisions	**Reallocation surplus**	**Total**
Loan committments	(5,863)	9,649	3,786
Financial guarantees given	(250)	171	(79)
Total	(6,113)	9,820	3,707

13.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/19		
	Provisions	**Reallocation surplus**	**Total**
1. Other provisions			
1.1 Legal expenses	(2,555)	90	(2,465)
1.2 Staff expenses	—	—	—
1.3 Others	(1,404)	139	(1,265)
Total	(3,959)	229	(3,730)

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depriciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A. Property, equipment and investment property				
A.1 Owned	(13,890)	—	—	(13,890)
- For operational use	(11,613)	—	—	(11,613)
- For investment	(2,277)	—	—	(2,277)
- Inventories	X	—	—	—
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(13,890)	—	—	(13,890)

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Amortization (a)	Impairment losses (b)	Writebacks (c)	Net risult (a + b - c)
A. Intangible assets				
A.1 Owned	(29,096)	(1,178)	—	(30,274)
- Software	(21,420)	(1,178)	—	(22,598)
- Other	(7,676)	—	—	(7,676)
A.2 Held by finance leases	—	—	—	—
Total	(29,096)	(1,178)	—	(30,274)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expense: breakdown

Income-based components/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Leasing activity	(10,735)	(11,490)
b) Sundry costs and expenses	(9,437)	(9,823)
Total	(20,172)	(21,313)

16.2 Other operating income: breakdown

Income-based components/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Amounts received from customers	72,909	79,674
b) Leasing activity	8,826	10,296
c) Other income	102,328	99,162
Total	184,063	189,132

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/Value	12 mths ended 30/6/19	12 mths ended 30/6/18
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	321,157	280,291
1. Revaluation	321,157	280,291
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	321,157	280,291
Total	321,157	280,291

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Assets	(73)	—
- Gains on disposal	—	—
- Losses on disposal	(73)	—
B. Other assets	239	475
- Gains on disposal	266	487
- Losses on disposal	(27)	(12)
Net result	166	475

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activities: breakdown

Income components/Sectors	12 mths ended 30/6/19	12 mths ended 30/6/18
1. Current tax expense (-)	(257,566)	(150,497)
2. Changes of current tax expense of previous years (+/-)	3,436	2,782
3. Reduction in current tax expense for the period (+)	875	—
3.bis Reductions in current tax expense for the period due to tax credit related to Italian Law 214/2011 (+)	—	—
4. Changes of deferred tax assets (+/-)	(13,605)	(86,902)
5. Changes of deferred tax liabilities (+/-)	10,331	6,497
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(256,529)	(228,120)

21.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/19	
	Amounts %	**Absolute value %**
Total profit or loss before tax from current operations	100.00%	1,082,737
Theoretical tax rate	27.50%	297,753
Dividends (-)	-4.32%	(46,728)
Gains on disposals of equity investments (PEX) (-)	-0.06%	(608)
Gains on equity-accounted investments (-)	-7.32%	(79,221)
Changes in deferred tax for previous years (-)	0.02%	207
Other taxes (non-Italian companies) (+ /-)	-0.21%	(2,257)
Non-taxable income 10% IRAP (-)	-0.06%	(685)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.04%	(391)
Non-deductible interest expense 4% (+)	—	—
Benefit from tax consolidation (-)	—	—
Impairment *(+ /–)*	0.18%	1,928
Extraordinary items (IRES surtax)	-0.19%	(2,062)
Other differences (+ /-)	3.40%	36,826
TOTAL IRES	18.91%	204,762
IRAP	4.78%	51,767
TOTAL HEADING [1]	23.69%	256,529

[1] Compared with a tax rate of 20.82% last year.

SECTION 23

Heading 340: Net profit (loss) attributable to minorities

23.1 Breakdown of Heading 340, "Net profit (loss) for the year attributable to minorities"

Company name	**12 mths ended 30/6/19**	**12 mths ended 30/6/18**
1. SelmaBipiemme S.p.A.	2,130	3,237
2. RAM Active Investments S.A.	1,055	579
3. Others	(2)	(10)
Total	3,183	3,806

SECTION 25

Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/19	12 mths ended 30/6/18
Net profit	823,025	863,920
Avg. no. of shares in issue	871,819,196	877,685,049
Avg. no. of potentially diluted shares	5,081,612	5,738,709
Avg. no. of diluted shares	876,900,808	883,423,758
Earnings per share	0.94	0.98
Earnings per share, diluted	0.94	0.98

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**	**826.208**
	Other income items not passing through P&L			
20.	Equity instruments designated at fair value with impact taken to comprehensive income:	11,555	(627)	10,928
	a) changes in fair value	4,267	(422)	3,845
	b) tranfers to other shareholders' equity items	7,288	(205)	7,083
30.	Financial liabilities designated at fair value with impact taken to profit and loss (own creditworthiness changes):	—	—	—
	a) changes in fair value	—	—	—
	b) tranfers to other shareholders' equity items	—	—	—
40.	**Hedge accounting of equity instruments measured at fair value with impact taken to comprehensive income:**	**—**	**—**	**—**
	a) fair value change (hedged instrument)	—	—	—
	b) fair value change (hedging instrument)	—	—	—
50.	**Property, plant and equipment**	**—**	**—**	**—**
60.	**Intangible assets**	**—**	**—**	**—**
70.	**Defined benefits plans**	**(1,623)**	**517**	**(1,106)**
80.	**Non-current assets classified as held for sale**	**—**	**—**	**—**
90.	**Valuation reserves from equity-accounted investments:**	**(21,745)**	**—**	**(21,745)**
100.	**Tax expenses (income) relating to items not reclassified to profit or loss**	**—**	**—**	**—**
	Other income items passing through P&L			
110.	**Hedges of non-Italian investments:**	**(5,417)**	**1,579**	**(3,838)**
	a) changes in fair value	(5,417)	1,579	(3,838)
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
120.	**Exchange differences:**	**3,706**	**—**	**3,706**
	a) changes in value	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	3,706	—	3,706
130.	**Cash flow hedges:**	**(42,704)**	**14,122**	**(28,582)**
	a) changes in value	(42,704)	14,122	(28,582)
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
	of which: net position	—	—	—
140.	**Hedging instruments (non-designated items):**	**—**	**—**	**—**
	a) changes in value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
150.	**Financial assets (different from equity instruments) at fair value with impact taken to comprehensive income:**	**(34,588)**	**11,409**	**(23,179)**
	a) changes in fair value	22,871	(7,592)	15,279
	b) reclassifications through profit or loss account	(57,459)	19,001	(38,458)
	- impairment losses	814	(269)	545
	- gains/losses on disposals	(58,273)	19,270	(39,003)
	c) other variations	—	—	—
160.	**Non-current assets classified as held for sale**	**—**	**—**	**—**
	a) changes in fair value	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
170.	**Valuation reserves from equity-accounted investments**	**(81,395)**	**—**	**(81,395)**
180.	**Tax expenses (income) relating to items reclassified to profit or loss**	**—**	**—**	**—**
190.	**Total other comprehensive income**	**(172,211)**	**27,000**	**(145,211)**
200.	**Comprehensive income (10+190)**	**X**	**X**	**680,997**
210.	Consolidated comprehensive income attributable to minorities	X	X	3,337
220.	**Consolidated comprehensive income attributable to parent company**	**X**	**X**	**677,660**

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to whom the Group is subject and manages and mitigates them in coordination with various business areas. Hence are described the aspects related to duties and responsibilities of this division, its independence characteristics and the role of different corporate structures in the risks mitigation process.

Banking Group risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

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 S.p.A. (the Group Risk Management unit), which also performs specific activities for the parent company 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 leadership, 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 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 carries 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 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 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.

With reference to the authorization process to use AIRB models in order 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 and for the CheBanca! Italian mortgage loan book. As 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 "CRR"), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Plan"). With regard to such exposures, for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk used for managerial purposes.

2. Credit risk management policies

2.1 Organizational aspects

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 guarantee 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 Plan 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, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group 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; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

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. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank's capability in terms of governing its own company risks, and also ensuring sustainable growth over the medium and long term. In this connection, the Group has developed a Risk Appetite Framework governance model which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, Mediobanca:

- Identifies the risks which it is willing to assume;
- Defines, for each risk, the objectives and limits in normal and stressed conditions;
- Identifies the action necessary in operating terms to bring the risk back within the set objective.

For the purposes of defining the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the four framework risk pillars, in line with best international practice: capital adequacy; liquidity; bank-specific factors; conduct/operational risk. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each dimension analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. 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. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Mediobanca Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating the expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable for direct use in an accounting environment (for example, reconverting the data to reflect a point-in-time approach). Indeed, the calculation of expected losses required under IFRS 9 derives from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which the risk has undergone significant increase in credit risk (“Stage 2”) or which show objective signs of impairment (“Stage 3”) and on a time horizon over twelve months for the instruments not included in the previous two categories (“Stage 1”).

The Group adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are also identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor’s scale, or a corresponding internal PD estimate. In accordance with the provisions of IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Group has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time. The change in PD selected to determine reclassification to Stage 2 is specific to each Group company but on average reflects the reading at least trebling since the initial recognition date.

In cases where there is no internal rating model for a specific portfolio, the backstop indicators apply as qualitative criteria; the qualitative factors considered by the Group for reclassification to Stage 2 include: a) Mediobanca Corporate and Financial Institutions counterparties being classified in the watchlist as “amber” and “red”; b) indicators of a delay in payments for retail exposures.

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months or to the contractual expiry date of the relevant exposure, depending on which stage it is classified in) discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring. The scenarios, determined at Group level, are updated once every six months. In particular, the Group defines the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations regarding interest rates. Levels of deviation from the baseline scenario are defined in order to determine the mild-negative and mild-positive scenarios.

2.4 Credit risk mitigation techniques

The Group has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral are set out in in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the “CRR”). The Group has also compiled specific criteria by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The use of financial instruments or of moveable and immoveable assets as collateral and of personal guarantees is widespread in lending activity, in particular as follows:

- Mortgage guarantees: when mortgages are taken out, valuations are required from independent experts; specific procedures are also in place to calculate the fair value of the asset and monitor it at regular intervals, based on market indicators furnished by external information providers; further valuations are also required in cases where significant departures are noted from the most recent valuation available;
- Pledges: pledges are valued according to the market value for listed financial instruments, or on the basis of their expected realizable value; prudential haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

The Group also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in establishing eligibility criteria for regulatory and management purposes remains central, with Group Risk Management responsible for supervising consistency overall. Controls on the mitigation instruments are included in the general risk control and management framework.

3. Non-performing credit exposures

The Mediobanca Group is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep thelevel of them on the books low, including the use of different options typically available, such as disposals (of both individual assets and portfolios), collateral enforcement activity, and negotiating restructuring agreements.

Non-performing exposures are identified on the basis of definitions that give equal weight to the guidance provided by the regulations in force on regulatory capital requisites (for the concept of "default"), supervisory statistical reporting (for the definition of "non-performing"), and Stage 3 assets (for the definition of "credit-impaired"). This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to detect non-performing before the 90 days past due status by execution of individual analysis or by application of automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures may either reflect analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company's own business.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts may be written off even before legal action to recover the asset is completed, and this does not necessarily entail waiving the Group's legal right to recover the amount due to it.

4. Financial assets subject to commercial renegotiations and concessions

Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client's initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Group assesses whether or not, such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to 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, whereas certain predefined conditions apply in the case of consumer credit activities (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as represented in the previous sections, an account being assigned the status of "forborne" is considered to be incompatible with its being classified as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned the "forborne" status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the "forborne performing exposure" status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for "non-performing forborne exposure" to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the "forborne performing exposure" status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as "forborne" must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, "forborne" exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately to Stage 3 on prudential grounds.

5. Details by individual business segment

Corporate activity

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.

The Credit Risk Management unit also 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 with the same frequency.

In terms of monitoring the performance of individual credit exposures, Mediobanca has adopted 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 (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. All forborne positions are also 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 parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

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; the asset being leased is 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.

The quantification of provisions for non-performing accounts requires individual analysis to establish the estimated loss, taking into account inter alia the value of the assets resulting from regularly updated expert valuations, revised downwards on a prudential basis, and/or any other form of collateral. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured on the basis of internal PD and LGD parameters. To define the PD parameters, through-the-cycle transition matrices for the management models based on internal data are used, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. The LGD estimates for the exposures differ according to type of product (vehicle leasing, core goods, yachts and property), and are subjected to the same macroeconomic scenarios defined internally to obtain forward-looking data.

Consumer credit

Consumer credit operations are performed primarily by Compass, where 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, 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 by the relevant bodies at headquarters, in accordance with the authorization levels established by the Board of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, 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 established, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies, 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. To estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

Factoring

Factoring, a business in which MBFACTA specializes, includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which 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 instalment factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, costs and margins.

Non-performing exposures to corporate counterparties are quantified analytically, while non-performing exposures to retail counterparties are based on the identification of clusters of exposures with similar characteristics. The portfolio of performing assets is valued on the basis of PD and LGD parameters. PD parameters are defined by using the revised parameters supplied by external providers or internal estimates based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the parent company’s process apply.

NPL business

This business is performed by MBCredit Solutions, which 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 determined by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections of expected amounts recovered, expenses and margins. 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 as 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

Private banking operations include granting loans as a complementary activity in serving affluent, 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 backed by collateral or 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/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. 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. The LGD values used differ according on the type of collateral and guarantees involved.

Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed 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 collateral for positions which have become non-performing.

Accounts, both regular and irregular, are monitored through a reporting system which allows operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter positions at risk, 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 insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyers. Internal procedures requires that cases with four or more unpaid instalments (not necessarily consecutive), or cases with persistent irregularities or interest suspended at the legal rate, are designated as unlikely to pay accounts, and classified as bad loans 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 bad loans and based on clusters of similar positions for unlikely to pay, , other overdue and performing accounts. The analytical provision for bad loans takes account the of expert valuations of the assets (deflated on a prudential basis) as well as the timing and costs of the recovery process. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios to the PD estimates. The LGD parameters are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models.

QUANTITATIVE INFORMATION

SECTION 1

Consolidated accounting risks

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi (other company), which under the banking group method of consolidation are accounted under the equity method.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans *	Unlikely to pay *	Non-performing overdue exposures	Performing overdue exposures [1]	Other performing exposures	Total
1. Financial assets at amortized cost	446,193	652,684	57,990	465,977	54,977,015	56,599,859
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	51,976	51,976
4. Other financial assets mandatorily at fair value	264	17,482	—	—	205,676	223,422
5. Financial assets being sold	22,168	—	—	—	—	22,168
Total 30/6/19	468,625	670,166	57,990	465,977	58,982,830	60,645,588

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €127.4m, €117.5m of which is attributable to CheBanca! mortgage loans (0.22% of the performing loans in this segment), €112.1m to factoring (0.21%), and €87m to consumer credit (0.16%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €19.7m, consisting primarily of mortgage loans totalling €17.6m.

* Includes the NPLs held by MBCredit Solutions in an amount of €368.6m, €366.6m of which bad loans.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing assets				Performing assets			Total (net exposition)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,017,484	860,617	1,156,867	9,948	55,959,824	516,832	55,442,992	56,599,859
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,750,003	1,840	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	X	X	51,976	51,976
4. Other financial assets mandatorily at fair value	133,417	115,671	17,746	—	X	X	205,676	223,422
5. Financial assets being sold	128,953	106,785	22,168	—	—	—	—	22,168
Total 30/6/19	2,279,854	1,083,073	1,196,781	9,948	59,709,827	518,672	59,448,807	60,645,588

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	6,951,228
2. Hedging Derivatives	—	—	412,234
Total 30/6/19	—	—	7,363,462

The non-performing items include €368.6m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.7bn as at 30 June 2019. Of these items, €7.9m (with a nominal value of €600.3m) involve assets acquired from other Group companies, mostly those operating in consumer banking.

The purchase price of these items, and also their initial recognition value, is €526.5m, compared with a nominal (original gross) value of €5.9bn.

Non-performing assets also include the bad debts originated in mortgage lending by Micos Banca, booked as "Non-current assets held for sale and discontinued operations" pursuant to IFRS 5 at a net value of €22.2m, which were sold after the year under review had ended.

Information on exposures to sovereign debt

*A.1.2a 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	(905,979)	(905,979)
France	—	—	—	—	X	X	(643,671)	(643,671)
Italy	—	—	—	—	X	X	229,952	229,952
Germany	—	—	—	—	X	X	(468,815)	(468,815)
UK	—	—	—	—	X	X	(36,400)	(36,400)
Others	—	—	—	—	X	X	12,955	12,955
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,863,097	—	2,863,097	2,863,097
Italy	—	—	—	—	1,161,288	—	1,161,288	1,161,288
Germany	—	—	—	—	807,022	—	807,022	807,022
United States	—	—	—	—	433,925	—	433,925	433,925
France	—	—	—	—	256,482	—	256,482	256,482
Spain	—	—	—	—	204,380	—	204,380	204,380
3. Financial assets at amortized cost	—	—	—	—	1,733,519	—	1,733,519	1,733,519
Italy	—	—	—	—	1,088,629	—	1,088,629	1,088,629
France	—	—	—	—	367,965	—	367,965	367,965
Spain	—	—	—	—	110,525	—	110,525	110,525
Germany	—	—	—	—	83,604	—	83,604	83,604
Others	—	—	—	—	82,796	—	82,796	82,796
Total 30/6/19	—	—	—	—	4,596,616	—	3,690,637	3,690,637

* 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 €26.7m.

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	268,940	229,952	1,90	2,234,818	2,249,916	2,258,775	3,21
Germany	(432,500)	(468,815)	2,23	840,000	857,275	857,681	2,10
Spain	4,400	4,198	0,09	360,000	367,007	369,641	3,34
United States	—	—	—	514,060	517,529	518,862	0,92
France	(582,656)	(643,671)	3,94	515,400	520,470	524,340	2,13
Others	(25,817)	(27,643)	—	88,566	84,419	94,028	—
Total 30/6/19	(767,633)	(905,979)		4,552,844	4,596,616	4,623,327	

* The figure does not include forward sales with a notional amount of €104m.

[1] Does not include sales of €414m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €4.0m; or sales of €156.8m on the BPT future (Italy) with a negative fair value of €1.5m. Net hedge buys of €836m have also not been included (virtually all of which allocated to France country risk).

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

B. Information on structured entities

In accordance with the provisions of IFRS 12, 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 narrow 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 (or 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).

B.1 Consolidated structured entities

As stated in Part A – Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99 – namely Quarzo S.r.l. and Quarzo CQS S.r.l. – are included in the Group's area of consolidation, as is MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A. During the year under review, Quarzo MB S.r.l. (owned as to 90% by Mediobanca S.p.A. and as to 10% by SPV Holding) was placed in liquidation.

B.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 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).

B.2.1 Structured entities consolidated for regulatory purposes

As at 30 June 2019 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are performed entirely through special purpose vehicles. In particular the following aspects should be noted:

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. The SICAV is managed by fund management company Mediobanca Management Company, whereas the funds are managed by BlackRock and Mediobanca SGR. As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments (230,000 units, for an outlay of €23m) which were still outstanding at 30 June 2019; these total 53,141, and have a NAV of €5m.

Compagnie Monégasque de Banque has sold its clients six fund segments of CMB Global Lux, a company authorized under Luxembourg law. The SICAV is managed by Compagnie Monégasque de Banque itself, 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 2019 the bond segment CMB Global Lux Expansion (€4.9m) and the equity segment CMB Global Lux High Yield Equity (€3.7m) were still featured in the portfolio.

Turning to RAM Active Investments SA, Mediobanca S.p.A. has subscribed to funds, providing seed capital with a total NAV of €176.8m split between five funds: two tactical funds – RAM Convertibles Europe (€16.9m) and RAM Asia Bond Total Return (€17.2m) and three systematic funds – RAM Systematic I/O (€49.9m), RAM Global Shareholder Yield Equities (€58m), and RAM Global Multi-Asset (€34.7m).

Cairn Capital Group Ltd itself has subscribed to Cairn Special Opportunities Credit Fund and Cairn Strata Credit Fund and to the Cairn Loan Investment SPE for a total amount of €2.1m, plus Mediobanca's share of the seed capital amounting to €190.5m invested in Cairn European Loan Fund (€51.7m), Cairn Strata Credit Fund (€51.3m), Cairn Strata Secured Fund (€10.4m), Cairn Mediobanca Strata UCITS Credit Fund (€50.3m), and SPE Cairn Loan Investments LLP (€26.8m).

Of the funds which Mediobanca SGR sells to its clients, Mediobanca S.p.A. has subscribed for a total of €30.4m, split between €15.2m in the new Mediobanca Global MultiManager fund (classes 15 and 35), €7.1m in Mediobanca Social Impact (a philanthropic fund), €4m in Mediobanca CoCo Credit Fund and €10.1m in Mediobanca Fondo per le imprese 1 and 2 (which invest in minibonds).

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments (24 months) means that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; 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 depends 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 this does not qualify as acting as sponsor.

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost – due from customers: composition", in which the Group is the sole lender, involve an amount of €435.2m, plus €3.4m in notes booked as Hold to Collect and Sell, and €52m in notes mandatorily recognized at fair value.

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)
Financial assets mandatorily at fair value	Yellow Fund Sicav	4,986	—	—	4,986	4,986	—
Financial assets mandatorily at fair value	CMB Global Lux	8,636	—	—	8,636	8,636	—
Financial assets mandatorily at fair value	CMG Funds	43	—	—	43	43	—
Financial assets mandatorily at fair value	Cairn Strata Secured	10,416	—	—	10,416	10,416	—
Financial assets mandatorily at fair value	Cairn European Loan Fund	51,735	—	—	51,735	51,735	—
Financial assets mandatorily at fair value	Cairn Strata Credit Fund	51,280	—	—	51,280	51,280	—
Financial assets mandatorily at fair value	Cairn Loan Investments	27,741	—	—	27,741	27,741	—
Financial assets mandatorily at fair value	Cairn Mediobanca Strata UCITS Credit Fund	50,330	—	—	50,330	50,330	—
Financial assets mandatorily at fair value	RAM - Systematic I/O	49,908	—	—	49,908	49,908	—
Financial assets mandatorily at fair value	RAM - Convertibles Europe	16,901	—	—	16,901	16,901	—
Financial assets mandatorily at fair value	RAM - Asia Bond Total Return	17,237	—	—	17,237	17,237	—
Financial assets mandatorily at fair value	RAM - Global Shareholder Yield Equities	58,030	—	—	58,030	58,030	—
Financial assets mandatorily at fair value	RAM - Global Multi-Asset	34,687	—	—	34,687	34,687	—
Financial assets held for trading	Mediobanca Funds	6,055	—	—	6,055	6,055	—
Financial assets mandatorily at fair value	Mediobanca Funds	30,472	—	—	30,472	30,472	—
Financial assets mandatorily at fair value	Other funds	1,179	—	—	1,179	1,179	—
Financial assets at amortized cost	Asset Backed	435,161	—	—	435,161	435,161	—
Financial assets at fair value with impact taken to comprehensive income	Asset Backed	3,448	—	—	3,448	3,448	—
Financial assets designated at fair value	Asset Backed	51,975	—	—	51,975	51,975	—

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 2019 the Group's exposure to this type of transaction amounted to €5,690.8m, [1] higher than the €4,529.8m reported last year, and accounting for just under 34.5% of the corporate loan book. Of this total, 40.3% relates to domestic transactions, six deals with non-EU clients (worth approx. €1,078m), and the remainder within the confines of the EU. There were repayments totalling €975m during the twelve months (with 21 deals being closed), against new investments of €2,135m (including 24 new deals). The Leverage Pure LBO within the scope of application worth €586.9m (representing 10.3% of the total value). The three NPL Leverage transactions totaled €460.8m (8.1%); of this total, two (€410.8m) were already classified as NPLs and have been included within the scope following contractual modification, while the remainder (of €50m) was already comprised and classified as NPLs following its debt restruction.

[1] Plus off-balance-sheet exposures (commitments and derivatives) totalling €776m (30/6/18: €1,120m).

SECTION 2

Banking Group risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

For the qualitative information, see pp. 240ff of this Part of the Consolidated Financial Statements.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Prudential consolidation - Financial assets by past-due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3 *		
	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets valued at amortised cost	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335
2. Financial assets valued at fair value with impacts taken to comprehensive income	—	—	—	—	—	—	—	—	—
Total 30/6/19	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335

* Includes the NPLs acquired by MBCredit Solutions.

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: trend in overall writedowns and provisions

Motivations/risk stages	Cumulative write-downs													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				of which: purchased or originated credit impaired exposures				
	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Starting balance	195,099	2,197	8,860	188,430	287,098	—	8,740	278,359	1,006,323	—	479,037	527,286	—	11,294	3,060	4,542	1,509,613
Increase variations due to acquired or originated financial assets	84,496	—	—	84,496	84,408	—	—	84,408	43,466	—	12,342	31,124	—	4,092	473	80	217,015
Derecognitions other than writeoffs	(3,502)	—	—	(3,502)	(22,873)	—	—	(22,873)	(141,782)	—	(4,991)	(136,791)	—	—	—	(407)	(168,564)
Net write-downs/ writebacks due to credit risk	(71,564)	(14)	—	(71,577)	(26,578)	—	—	(26,578)	135,740	—	(13,822)	149,562	—	(2,232)	31	(213)	35,170
Contractual modificationswithout derecognition	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in estimating methodologies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off not recognised directly in profit and loss	(1,539)	—	—	(1,539)	(2,645)	—	—	(2,645)	(63,682)	—	(45,624)	(18,058)	—	—	—	—	(67,866)
Other variations	(5,666)	(343)	(8,860)	2,850	99	—	(8,740)	8,839	(119,448)	—	(119,448)	—	—	(5,946)	(2,590)	(1,648)	(135,542)
Closing balance	197,324	1,840	—	199,158	319,509	—	—	319,509	860,617	—	307,493	553,123	—	7,208	974	2,354	1,389,826
Collection proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	4,552	—	4,414	138	3,328	—	—	—	4,552
Writeoffs recognised directly in profit and loss	1,644	—	—	1,644	1,321	—	—	1,321	44,621	—	41,238	3,383	36,892	—	—	—	47,586

A.1.3 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Risk stages	Gross amounts/nominal values					
	Passages from stage 1 and stage 2		Passages from stage 2 and stage 3		Passages from stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	1,538,100	584,344	261,993	76,007	198,543	2,623
2. Financial assets with impact taken to comprehensive income	—	—	—	—	—	—
3. Commitments to disburse funds and financial guarantees given	4,991	13,631	81	177	893	295
30/6/19	1,543,091	597,975	262,074	76,184	199,436	2,918

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/assets	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	8,791,827	(2,537)	8,789,290	—
- of which: forborne exposures	*X*	—	—	—	—
Total (A)	—	8,791,827	(2,537)	8,789,290	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	10,827,279	—	10,827,279	—
Total (B)	—	10,827,279	—	10,827,279	—
Total (A+B)	—	19,619,106	(2,537)	19,616,569	—

A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Non-performing	Performing			
A. Credit exposures for cash					
a) Bad loans *	888,311	X	(419,686)	468,625	9,393
- of which: forborne exposures	*96,189*	*X*	*(82,503)*	*13,686*	*2,972*
b) Unlikely to pay *	1,221,940	X	(551,773)	670,167	555
- of which: forborne exposures	*876,433*	*X*	*(369,873)*	*506,560*	*104*
c) Overdue exposures (NPLs)	169,604	X	(111,614)	57,990	—
- of which: forborne exposures	*28,900*	*X*	*(22,399)*	*6,501*	—
d) Overdue exposures (performing)	X	561,491	(95,514)	465,977	—
- of which: forborne exposures	*X*	*49,047*	*(15,788)*	*33,259*	—
e) Other exposures (performing)	X	54,559,140	(420,620)	54,138,520	—
- of which: forborne exposures	*X*	*603,428*	*(31,534)*	*571,894*	—
Total (A)	2,279,855	55,120,631	(1,599,207)	55,801,279	9,948
B. Non-balance sheet credits exposures					
a) Non-performing	16,287	X	(2,354)	13,933	—
b) Performing	X	20,230,493	(8,182)	20,222,311	—
Total (B)	16,287	20,230,493	(10,536)	20,236,244	—
Total (A+B)	2,296,142	75,351,124	(1,609,743)	76,037,523	9,948

* Includes NPLs acquired by MBCredit Solutions and bad debts originated by Micos Banca in Italy (non-current assets held for sale and discontinued operations under IFRS 5).

As at 30 June 2019 non-performing forborne loans amounted to €526.7m (€551.1m last year), with a coverage ratio of 47.4% (50%), while performing loans qualifying as forborne amounted to €605.2m (€703m) with a coverage ratio of 7.3% (9%).

Overall the non-performing forborne positions represent 1.14% (1.34%) of the total customer loan book, and the performing forborne exposures 1.31% (1.72%).

A.1.7 Prudential consolidation - Cash exposures to customers: trend in gross non-performing exposures

Causals/ category	Bad loans *	Unlikely to pay *	Overdue exposures (NPLs)
A. Opening balance (gross amount)	808,930	1,253,668	167,596
- Of which sold but not derecognized	—	—	—
B. Increases	286,997	430,779	157,477
B.1 transfers from performing loans	27,335	298,722	129,302
B.2 entry from impaired financial assets acquired or originated	117,813	116	—
B.3 transfers from other categories of non-performing exposures	103,957	50,824	5,877
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	37,892	81,117	22,298
C. Decreases	207,616	462,507	155,469
C.1 transfers to performing loans	1,516	72,520	14,279
C.2 write-off	74,713	27,904	6,514
C.3 Recoveries	67,125	189,654	30,545
C.4 sales proceeds	21,653	10,934	4,180
C.5 losses on disposals	53	2,799	1,647
C.6 transfers to other categories of non-performing exposures	1,033	88,661	70,964
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	41,523	70,035	27,340
D. Closing balance (gross amounts)	888,311	1,221,940	169,604
- Of which sold but not derecognized	*47,200*	*126,582*	*51,174*

* Includes the NPLs acquired by MBCredit Solutions and the bad debts originated by Micos Banca in Italy (treated as non-current assets held for sale and discontinued operations under IFRS 5).

The headings “Transferred from impaired financial assets acquired or originated” and “Other increases” chiefly involve the NPL portfolios acquired by MBCredit Solutions.

The heading “Transfers from other categories of non-performing exposures” includes the bad debts originated by Micos Banca in Italia, booked as non-current assets held for sale and discontinued operations under IFRS 5.

A.1.7bis Prudential consolidation - Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	Non-performing Forborne exposures	Performing Forborne exposures
A. Opening balance (gross amount)	1,103,051	761,518
- Of which sold but not derecognized	*78,620*	*112,951*
B. Increases	179,624	144,244
B.1 Inflows from performing not forborne exposures	30,691	74,507
B.2 Inflows from performing forborne exposures	72,347	X
B.3 Inflows from non-performing forborne exposures	X	56,357
B.4 other increases	76,586	13,380
C. Decreases	281,153	253,287
C.1 Outflows to performing not forborne exposures	X	89,515
C.2 Outflows to performing forborne exposures	56,357	X
C.3 Outflows to non-performing forborne exposures	X	72,347
C.4 write-off	12,556	885
C.5 recoveries	151,026	73,105
C.6 sales proceeds	5,464	439
C.7 losses on disposals	1,753	1,058
C.8 other decreases	53,997	15,938
D. Closing balance (gross amounts)	1,001,522	652,475
- Of which sold but not derecognized	*66,205*	*55,768*

A.1.9 Prudential consolidation – Non performing cash exposures to customers: trend in overall writedowns

Description/Category	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Opening balance overall amount of writedowns	414,516	81,240	615,567	449,868	106,266	27,558
- Of which sold but not derecognized	*45,557*	*9,150*	*102,112*	*32,476*	*46,561*	*13,457*
B. Increases	175,584	34,528	243,521	81,852	102,431	21,288
B.1 Adjustments on acquired or originated impaired assets	—	X	—	X	—	X
B.2 other value adjustments	94,161	8,210	152,583	44,422	80,779	8,776
B.3 losses on disposal	53	25	2,799	1,395	1,647	333
B.4 transfer from other categories of non-performing exposures	71,244	20,793	34,374	12,864	3,310	2,207
B.5 contractual changes without cancellations	—	X	—	X	—	X
B.6 other increases	10,126	5,500	53,765	23,171	16,695	9,972
C. Reductions	170,414	33,265	307,315	161,847	97,083	26,447
C.1 writebacks from assessments	7,472	2,215	93,910	74,251	5,948	951
C.2 writebacks from recoveries	17,822	3,728	42,143	36,064	6,562	2,493
C.3 gains on disposal	5,493	1,317	2,240	490	323	69
C.4 write-off	74,713	11,223	27,904	5,611	6,514	1,394
C.5 transfers to other categories of non-performing exposures	733	602	59,112	21,610	49,083	15,650
C.6 contractual changes without cancellations	—	X	—	X	—	X
C.7 other decreases	64,181	14,180	82,006	23,821	28,653	5,890
D. Closing overall amount of writedowns	419,686	82,503	551,773	369,873	111,614	22,399
- Of which sold but not derecognized	*44,116*	*9,723*	*82,635*	*27,209*	*36,789*	*8,192*

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

A.2.1 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	1,077,148	5,107,948	4,315,543	2,042,009	622,493	143,225	44,272,248	57,580,614
- First stage	1,077,148	5,107,948	4,315,543	1,993,908	499,196	143,225	39,682,856	52,819,824
- Second stage	—	—	—	48,101	123,297	—	2,627,122	2,798,520
- Third stage	—	—	—	—	—	—	1,962,270	1,962,270
B. Financial assets valued at fair value with impact on overall profitability	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- First stage	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A+B)	2,522,486	5,364,448	5,945,181	2,244,360	622,493	212,595	44,419,054	61,330,617
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	*368,637*	*368,637*
C. Commitments and financial guarantees given								
- First stage	101,365	440,437	6,482,760	825,458	17,621	66	4,940,436	12,808,143
- Second stage	—	—	—	—	—	—	39,844	39,844
- Third stage	—	—	—	—	—	—	16,287	16,287
Total (C)	101,365	440,437	6,482,760	825,458	17,621	66	4,996,567	12,864,274
Total (A+B+C)	2,623,851	5,804,885	12,427,941	3,069,818	640,114	212,661	49,415,621	74,194,891

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

The table is compliant with the classification provided by Bank of Italy circular 262/05 (fifth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between AAA and BBB-, and represent 85.2% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients and to small and medium-sized enterprises.

A.2.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non performing exposures	*Unrated*	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortized cost									
- First stage	1,021,446	6,610,394	16,315,883	16,064,809	5,486,224	85,119	—	7,235,949	52,819,824
- Second stage	136	3,202	8,522	382,371	1,419,104	796,436	—	188,749	2,798,520
- Third stage	—	—	—	—	—	502,751	340,271	1,119,248	1,962,270
B. Financial assets valued at fair value with impact taken to other comprehensive income									
- First stage	1,445,338	288,214	1,674,324	262,440	69,370	—	—	10,317	3,750,003
- Second stage	—	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—	—
Total (A+B)	2,466,920	6,901,810	17,998,729	16,709,620	6,974,698	1,384,306	340,271	8,554,263	61,330,617
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—	*368,637*	*368,637*
C. Commitments and financial guarantees given									
- First stage	181,009	650,903	8,076,286	2,785,876	314,585	5,690	—	793,794	12,808,143
- Second stage	—	3	7	262	34,160	2,284	—	3,128	39,844
- Third stage	—	—	—	—	—	14,821	524	942	16,287
Total (C)	181,009	650,906	8,076,293	2,786,138	348,745	22,795	524	797,864	12,864,274
Total (A+B+C)	2,647,929	7,552,716	26,075,022	19,495,758	7,323,443	1,407,101	340,795	9,352,127	74,194,891

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

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. (for corporate customers) are: SelmaBipiemme, Compass/Futuro, CheBanca! and MBFACTA (for corporate customers).

A.3 Distribution of secured exposures by type of security

A.3.1 Prudential consolidation – Cash and off-balance sheet secured exposures to banks

	Gross exposure	Net exposures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing - property	Securities	Other guarantees	CLN	Other derivatives				General governe-ments	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	5,201,907	5,198,637	—	1,085	5,019,715	3,549	—	—	—	—	—	—	—	—	—	5,024,349
1.1 totally secured	2,837,358	2,837,091	—	1,085	2,832,457	3,549	—	—	—	—	—	—	—	—	—	2,837,091
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	2,364,549	2,361,546	—	—	2,187,258	—	—	—	—	—	—	—	—	—	—	2,187,258
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Prudential consolidation – Cash and off-balance sheet secured exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
			Property, Mortgages	Financial leasing property	Securities	Other assets	Credit derivatives					Signature loans				
							CLN	Other derivatives				Public Administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	22,201,214	21,648,746	9,862,552	1,184,161	4,231,373	1,396,042	—	—	—	—	—	7,951	19	178,861	932,452	17,793,411
1.1 totally secured	15,220,266	14,870,994	9,412,022	1,184,161	2,172,643	1,008,894	—	—	—	—	—	7,951	19	170,080	915,224	14,870,994
- of which non-performing	*569,580*	*281,311*	*163,037*	*96,523*	*189*	*14,362*	—	—	—	—	—	—	—	—	*7,200*	*281,311*
1.2 partially secured	6,980,948	6,777,752	450,530	—	2,058,730	387,148	—	—	—	—	—	—	—	8,781	17,228	2,922,417
- of which non-performing	*461,552*	*283,006*	*4,845*	—	*10,532*	*16,771*	—	—	—	—	—	—	—	—	—	*32,148*
2. Secured off-balance sheet credit exposures:	1,371,070	1,359,094	68,740	—	234,843	105,040	—	—	—	—	—	10,998	—	99,549	580,666	1,099,836
2.1 totally secured	1,042,463	1,031,332	61,765	—	218,475	93,319	—	—	—	—	—	10,998	—	99,549	547,226	1,031,332
- of which non-performing	*126*	*100*	*64*	—	*35*	—	—	—	—	—	—	—	—	—	—	*99*
2.2. partially guaranteed	328,607	327,762	6,975	—	16,368	11,721	—	—	—	—	—	—	—	—	33,440	68,504
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.4 Prudential consolidation - Financial and non-financial assets obtained by taking possession of collaterals

	Derecognized credit exposures	Gross amount	Gross write-downs	Book value	
					of which: obtained during the period
A. Tangible assets	67,476	67,030	(16,938)	50,092	526
A.1 Core assets	82	76	—	76	76
A.2 Held for investment purpose	58,191	57,997	(15,998)	41,999	—
A.3 Inventories	9,203	8,957	(940)	8,017	450
B. Equity and debt securities	—	—	—	—	—
C. Other assets	—	—	—	—	—
D. Assets held for sale	—	—	—	—	—
D.1 Tangible assets	—	—	—	—	—
D.2 Other assets	—	—	—	—	—
Total 30/6/19	67,476	67,030	(16,938)	50,092	526

As at 30 June 2019, assets received through enforcement of guarantees received derived exclusively from leasing operations, and largely regarded tangible assets held for investment purposes.

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	675	(9,026)	—	—	88,643	(25,540)	379,307	(385,120)
- of which: forborne exposures	—	—	*153*	*(4,041)*	—	—	*9,296*	*(7,890)*	*4,237*	*(70,572)*
A.2 Unlikely to pay	11,762	(3,377)	2,193	(1,342)	—	—	467,731	(285,435)	188,481	(261,619)
- of which: forborne exposures	—	—	*106*	*(226)*	—	—	*401,844*	*(260,070)*	*104,610*	*(109,577)*
A.3 Overdue exposures (NPLs)	1,580	(138)	103	(59)	—	—	10,699	(3,163)	45,608	(108,254)
- of which: forborne exposures	—	—	—	—	—	—	*46*	*(82)*	*6,455*	*(22,317)*
A.4 Performing exposures	8,202,315	(3,010)	7,821,488	(7,708)	1,045,585	(1,846)	15,037,960	(45,763)	23,542,734	(459,653)
- of which: forborne exposures	—	—	*202,013*	*(5)*	—	—	*208,122*	*(3,227)*	*195,018*	*(44,090)*
Total (A)	8,215,657	(6,525)	7,824,459	(18,135)	1,045,585	(1,846)	15,605,033	(359,901)	24,156,130	(1,214,646)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	13,239	(2,153)	694	(201)
B.2 Performing exposures	4,077,024	—	5,122,563	(798)	529,118	—	9,402,361	(3,287)	1,620,363	(4,097)
Total (B)	4,077,024	—	5,122,563	(798)	529,118	—	9,415,600	(5,440)	1,621,057	(4,298)
Total (A+B) 30/6/19	12,292,681	(6,525)	12,947,022	(18,933)	1,574,703	(1,846)	25,020,633	(365,341)	25,777,187	(1,218,944)

B.2 Prudential consolidation - Cash and off-balance sheet exposures to customers by geography

Exposures/Geographical	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	463,069	(417,227)	4,521	(2,332)	374	(73)	64	(15)	597	(39)
A.2 Unlikely to pay	626,576	(539,785)	43,426	(11,931)	158	(55)	—	—	7	(2)
A.3 Overdue exposures (NPLs)	53,885	(111,538)	1,815	(72)	2,249	(2)	—	—	41	(2)
A.4 Performing exposures	41,692,284	(487,842)	10,168,718	(17,502)	2,446,322	(8,442)	90,142	(162)	207,031	(2,186)
Total (A)	42,835,814	(1,556,392)	10,218,480	(31,837)	2,449,103	(8,572)	90,206	(177)	207,676	(2,229)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	13,933	(2,354)	—	—	—	—	—	—	—	—
B.2 Performing exposures	10,550,039	(5,455)	8,591,022	(2,294)	854,669	(156)	156,150	(276)	70,431	(1)
Total (B)	10,563,972	(7,809)	8,591,022	(2,294)	854,669	(156)	156,150	(276)	70,431	(1)
Total (A+B) 30/6/19	53,399,786	(1,564,201)	18,809,502	(34,131)	3,303,772	(8,728)	246,356	(453)	278,107	(2,230)

B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks by geography

Exposures/Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2,977,023	(1,656)	5,756,788	(871)	49,723	(11)	5,357	(2)	399	(3)
Total (A)	2,977,023	(1,656)	5,756,788	(871)	49,723	(11)	5,357	(2)	399	(3)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	853,362	—	9,973,901	—	16	—	—	—	—	—
Total (B)	853,362	—	9,973,901	—	16	—	—	—	—	—
Total (A+B) 30/6/19	3,830,385	(1,656)	15,730,689	(871)	49,739	(11)	5,357	(2)	399	(3)

B.4a Credit risk indicators

	30/6/19	30/6/18
a) Gross bad loans/total loans	1.72%	1.67%
b) NPLs/cash exposures	4.09%	4.00%
c) Net bad loans/regulatory capital[1]	5.80%	4.94%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €281.8m to €366.6m, and the portfolio of bad debts originated by Micos Banca, now booked as non-current assets held and discontinued operations under IFRS 5 in an amount of €22.2m.

B.4b Large risks

	30/6/19	30/6/18
a) Book value	11,220,374	10,964,196
b) Weighted value	7,767,800	7,773,030
c) No. of exposures	8	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (one more than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11.2bn (€7.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2018 (which were €11bn and €7.8bn respectively). In detail the eight exposures are to two industrial groups, one insurance company and five banking groups.

C. Securitization

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €247.8m, €156.4m of which as part of the banking book (almost all HTC recognized at amortized cost) and €91.4m as part of the trading book.

The banking book consists of four senior deals with NPLs as the underlying instrument, as follows: in Italy, Unicredit-FINO, €55.4m (down from €75.6m last year), and Intesa/ICCREA, a deal originated during the year under review in which Mediobanca acted as sponsor (€65.6m); and elsewhere, one security issued against Spanish NPLs in an amount of €21.6m (down from €32.8m last year), and a new deal issued against Dutch NPLs for €9.6m, where again Mediobanca acted as sponsor. Another deal involving Italian NPLs deriving from Intesa worth €49m at 30 June 2018 was wound up during the year under review. The banking book also includes mezzanine deals worth €3.3m and junior deals of €0.8m, which are the retention shares of transactions in which Mediobanca acted as sponsor.

The trading book increased in value from €21m to €91.4m, on trading of €68.2m and gains realized on disposal totalling €2m, with virtually the whole book renewed. Just under two-thirds of the trading book is accounted for by the senior tranche of the securitization of Italian NPLs originated by Intesa/ICCREA, whereas the remainder consists of CLOs, €23.1m of which in the form of mezzanine tranches.

In general terms the ABS segment performed well, helped by the strong asset quality (minor arrears and delinquencies among the underlying instruments led to an upgrade in the rating) and the expansionist monetary policies announced by the ECB which attracted new investors. Thus there was an increase in the number of ABS issues on the primary market, in 2Q 2019 especially, following clarifications on the new EU regulation on securitizations and renewal of the Italian state guarantee for securitization of non-performing loans (known as "GACS").

Mediobanca also has exposures to:

- 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 it manages, with an investment of €25.8m;

– Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR S.p.A., which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28m.

QUANTITATIVE INFORMATION

C.2 Prudential consolidation - exposures 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	179,806	148	2,001	—	643	—
B. Spain NPLs (residential mortgages and real estates)	21,643	—	—	—	—	—
C. Netherlands NPLs (residential mortgages and real estates)	9,684	—	1,289	(1)	198	—
D. Other receivables	9,461	(45)	23,144	(5)	—	—
Total 30/6/19	220,594	103	26,434	(6)	841	—
Total 30/6/18	171,727	(52)	6,911	(73)	3,166	—

C.3 Prudential consolidation - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,059,241	—	254,387	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,395,645	—	110,951	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	837,461	—	68,709	747,000	—	156,735
Quarzo CQS S.r.l. (2015)	Milan	Accounting	124,000	—	35,000	49,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	505,000	—	26,000	463,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	1,048,664	—	—	860,203	—	—

C.5 Prudential consolidation – servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets		Receivables collected during the year		Percentage share of securities repaid					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS (2015)	4,895	124,515	—	124,945	—	93.40	—	—	—	—
Futuro	Quarzo CQS (2018)	6,819	542,617	—	156,271	—	21.51	—	—	—	—
Compass	Quarzo Srl	277,192	7,494,878	—	2,154,618	—	—	—	—	—	—

C.6 Prudential consolidation – Consolidated securitization-related SPVs

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, all of which have performing loans granted by Compass Banca as the underlying instrument, the last of which was completed during the first half of the financial year under review.

All the deals have performing loans granted by Compass Banca as the underlying instrument, and Compass Banca itself subscribed for the entire amount of the junior securities. The receivables can be sold on a revolving basis for a period of between six and 42 months, after which the amortization phase can commence.

The 2015 Quarzo securitization closed early in May of this year, with all the receivables held by the SPV being bought back for a total of €1,796m.

The three deals outstanding have the following characteristics:

– One deal, completed on 25 February 2016, with the issue of €2.64bn in senior notes (subscribed for by Group companies) and €660m in junior notes; in the twelve months ended 30 June 2019, receivables worth a further €1,810m were sold;

– Another deal, completed on 15 February 2017, with the issue of €1.215bn in senior notes (subscribed for by Group companies) and €285m in junior notes; receivables worth a further €740m were sold in the twelve months;

– A third deal, completed on 6 December 2018, with the issue of senior A1 notes of €600m, senior A2 notes of €147m (subscribed for by Group companies), and junior notes of €153m; during the twelve months, receivables worth a further €216m were sold in addition to the initial sale.

Quarzo CQS S.r.l. (Futuro)

The SPV has two different operations outstanding, originated during the former periods, with receivables granted by Futuro (salary backed finance) as underlying and sold in a unique, non-revolving tranche. Senior notes are listed on the Dublin exchange and are subscribed for the major part, whereas the junior notes have been completely subscribed by Futuro.

The two deals outstanding have the following characteristics:

- One deal, completed in March 2018, with the issue of €598m in senior notes and €52m in junior notes; at 30 June 2019, senior notes outstanding are worth €463.4m (including the related accruals);
- One deal, completed in April 2015, with the issue of €738m in senior notes (€200m of which subscribed for by Group companies) and €82m in junior notes; at 30 June 2019, senior notes outstanding are worth €48.7m (including the related accruals); the parent company does not hold senior notes anymore.

MB Funding Lux S.A. (Mediobanca)

This vehicle company was set up by Mediobanca S.p.A. in 2016, with the purposes of completing secured deals with as underlying pools of corporate receivables originated by Mediobanca International (Luxembourg) S.A. or Mediobanca S.p.A., maintaining the exposure to their credit risk. Notes issued are totally subscribed by Group companies and are used as collateral in the interbank market; they form part of the “Medium Term Note” program secured by the parent company.

The five deals outstanding have the following characteristics:

- Issue in an amount of €200m, with a duration of five years and maturing on 25 June 2022;
- Issue in an amount of €100m, with a duration of seven years and maturing on 20 December 2024;
- Issue of €400m, with a duration of five years and maturing on 30 October 2023;

- Issue of €140m, with a duration of five years and maturing on 15 March 2024;
- Issue of €10m, with a duration of three years and maturing on 8 June 2021 and guaranteed by corporate loans originated by parent company Mediobanca S.p.A.

There is also an 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 SPVs during the period under review were as follows:

SPV	**Receivables ceded**	**Amounts collected**	**Servicing fees**	**Interest on junior amounts**	**Additional return accrued**
Quarzo CQS S.r.l.	—	295.0	0.9	1.4	54.9
Quarzo S.r.l.	4,309.7	4,300.3	14.6	45.6	488.8
MB Funding Lux	450.1	187.2	—	—	1.7

D. Disposals

A. Financial assets sold but not entirely derecognized

D.1 Prudential consolidation – Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement	of which non-performing	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	3,147,167	—	3,147,167	X	3,162,166	—	3,162,166
1. Debt securities	2,312,251	—	2,312,251	X	2,306,214	—	2,306,214
2. Equities	834,916	—	834,916	X	855,952	—	855,952
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	529,449	—	529,449	—	521,999	—	521,999
1. Debt securities	529,449	—	529,449	—	521,999	—	521,999
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets at amortized cost	6,379,396	6,049,062	330,334	61,416	2,598,140	2,359,845	238,295
1. Debt securities	158,760	—	158,760	—	671,018	510,775	160,243
2. Loans	6,220,636	6,049,062	171,574	61,416	1,927,122	1,849,070	78,052
Total 30/6/19	10,056,012	6,049,062	4,006,950	61,416	6,282,305	2,359,845	3,922,460

D.3 Prudential consolidation – Disposals related to financial liabilities with repayment exclusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total
A. Financial assets held for trading	3,147,167	—	3,147,167
1. Debt securities	2,312,251	—	2,312,251
2. Equities	834,916	—	834,916
3. Loans	—	—	—
4. Derivatives	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—
1. Debt securities	—	—	—
2. Equities	—	—	—
3. Loans	—	—	—
C. Financial assets designated at fair value	—	—	—
1. Debt securities	—	—	—
2. Loans	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	529,449	—	529,449
1. Debt securities	529,449	—	529,449
2. Equities	—	—	—
3. Loans	—	—	—
E. Financial assets measured at amortized cost (fair value)	7,433,408	—	7,433,408
1. Debt securities	162,126	—	162,126
2. Loans	7,271,282	—	7,271,282
Total financial assets	11,110,024	—	11,110,024
Total associated financial liabilities	6,280,041	—	X
Net value 30/6/19	4,829,983	—	11,110,024

B. Financial assets sold and fully derecognized with continuing involvement recorded

D.4 Prudential consolidation – Covered bond issues

Mediobanca Covered Bond Srl, an SPV set up in accordance with the provisions of Article 7-bis of Italian law 130/99, is 90%-owned by CheBanca!, with the other 10% owned by SPV Holding (Studio Dattilo).

The company forms part of the €5bn, ten-year program of issuance realized pursuant to Italian law 130/99, and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;
– CheBanca! as the seller (including on a revolving basis), of assets eligible for sale under the regulations in force, up to the limits on Mediobanca's regulatory capital ratios, and servicer for the transaction;
– Mediobanca Covered Bond Srl, an SPV and non-recourse recipient of the assets and guarantor of the covered bonds.

Four deals are outstanding under the current programme as at 30 June 2019 (plus another carried out after the reporting date). All the issues (€3bn) are addressed to institutional investors rated “AA” by Fitch, and involve:

– One bond issued with a nominal value of €750m issued in October 2013 at a fixed rate of 3.625%, expiring at ten years and with underlying assets totalling €1.2bn;

– One bond issued with a nominal value of €750m issued in November-December 2015 at a fixed rate of 1.375%, expiring at ten years and with underlying assets totalling €852m;

– One bond issued with a nominal value of €750m issued in October 2017 at a fixed rate of 1.25%, expiring in twelve years and with underlying assets totalling €1.3bn;

– One bond issued with a nominal value of €750m issued in the current year (between August and October 2018 at a fixed rate of 1.125%, expiring in six years and with underlying assets totalling €820m.

The €750m covered bond issued in 2014 at an interest rate of 1.125% expired in June 2019, and was replaced with a new issue made in July for a nominal amount of €750m, at a fixed rate of 0.5% and expiring in seven years (with underlying assets totalling €1.2bn).

Considering this last operation, at the reference date there were five outstanding issues with a nominal value of €3,750m faced by assets for €5.5bn (€300m in cash and the remainder in mortgage loans).

The following events also took place, as part of ordinary operations:

– On 1 March 2018 assets worth €353.5m were sold;

– On 1 June 2018 a sale of €170.2m was made, with €46.3m in assets bought back at the same time;

– On 1 December 2018 a sale of €404.7m was made, with €32.1m in assets bought back at the same time;

– On 1 March 2019 a sale of €234.6m was made, with €16.8m in assets bought back at the same time;

– On 1 June 2019 a sale of €195.9m was made, with €20.4m in assets bought back at the same time.

* * *

E. Prudential consolidation – Models for measuring credit risk

The Mediobanca Group uses the AIRB model (PD and LGD parameters) for quantifying the capital requirement for the credit risk of Mediobanca and Mediobanca International corporate portfolio and for the Italy mortgages portfolio of CheBanca!. Moreover, it has also been prepared a plan for the progressive passage to internal models for the various credit exposures (Roll-out plan). With regards to these exposures, which are still subject to the Standard methodology for assessing the regulatory capital requirements, the Group has anyway equip itself, for internal management purposes, with internal models. The Group has also equip itself with a portfolio model, with the aim to calculate the economic capital for the credit risk, which allows to monitor concentration and diversification effects, by geography and by activity sector. For further information, see "Section 1.1 Credit risk" of this Part of the Consolidated Accounts.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

– Sensitivity – mainly Delta and Vega – in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;

– Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) 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 changes in market variables.

Other complementary but more specific risk indicators are also used in order to capture other risks on trading positions not fully measured by VaR and sensitivity analysis. The weight of the products requiring use of these supplementary metrics is in any case extremely limited compared to the overall size of the Mediobanca trading book.

The aggregate value-at-risk on the trading book ranged from a low of €2.4m (end-July 2018) and a high of €9.1m in early June 2019. Overall, in the course of the year trading showed an increase in directional positions taken mainly by the proprietary trading desk through positions in derivatives of government securities issued by core Eurozone member countries plus the United Kingdom and through positions in exchange rates. The market scenario reflected especially low volatility levels in all asset classes, except for the temporary increases recorded in exchange rates and equities, driven by the commercial war between the United States and China and by the uncertainties caused by Brexit and the European elections. The average VaR value for FY 2018-19, €4.3m, was therefore much higher than last year (€2.3m). The point-in-time reading for VaR at 30 June 2019 was €6.3m (30/6/18: €2.8m).

The expected shortfall also showed a sharp rise in the average value, from €3m to €5.4m, due to the directional positions mentioned above.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) showed only two occasions, during the 12 months under review, on which the VaR value was departed from. The first occurred in early December 2018, chiefly in the equity segment, following the G20 summit in Buenos Aires at the same time as the extraordinary closure of Wall Street; while the second, at end-March 2019, was due to tensions on the forex and government securities markets in particular in the aftermath of the Federal Reserve's fence-sitting comments and the advent of Brexit.

Table 1: Value-at-risk and expected shortfall: trading book

€ '000

Risk factors	12 mths to 30/6/19				12 mths to 30/6/18
	30/6	Min	Max	Avg.	Avg.
Interest rates	4,394	614	4,792	2,165	559
Credit	1,441	718	2,637	1,163	784
Share prices	1,747	796	2,384	1,632	1,986
Exchange rates	1,136	607	3,091	1,740	320
Inflation	212	17	531	170	161
Volatility	2,941	579	3,104	1,271	626
*Diversification effect **	*(5,578)*	—	—	*(3,824)*	*(2,105)*
Total	6,292	2,401	9,132	4,317	2,330
Expected Shortfall	***8,279***	***2,960***	***10,225***	***5,376***	***3,080***

* Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of 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 equity volatility) which are monitored daily. Average exposures have generally increased during the year, with the exception of the equity component, which reflects pronounced swings between highs and lows consistent with the directional positions taken. The delta on interest rates also ranged from €4,000 and €823,000, with an average value of around €323,000, while the fluctuations in the equity delta were even more pronounced, ranging from a low of minus €423,000 to a high of €1.2m per percentage point. The fluctuation in the exchange rate delta was also pronounced, ranging from a low of minus €722,000 to a high of €1.9m per percentage point.

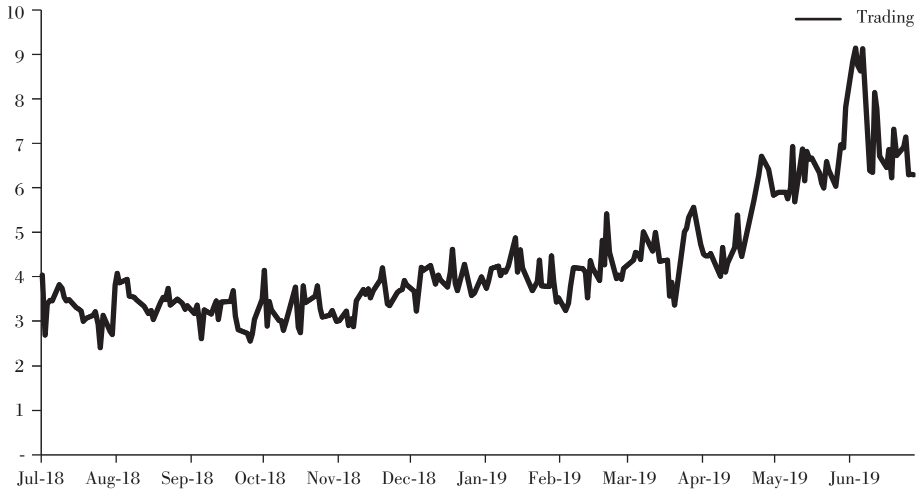
Table 2: Overview of trends in main sensitivities for trading book

€ '000

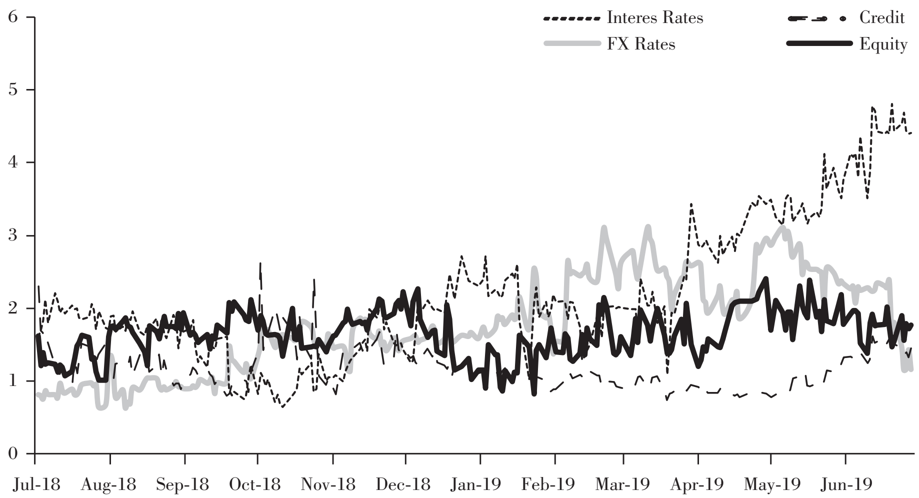
Risk factors	**12 mths to 30/6/19**				**12 mths to 30/6/18**
	30/6/19	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	270,869	(426,916)	1,236,233	664,340	1,166,546
Equity vega (+1%)	1,118,937	(179,215)	1,677,427	618,926	(131,505)
Interest rate delta(+1bp)	730,967	4,579	823,197	323,109	30,265
Inflation delta (+1 bp)	31,891	(9,264)	43,093	13,743	10,118
Exchange rate delta (+1%) *	485,849	(722,481)	1,906,315	703,114	295,358
Credit delta (1 bp)	1,002,754	398,520	1,272,147	750,825	253,825

* Refers to Euro appreciating against foreign currencies.

Trading Book VaR Trend



VaR Components Trend by Asset Class (Trading)



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	65,366	1,933,119	925,358	362,435	170	—	928,208	—
1.1 Debt securities	65,093	1,933,119	925,358	362,435	170	—	928,208	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	65,093	1,933,119	925,358	362,435	170	—	928,208	—
1.2 Other assets	273	—	—	—	—	—	—	—
2. Cash liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	965,023	—	—	20,000	104,380	—	—
+ short positions	—	965,023	—	—	20,000	104,380	—	—
3.2 Without underlying securities								
– Options								
+ long positions	52,330	87,963,501	16,407,324	1,659,369	4,556,780	2,823,424	1,067,182	—
+ short positions	52,330	87,963,501	16,407,324	1,659,369	4,556,780	2,823,424	1,067,182	—
– Others								
+ long positions	389,344	22,055,805	8,475,549	3,025,690	15,436,199	6,067,935	2,190,631	—
+ short positions	1,117,429	19,045,466	9,402,521	2,221,748	15,694,240	7,282,611	2,877,139	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	2,291,640	—	76,336
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	6,055
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	6,055
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	245,002	—	1,057
- harmonized	224,655	—	—
- non-harmonized open	—	—	1,057
- non-harmonized closed	20,347	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	2,536,642	—	83,448

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 97% of the net exposure is to EU member states.

1.2.2 INTEREST RATE RISK 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 200 bps 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 EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-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 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 2019, 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 €35m (as against €3m last year).

With reference to the Group's banking book positions at 31 December 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel up"), estimated net interest income would reduce by some €65m, due chiefly to the reduction by CheBanca! (€70m) and Compass €52m), against an increase by Mediobanca of €65m. Last year the maximum reduction was €32m in the steeper hypothesis.

The data above has been summarized in the following table:

Data at 30/6/19	**Banking Book**					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	Parallel Down	(35)	(13)	(4)	(9)	(9)
Discounted value of expected cash flows sensitivity	Parallel Up	(65)	65	(70)	(52)	(8)

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/ estimated Group net interest income) and 6% (economic value sensitivity/ CET1).

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).[1]

[1] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and collateralization (CSA), and whose valuation is based on Eonia 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 securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. 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.

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 IFRS 13, 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 financial 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	7,775,877	21,904,276	6,091,409	5,790,093	13,852,366	3,125,379	2,002,850	310
1.1 Debt securities	2	719,655	333,541	1,853,215	3,060,081	500,951	6,387	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	2	719,655	333,541	1,853,215	3,060,081	500,951	6,387	—
1.2 Loans to banks	2,123,449	2,205,266	493,668	1,553,750	656,289	—	403,208	60
1.3 Loans to customers	5,652,426	18,979,355	5,264,200	2,383,128	10,135,996	2,624,428	1,593,255	250
– current accounts	1,094,222	200,152	—	—	—	—	—	—
– other loans	4,558,204	18,779,203	5,264,200	2,383,128	10,135,996	2,624,428	1,593,255	250
– with early repayment option	113,268	6,897,016	946,267	1,740,062	8,463,542	2,366,115	1,552,107	—
– others	4,444,936	11,882,187	4,317,933	643,066	1,672,454	258,313	41,148	250
2. Cash liabilities	19,833,184	15,785,129	2,703,577	8,195,242	8,409,605	2,522,474	1,113,234	—
2.1 Due to customers	17,541,011	3,772,580	1,217,666	1,089,771	462,162	5,000	—	—
– current accounts	14,456,968	327,441	—	—	—	—	—	—
– other amounts due	3,084,043	3,445,139	1,217,666	1,089,771	462,162	5,000	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	3,084,043	3,445,139	1,217,666	1,089,771	462,162	5,000	—	—
2.2 Due to banks	2,012,892	5,012,964	443,203	2,667,115	3,892,548	—	369,106	—
– current accounts	609,446	—	—	—	—	—	—	—
– other amounts due	1,403,446	5,012,964	443,203	2,667,115	3,892,548	—	369,106	—
2.3 Debt securities	279,281	6,999,585	1,042,708	4,438,356	4,054,895	2,517,474	744,128	—
– with early repayment	—	—	—	—	—	—	—	—
– others	279,281	6,999,585	1,042,708	4,438,356	4,054,895	2,517,474	744,128	—
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	293,066	13,786,045	2,192,672	1,962,744	9,541,780	3,606,976	1,022,000	—
+ short positions	860,899	17,021,036	1,495,000	2,380,000	6,979,548	2,153,300	1,515,500	—
4. Other OTC trades								
+ long positions	26,083	2,002,624	91,199	50,011	5,275,399	19,668	38,525	97
+ short positions	1,277,203	447,351	80,117	64,212	5,593,315	40,788	—	—

2. Banking book: internal models and other sensitivity analysis methodologies

Type of exposure/Amounts	**Book value**		
	Level 1	**Level 2**	**Level 3**
A. Equities [1]			
A.1 Shares	114,487	—	26,450
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	46,437	—	131,167
- harmonized open	46,437	—	—
- non-harmonized open	—	—	—
- closed	—	—	123,078
- reserved	—	—	—
- speculative	—	—	8,089
B.2 Other EU states	190,385	—	209,375
- harmonized	4,986	—	—
- non-harmonized open	8,636	—	—
- non-harmonized closed	176,763	—	209,375
B.3 Non-EU states	—	—	2,228
- open	—	—	—
- closed	—	—	2,228
Total	351,309	—	369,220

[1] Of which 43% Italian and 56% other EU member states.

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. 290 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.

At the reference date, the hedging of the exchange rate difference with regard to the RAM equity interest accounts for CHF 165m, in accordance with what is prescribed by relevant accounting standards for the hedging of "Net investments of foreign operations", with the aim of eliminating the volatility of the equity reserve, which refers to the difference at consolidated level from the historical rate of first-time recognition and the subsequent goodwill. The hedging is made thanks to a CHF-denominated bond security, whose variations due to exchange rates fluctuations are on hold into a Net Equity reserve, thus offsetting the consolidation impact of the company as well as the impact of the goodwill. This reserve will be on hold until the possible sale of the equity interest.

QUANTITATIVE INFORMATION

1. Assets, liabilities and derivatives by currency

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish krona	Swiss franc	Other currencies
A. Financial assets	3,294,780	2,748,949	23,359	76,032	395,981	90,103
A.1 Debt securities	858,271	607,970	—	—	99,392	—
A.2 Equity securities	107,605	787,637	3,770	—	448	1,584
A.3 Due from banks	190,356	793,990	16,062	1,515	103,698	31,433
A.4 Due from customers	1,742,223	559,352	3,517	74,517	187,274	57,026
A.5 Other financial assets	396,325	—	10	—	5,169	60
B. Other assets	36,851	10,419	153	243	19,134	17,646
C. Financial liabilities	(4,273,382)	(2,286,905)	(4,277)	(1,599)	(207,261)	(68,904)
C.1 Due to banks	(179,611)	(1,492,655)	—	—	(3,979)	(13)
C.2 Due to customers	(1,319,434)	(122,631)	(3,438)	(1,599)	(55,059)	(68,707)
C.3 Debt securities	(2,339,719)	(666,996)	—	—	(81,576)	—
C.4 Other financial liabilities	(434,618)	(4,623)	(839)	—	(66,647)	(184)
D. Other liabilities	(3,587)	(1,832)	(1,765)	(243)	(12,911)	(17,243)
E. Financial derivatives						
- Options						
+ Long positions	123,465	28,337	20,691	—	13,651	5,301
+ Short positions	(121,567)	(47,510)	(27,888)	—	(12,596)	(5,333)
- Other derivatives						
+ Long positions	3,986,826	478,143	175,026	51,485	320,123	313,362
+ Short positions	(3,084,055)	(936,830)	(212,255)	(73,867)	(563,495)	(298,995)
Total assets	7,441,922	3,265,848	219,229	127,760	748,889	426,412
Total liabilities	(7,482,591)	(3,269,413)	(242,655)	(75,223)	(770,441)	(390,475)
Difference (+/-)	(40,669)	(3,565)	(23,426)	52,537	(21,552)	35,937

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level reflected a stable trend in the first half of the financial year, followed by a pronounced increase in absolute terms until early March, after which they gradually returned to just above the levels recorded in the first six months. Volatility remained at relatively low levels for all the main currencies, with temporary increases at year-end 2018 triggered primarily by commercial tensions. The VaR for the forex component at the aggregate level showed a stable trend until end-November, after which the increase in volatility for certain currencies, together with the increased exposure, drove an increase in VaR which subsequently reduced in line with the lower volatility, which preceded the gradual reduction in the exposure. The average VaR value was around €11.7m, largely unchanged from last year (€11.2m). The VaR figure recorded at 28 June 2019 was €9.2m (30/6/18: €13.2m).

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterpartsi	Senza controparti centrali		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	24,330,615	38,947,552	1,767,838	99,014,423
a) Options	—	8,025,805	280,000	96,703,913
b) Swap	24,330,615	22,811,367	1,487,838	—
c) Forward	—	124,380	—	—
d) Futures	—	—	—	2,310,510
e) Others	—	7,986,000	—	—
2. Equities and stock indexes	—	14,396,817	2,182,737	14,159,122
a) Options	—	12,277,206	2,182,737	13,822,601
b) Swap	—	2,002,462	—	—
c) Forward	—	117,149	—	—
d) Futures	—	—	—	336,521
e) Others	—	—	—	—
3. Currencies and gold	—	9,087,175	112,866	—
a) Options	—	1,534,191	—	—
b) Swap	—	2,912,799	105,448	—
c) Forward	—	4,640,185	7,418	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	24,330,615	62,431,544	4,063,441	113,173,545

A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Positive fair value				
a) Options	—	568,610	6,427	487,169
b) Interest rate swap	2,489	743,161	73,492	—
c) Cross currency swap	—	323,693	10,067	—
d) Equity swap	—	9,181	—	—
e) Forward	—	43,299	6,165	—
f) Futures	—	—	—	10,352
g) Others	—	—	—	—
Total	2,489	1,687,944	96,151	497,521
2. Negative fair value				
a) Options	—	677,049	60,315	629,169
b) Interest rate swap	228,968	413,582	7,946	—
c) Cross currency swap	—	97,932	—	—
d) Equity swap	—	20,436	—	—
e) Forward	—	159,058	988	—
f) Futures	—	—	—	20,479
g) Others	—	—	—	—
Total	228,968	1,368,057	69,249	649,648

A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	180,000	1,012,467	575,371
- positive fair value	X	68,934	—	7,341
- negative fair value	X	1,258	6,727	467
2) Equities and stock indexes				
- notional value	X	1,519,396	663,318	22
- positive fair value	X	3,461	488	5,859
- negative fair value	X	60,323	15	356
3) Currencies and gold				
- notional value	X	3,106	4,312	105,448
- positive fair value	X	—	—	10,067
- negative fair value	X	—	103	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	24,330,615	23,036,181	8,257,400	7,653,971
- positive fair value	2,489	283,043	170,551	309,790
- negative fair value	228,968	332,604	274,526	41,916
2) Equities and stock indexes				
- notional value	—	8,646,191	4,097,407	1,653,219
- positive fair value	—	296,403	135,791	93,995
- negative fair value	—	358,369	169,121	26,363
3) Currencies and gold				
- notional value	—	4,921,685	2,374,082	1,791,408
- positive fair value	—	259,408	55,328	83,634
- negative fair value	—	98,649	15,927	50,581
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC financial derivatives: notional amounts

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	14,440,269	31,750,399	18,855,337	65,046,005
A.2 Financial derivative contracts on equity securities and stock indexes	7,751,122	8,726,432	102,000	16,579,554
A.3 Financial derivatives on currencies and gold	5,548,196	2,653,504	998,341	9,200,041
A.4 Financial derivatives on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	27,739,587	43,130,335	19,955,678	90,825,600

B. Credit derivatives

B.1 1 Trading credit derivatives: average and reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	4,491,875	17,549,942
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	873,520	—
Total 30/6/19	5,365,395	17,549,942
2. Security sales		
a) Credit default products	3,380,660	17,549,944
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 30/6/19	3,380,660	17,549,944

([1]) Of which certificates totaling € 873,520,000

The column "basket" includes the skew positions, which tackles the issues still outstanding, between reference index and the underlying single name, which are balanced between purchases and sales. The embedded derivative of these issues is represented, for protection purchases, on single subjects with a notional amount equal to the nominal amount of issues.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/19
1. Positive fair value	
a) Credit default products	490,498
b) Credit spread products	—
c) Total rate of return swap	—
d) Other	—
Total	490,498
2. Negative fair value	
a) Credit default products	549,896
b) Credit spread products	—
c) Total rate of return swap	—
d) Other [1]	864,440
Total	1,414,336

[1] Of which certificates totaling € 864,440,000.

B.3 Trading book OTC credit derivatives: notional values and gross positive/negative fair value, by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
- notional value [1]	X	3,058,444	300,000	—
- positive fair value	X	39,344	7,158	—
- negative fair value [1]	X	864,459	—	—
2) protection sale				
- notional value	X	14,526	—	—
- positive fair value	X	23,448	—	—
- negative fair value	X	54,123	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
- notional value	4,093,799	8,605,639	6,857,456	—
- positive fair value	—	42,824	10,162	—
- negative fair value	13,943	219,584	188,337	—
2) protection sale				
- notional value	4,045,557	10,351,698	6,518,822	—
- positive fair value	—	200,354	167,207	—
- negative fair value	—	69,829	4,062	—

[1] Of which certificates with a notional value of €873,520,000 and a fair value of €864,440,000.

B.4 Outstanding life of OTC trading credit derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Sale protection	676,808	18,714,116	1,539,679	20,930,603
2 Buy protection	872,958	18,946,677	1,796,630	21,616,265
Total 30/6/19	1,549,766	37,660,793	3,336,309	42,546,868

1.3.2 HEDGING DERIVATIVES

A. Financial hedging derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	26,470,556	5,821,291	35,000	—
a) Options	—	130,000	—	—
b) Swap	26,470,556	5,591,291	35,000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	100,000	—	—
2. Equities and stock indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Currencies and gold	—	308,436	—	—
a) Options	—	—	—	—
b) Swap	—	308,436	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	26,470,556	6,129,727	35,000	—

A.2 Hedge financial derivatives: positive and negative fair values by product

Types of derivatives	***Positive and negative fair values***				**Variation in the value used to valuate the ineffectiveness of the hedging**
	30/6/19				**30/6/19**
	Over the counter			**Organized markets**	
	Central counterparties	**Without central counterparties**			
		With clearing arrangements	**Without clearing arrangements**		
1. Positive fair value					
a) Options	—	6,505	—	—	—
b) Interest rate swap	305,510	98,618	463	—	356,619
c) Cross currency swap	—	1,138	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	305,510	106,261	463	—	356,619
Negative fair value					
a) Options	—	14,209	—	—	—
b) Interest rate swap	50,302	343,986	5,643	—	57,495
c) Cross currency swap	—	101	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	50,302	358,296	5,643	—	57,495

A.3 OTC hedge financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entitiesi
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	35,000	—	—
- positive fair value	X	463	—	—
- negative fair value	X	5,643	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4)) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	26,470,556	5,144,021	327,270	350,000
- positive fair value	305,510	104,468	655	—
- negative fair value	50,302	342,465	2,647	13,083
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	293,497	14,938	—
- positive fair value	—	1,138	—	—
- negative fair value	—	—	101	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC hedging financial derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	6,816,866	17,834,496	7,675,485	32,326,847
A.2 Financial derivative contracts on equity securities and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	308,436	—	308,436
A.4 Financial derivative on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	6,816,866	18,142,932	7,675,485	32,635,283

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

	Book Value			Change in the value used to calculate the ineffectiveness of the hedge		
	Fair value hedge	Cash flow hedge	Foreign investments hedge	Fair value hedge	Cash flow hedge	Foreign investments hedge
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading activities	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/19	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	135,086	—	5,417	—
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	135,086	—	5,417	—
Total 30/6/19	—	—	135,086	—	5,417	—

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with an impact on total profitability - hedges of:	1,417,736	—	12,219	—	19,199	—
1.1 Debt securities and interest rate	1,417,736	—	12,219	—	19,199	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	3,290,169	2,699,965	175,389	—	196,562	—
1.1 Debt securities and interest rate	590,204	—	12,338	—	10,901	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	2,699,965	2,699,965	163,051	—	185,661	X
1.5 Other	—	—	—	—	—	X
Total 30/6/19	4,707,905	2,699,965	187,608	—	215,761	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	14,731,229	—	304,272	—	270,791	—
1.1 Debt securities and interest rate	14,731,229	—	304,272	—	270,791	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/19	14,731,229	—	304,272	—	270,791	—

D.2 Cash flow and foreign investments hedges

	Change in value used to calculate hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Cash flow hedges			
1. Assets	—	—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indices	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits	—	—	—
1.5 Other	—	—	—
2. Liabilities	(42.704)	(41.843)	—
1.1 Debt securities and interest rate	(42.704)	(41.843)	—
1.2 Currencies and gold	—	—	—
1.3 Other	—	—	—
Total (A) 30/6/19	(42.704)	(41.843)	—
B. Foreign Investments hedges	X	(3.196)	—
Total (A+B) 30/6/19	(42.704)	(45.039)	—

E. Effects of hedging operations to net equity

E.1 1 Reconciliation of net equity constituents

	Cash flow hedges reserve					Foreign investment hedges reserve				
	Debt securities and interest rate	Equity securities and stock price	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock price	Currencies and gold	Credits	Others
Initial balance	(13,261)	—	—	—	—	—	—	641	—	—
Changes in Fair Value	(28,582)	—	—	—	—	—	—	(3,838)	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction not expected	—	—	—	—	—	X	X	X	X	X
Other variations	—	—	—	—	—	—	—	—	—	—
of which: transfer to initial book value	—	—	—	—	—	X	X	X	X	X
Final balance	(41,843)	—	—	—	—	—	—	(3,197)	—	—

1.3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING INSTRUMENTS)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparty	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	50.801.172	28.395.203	9.597.136	8.579.341
- positive fair value	307.999	462.540	171.207	317.131
- negative fair value	279.269	684.440	283.900	55.467
2) Equity instrument and stock index				
- notional amount	—	10.157.487	4.760.725	1.653.241
- positive fair value	—	299.863	136.279	99.854
- negative fair value	—	418.691	169.136	26.719
3) Currency and gold				
- notional amount	—	5.218.287	2.393.332	1.896.856
- positive fair value	—	260.546	55.328	93.701
- negative fair value	—	98.649	16.131	50.581
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchase				
- notional amount	4.093.799	10.365.009	7.157.456	—
- positive fair value	—	44.314	17.320	—
- negative fair value	13.943	1.083.351	188.337	—
2) Hedge sale				
- notional amount	4.045.557	10.408.534	6.518.822	—
- positive fair value	—	219.471	167.207	—
- negative fair value	—	124.520	4.062	—

1.4 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 defined as 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 defined as 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.

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Mediobanca Group and the financial system in general, given that a single bank's difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

To meet this objective, the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. stipulates that an adequate level of highly liquid assets must be maintained to cover the cash flows anticipated in the short and medium/long term.

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 level.

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's Risk Appetite Framework.

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;
– Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management which, in accordance 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 for monitoring is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds, receivables eligible for refinancing with the ECB and marketable securities available post-haircut) and cumulative net cash flows.

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 between 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 Group's assets eligible for refinancing with the European Central Bank.

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 on average the cumulative inflows cover the cumulative outflows for maturities of more than one and up to three years.

Throughout the entire period 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 period under review, both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, remained well above the limits set under the regulation in force of 100% at all times. In particular, the LCR indicator measured in accordance with the provisions of Commission Delegated Regulation (EU) 2015/61 was 143% (30/6/18: 186%), and the NSFR indicator was 107% (108%). The LCR includes the prudential estimate of "additional liquidity outflows for other products and services" as required by Article 23 of Commission Delegated Regulation (EU) 2015/61.

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 and/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.

The first six months of the financial year saw high volatility on financial markets, due to monetary policy factors (i.e. the ECB gradually exiting its quantitative easing programme) as well as international tensions (commercial war between the United States and China, plus Brexit). In Italy the volatility was still higher, on account of the unstable political situation, which drove a widening of the spreads on Italian sovereign debt versus that of the other EU member states, impacting negatively on the cost of refinancing for banks.

The situation improved at the start of 2019, despite the uncertainty over the outcome of the European elections, helped by the more accommodative monetary policies announced by the central banks, plus the TLTRO III programme. In Italy, concerns over the political situation also diminished, which led to spreads on sovereign and bank debt narrowing once again.

The Mediobanca Group was able to complete its funding plan by diversifying the sources of financing, with priority being given to secured funding in the first six months in particular. Such diversification had only limited effects on the cost of funding and access to markets.

During the year under review, against redemptions of securities totalling €3.8bn, issues were placed in an amount of some €3.2bn, €1.8bn of which senior unsecured, €600m in securitizations of Compass receivables, and €750m in covered bonds with CheBanca! mortgages as the underlying instrument. Bank funding of over €1.9bn was used, with maturities of at least 24 months, €1.2bn of which secured. Funding raised by refinancing assets with the European Central Bank was unchanged at €4.3bn.

As at 30 June 2019, the counterbalancing capacity stood at €9.89bn, €8.9bn of which in the form of bonds exchangeable for cash from the ECB (30/6/18: €10.1bn, €8.7bn of which eligible bonds); the balance of liquidity reserves established at the European Central Bank amounted to approx. €5.8bn, some €1.5bn 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 contractual 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	6,719,451	454,499	1,244,313	1,297,473	2,664,008	3,353,875	8,351,493	29,274,341	12,465,883	227,188
A.1 Government securities	440	788	32,785	58,608	34,991	152,184	1,958,191	4,439,223	695,389	—
A.2 Other debt securities	1	713	30,744	27,218	79,828	53,950	578,380	1,743,959	719,922	—
A.3 UCITS units	32,255	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	6,686,755	452,998	1,180,784	1,211,647	2,549,189	3,147,741	5,814,922	23,091,159	11,050,572	227,188
– to banks	2,123,000	121,442	680,825	288,601	28,389	392,196	1,670,275	1,006,631	903,899	226,341
– to customers	4,563,755	331,556	499,959	923,046	2,520,800	2,755,545	4,144,647	22,084,528	10,146,673	847
Cash liabilities	19,809,033	799,810	863,689	1,286,233	7,087,506	2,536,700	6,454,024	16,704,813	6,582,032	—
B.1 Deposits and currentaccounts	17,733,981	682,491	413,785	724,611	1,159,128	825,027	1,012,135	391,326	26,503	—
– to banks	609,446	1,336	5,322	10,168	11,322	11,810	33,135	218,576	21,503	—
– to customers	17,124,535	681,155	408,463	714,443	1,147,806	813,217	979,000	172,750	5,000	—
B.2 Debt securities	279,287	121	47,810	26,143	830,700	1,041,422	2,332,056	9,419,501	6,085,705	—
B.3 Other liabilities	1,795,765	117,198	402,094	535,479	5,097,678	670,251	3,109,833	6,893,986	469,824	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange										
– posizioni lunghe	370,036	232,821	339,474	570,471	789,685	754,549	167,982	2,012,765	563,268	—
– posizioni corte	14,817	71,547	155,955	310,370	322,405	246,539	319,629	2,364,152	435,072	—
C.2 Derivati finanziari senza scambio di capitale										
– long positions	2,965,698	6,324	10,695	5,993	25,120	47,836	97,803	9,530	—	—
– short positions	3,156,271	2,213	5,286	10,474	34,759	64,955	76,683	—	—	—
C.3 Deposits and loans for collection										
– long positions	2,423,145	235,827	164,565	199,402	—	183,622	1,409,360	166,173	47,965	—
– short positions	—	—	—	130,027	—	473,961	2,049,741	1,508,770	667,558	—
C.4 Irrevocable commitments to disburse funds*										
– long positions	1,095	90	9,872	73,911	1,214,893	70,541	1,475,515	903,676	347,147	97
– short positions	1,513,343	32,190	158,647	277,914	70,068	188,177	1,401,799	326,787	127,814	97
C.5 Financed guarantees issued	8	1,150	107	1,294	622	4,871	7,972	643	558	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	825,000	36,344	155,972	1,487,516	87,089	—
– short positions	—	—	—	—	43,681	59,585	23,787	2,343,383	121,484	—
C.8 Credit derivatives without exchange of principal										
– long positions	570,767	—	—	—	—	—	—	—	—	—
– short positions	672,233	—	—	—	—	—	—	—	—	—

1.5 OPERATIONAL RISK

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

To manage 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 as at 30 June 2019 was €321.6m (30/6/18: €311.8m).

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 approx. 0.5% of the Group's total revenues.

As for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.

Event Type	*% su Total Loss*
Clients, products and business practices	53%
Execution, delivery and process management	26%
External fraud	7%
Employment practices and workplace safety	13%
Other	1%

During the twelve months under review, 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, while one-quarter were due to instances relating to process risk ("Execution, delivery and process management"); the remainder were due to external fraud on retail financing products (fake documentation and/or cards) and the employment relationship.

Potential operational risks (based on estimates) will continue to be relevant as a result of growth in the Wealth Management and Consumer businesses, the commercial networks and the acceleration of new types of risk, notably cyber. The Group continues to be exposed to the potential risk of low frequency/high severity inherent in businesses which feature non-standard and large-sized transactions, such as CIB and Wealth Management. Operational risks are mitigated on an ongoing basis by enhanced governance and first-level controls, and by continuously adapting the frameworks used for valuation and monitoring.

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.

* * *

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

– 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);

– Strategic risk, i.e. exposure to 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);

– Risk from equity investments held as part of the "Hold to collect and sell" banking book ("HTC&S"), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);

– Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;

– Compliance risk, attributable to the possibility 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, due to reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities.

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), generating a relatively low percentage of its total revenues (approx. 3%). Mediobanca is monitoring the state of progress in the negotiations and the potential impact in regulatory terms through an inhouse working group which is co-operating with the JST and local regulators. The target operating moel to be applied in the event of a "hard" Brexit is in the process of being identified, along with the clearance procedure required (deadlines and methods) to apply for authorization with the FCA (the third country branch application process).

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

*B.1 Consolidated net equity: breakdown by type of company **

	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
1. Share capital	460,237	—	—	—	460,237	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	5,962,296	—	—	—	5,962,296	70,823
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(141,989)	—	—	—	(141,989)	—
6. Valuation reserves:	594,679	—	—	—	594,679	(2,825)
- Equity instruments valued at fair value with impact taken to comprehensive income	60,415	—	—	—	60,415	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	24,161	—	—	—	24,161	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(3,197)	—	—	—	(3,197)	—
- Hedging of cash flows	(44,572)	—	—	—	(44,572)	(2,730)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	(5,086)	—	—	—	(5,086)	(4)
- Non-current assets and group of assets being sold		—	—	—	—	
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	—	—	—	—	—	—
- Actuarial gains (losses) on defined benefits pension schemes	(7,269)	—	—	—	(7,269)	(91)
- Valuation reserves share of equity-accounted interests	560,595	—	—	—	560,595	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	826,208	—	—	—	826,208	3,183
Total	9,898,885	—	—	—	9,898,885	89,658

* Includes Compass RE (insurance) and R&S, equity-method consolidated (Other companies).

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	Prudential consolidation		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	30,599	(6,438)	—	—	—	—	—	—	30,599	(6,438)
2. Equity securities	61,045	(630)	—	—	—	—	—	—	61,045	(630)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 30/6/19	91,644	(7,068)	—	—	—	—	—	—	91,644	(7,068)
Total at 30/6/18 *	153,930	(32,086)	1,239	(1,543)	—	—	—	—	155,169	(33,629)

* Includes UCITS stock units (cf. IAS 39).

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	47,340	53,140	—
2. Additions	33,605	14,674	—
2.1 Increases in fair value	28,662	9,210	—
2.2 Adjustment for credit risk	574	X	—
2.3 Profit and loss reversal of negative reserves from realize	4,369	X	—
2.4 Transfers to other equity components (equity instruments)	—	5,464	—
2.5 Other increases	—	—	—
3. Reductions	56,784	7,399	—
3.1 Reductions in fair value	13,384	5,365	—
3.2 Recoveries for credit risk	29	—	—
3.3 Profit and loss reversal from positive reserves: from disposal	43,371	X	—
3.4 Transfers to other equity components (equity instruments)	—	2,034	—
3.5 Other decreases	—	—	—
4. Closing balance	24,161	60,415	—

SECTION 2

Own funds 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 2018.

At 30 June 2019, the authority asked Mediobanca to maintain a CET ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes an additional Pillar 2 ("P2R") requisite of 1.25%, unchanged from last year, with a capital conservation buffer of 2.50%.

2.1 Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR/CRR2 [1]) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024. [2]

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of spreading the impact of introducing IFRS 9 on own funds over a transitional period of five years, by including a decreasing amount of loan loss provisions in CET1 over that time. The Mediobanca Group has applied the static approach

[1] The new Regulation was approved by the European Parliament on 16 April 2019 after being published in the Official Journal of the European Union.

[2] Application of Article 471 is limited to the book value as at December 2012 and to compliance with the concentration limit versus the insurer, i.e. 20% of the limit versus related parties.

to neutralize the effect of the increase in loan loss provisions starting from the financial statements for the year ended 30 June 2018 (IFRS 9 FTA) and for the next five years thereafter [3].

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 €815.2m of the positive FVOCI financial assets reserves, €6.6m of which in government securities and €730.5m deriving from Assicurazioni Generali being equity-consolidated) and the profit for the period (€826.2m) net of the dividend for the year (€416.5m) which represents a €0.47 dividend per share (for a payout ratio of 49.8%, calculated based on the number of shares in circulation). The deductions regard: treasury shares (€234m), including €136m already owned as at 30 June 2019 and commitments to buy back shares totalling €98m to reach 3% of the share capital (as approved by shareholders in annual general meeting and authorized by the ECB in October 2018), intangible assets (€133m), goodwill of €772.4m (€149m of which in respect of newly-acquired MMA), and other prudential adjustments of €48.3m (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €2,004.9m were deducted, €1,704m of which in respect of the Assicurazioni Generali investment and €121.2m of Compass RE (30/6/18: €1,515.7m and €90.8m respectively).

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes subordinated liabilities, down from €1,819.4m to €1,522.7m due to amortization. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

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

Issue	30/6/19		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,498
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	165,392
MB OPERA 3.75 2026	IT0005188351	299,820	291,228
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	151,501
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,881
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	375,223
Total subordinated debt securities		2,351,944	1,522,724

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus of €38.5m is higher than the €9.2m buffer reported last year due to the CheBanca! mortgage loan book models being validated.

QUANTITATIVE INFORMATION

	30/6/19	30/6/18
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,351,118	9,285,623
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	7,317	(12,852)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,358,435	9,272,771
D. Items to be deducted from CET1	(3,834,987)	(3,518,758)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,000,929	992,586
F. Total common equity tier 1 (CET1) (C-D+/-E)	6,524,377	6,746,599
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	1,561,228	1,828,666
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	—	—
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,561,228	1,828,666
Q. Total own funds (F+L+P)	8,085,605	8,575,265

* The adjustments include application of the transitional arrangements for the introduction of IFRS 9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2019, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.09%, lower than at 30 June 2018 (14.24%) due chiefly to the treasury share buyback scheme launched (which accounted for 65 bps, including the shares used during the period), and the recent acquisition of MMA (15 bps, considering that the upfront price was paid for in Mediobanca shares), which more than absorbed the capital generated from current activities (consisting of the difference between retained earnings, growth in RWAs and recalibration of the buffers for the deductions) and the benefit deriving from introduction of the AIRB models for the CheBanca! mortgage loan book (which added approx. 40bps, corresponding to an average weighting of below 20%). A prudential filter has been applied to the reduction in net equity which emerged on first-time adoption of IFRS 9 (€80.9m net of the tax effect), in an amount of €76.4m (equal to 95% of the higher loan loss provisions booked), in line with the phase-in regime.

RWAs fell by approx. €1bn in the twelve months, due principally to the CheBanca! mortgage models mentioned above being applied, which removed some €1.4bn. This reduction was only in part offset by growth in RWAs in the other segments: CIB (up €0.6bn, €160m of which due to the higher risk weight assigned to purchased defaulted assets (from 100% to 150%) following EBA clarification no. 2017_3270) and Consumer Banking (up €0.7bn). There were also reductions in Principal Investing (€0.6bn) and Holding Functions (€0.5bn).

Conversely, the total capital ratio reduced from 18.11% to 17.46%, in part due to the amortization of the Tier 2 instruments.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted and with full application of the IFRS 9 effect (approx. 19bps), the CET1 ratio was 12.83% and the total capital ratio 16.46%, lower than the figures reported at end-June last year, which were 13.15% and 17.32% respectively.

The other indicators performed as follows during the year under review:

– The Liquidity Coverage Ratio (LCR) declined from 186% to 143%, remaining comfortably above the regulatory limit of 100%;

– The Leverage Ratio too decreased from 8.8% to 8.4%, but once again was well above the regulatory limit set (3%).

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts [5]		Weighted amounts/requirements	
	30/6/19	30/6/18	30/6/19	30/6/18
A. RISK ASSETS				
A.1 Credit and counterpart risk	66,599,488	65,110,914	39,194,427	40,479,850
1. Standard methodology	40,763,545	49,338,183	27,909,222	31,415,612
2. Internal rating methodology	25,679,325	15,611,090	11,165,086	8,936,201
2.1 Basic	—	—	—	—
2.2 Advanced	25,679,325	15,611,090	11,165,086	8,936,201
3. Securitization	156,617	161,641	120,120	128,037
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,135,554	3,238,388
B.2 Credit valuation risk			42,695	49,724
B.3 Settlement risk			—	—
B.4 Market risk			204,897	189,093
1. Standard methodology			204,897	189,093
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			321,647	311,808
1. Basic Indicator Approach (BIA)			321,647	311,808
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,704,793	3,789,013
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			46,309,918	47,362,665
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.09%	14.24%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.09%	14.24%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			17.46%	18.11%

[5] For the standardized methodology, the "unweighted amounts", as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the "unweighted amounts" correspond to the "exposure at default" (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G - Combinations involving Group companies or business units

SECTION 1: TRANSACTIONS COMPLETED DURING THE PERIOD

On 10 April 2019, Mediobanca S.p.A. completed the acquisition of a 66.4% stake in Messier Maris & Associés. The consideration of €107.9m was paid entirely in Mediobanca shares from the buyback scheme currently in progress. A put-and-call option has also been taken out to increase the stake to 100%. Goodwill, including the liability for the put-and-call option, totals €149m, pending the purchase price allocation process which, as required by the international accounting standards, must take place within twelve months of the acquisition date (March 2020).

The following transactions also took place during the period under review:

– On 20 December 2018 Spafid Connect sold Market Connect, the IT services platform it acquired from Borsa Italiana in March 2017, to Norwegian listed company Infront;

– The purchase price allocation process for the RAM AI acquisition was completed on 31 December 2018;

– Ownership of Spafid Connect was transferred from Spafid to MIS during June 2019 in a "common control" transaction at book value.

For further details, please see Part B of the Notes to the Consolidated Balance Sheet, Section 10 (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 in connection with previous business combinations for the period under review.

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 June 2019. 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 period under review.

2.2 *Quantitative information*

The exposure (representing the sum of assets plus guarantees and commitments) grew to €1.4bn (30/6/18: €1.1bn), and accounts for 1.8% of total assets (1.5%), while net interest income from such items accounted for 1.3% of the total (1.1%).

Situation as at 30 June 2019

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.3	355.8	1.059.9	1.417.0
of which: other assets	—	*138.8*	*787.5*	*926.3*
loans and advances	*1.3*	*217.0*	*272.4*	*490.7*
Liabilities	18.0	0.1	393.4	411.5
Guarantees and commitments	—	10.0	—	10.0
Interest income	—	9.1	15.5	24.6
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	0.6	64.6	65.2
Other income (costs)	(41.6) [1]	0.3	(38.6)	(79.9)

1 Of which: short-term benefits amounting to €37.5m and performance shares worth €4m. The figure refers to the staff included in the definition of management with strategic responsibilities during the period..

Situation 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	21.6
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 period.

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	5,081,612	[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 2015, 2016, 2017, 2018 and 2019.

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 a 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 allocated 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 15,445,795 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 2018 financial year, a total of 1,835,703 performance shares were awarded; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches November 2021 (up to 853,721), November 2022 (up to 499,727), November 2023 (up to 369,041) and November 2024 (up to 113,214).

Beneficiaries were also awarded a total of 1,850,300 shares (1,827,063 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015).

After the reporting date, as part of staff variable remuneration for the 2019 financial year, a total of 1,574,528 performance shares were awarded, at notional cost of €12.6m in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three, four and five-year time horizon, will be made available in tranches in November 2021 (up to 756,991), November 2022 (up to 429,695), November 2023 (up to 304,522) and November 2024 (up to 83,320).

B. QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

	30/6/19			30/6/18		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Opening balance	642,500	6.51	October 18	4,442,500	6.53	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	642,500	6.43	X	3,800,000	6.54	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	—	—		642,500	6.51	October 18
E. Performance shares exercisable as at reporting date	—	—	X	642,500	6.51	X

2. Changes in performance share scheme during the year

	30/6/19		30/6/18	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,096,209	6.69	5,065,713	6.37
B. Increases				
B.1 New issues	1,835,703	6.78	1,834,484	7.93
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,850,300	6.35	1,559,507	7.09
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	—	—	244,481	6.99
D. Closing balance	5,081,612	6.84	5,096,209	6.69

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Adjustments [1]	Group
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	18.1	1,395.6
Net trading income	6.2	—	126.8	18.3	45.0	0.4	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	(32.8)	611.2
Share in profits earned by equity-accounted companies	—	—	—	321.2	—	—	321.2
Total income	**547.3**	**1,026.9**	**627.1**	**332.4**	**5.3**	**(14.3)**	**2,524.7**
Personnel costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(0.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	17.7	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**17.6**	**(1,161.9)**
Gain (losses) on equity investments	—	—	—	—	—	—	—
Net loss provisions	(11.5)	(237.8)	37.1	(3.3)	(8.9)	(0.3)	(224.7)
Others	0.6	—	—	—	(54.8)	0.2	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**3.2**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(0.3)	(256.5)
Minority interest	(2.5)	—	—	—	(2.1)	—	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**2.9**	**823.0**
Cost/income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*n.m.*	*46.0*

Notes:
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 and Mediobanca International, Mediobanca Securities and Messier Maris & Associés);
  – Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
– Consumer Banking (CB): 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): recently set up division, bringing 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 and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  – Asset Management & Alternative, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
– 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 and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €2.9m).

A.2 Balance-sheet data by business segment (net contributions)

(€m)

Balance-sheet data	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	6.5	—	9,759.2	—	—	9,765.7
Treasury funds	—	—	2,705.0	—	7,465.2	10,170.2
Banking book debt securities	340.3	214.7	590.3	—	5,550.6	6,695.9
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Equity investments	33.5	2.3	—	3,916.5	28.0	3,980.3
Tangible and intangible assets	138.9	382.7	167.2	—	498.8	1,187.6
Other assets	367.1	708.0	46.0	—	930.2	2,051.3
Total assets	**12,240.1**	**14,530.7**	**31,133.0**	**3,916.5**	**16,424.4**	**78,244.7**
Funding	(22,449.6)	(3,030.2)	—	—	(25,913.4)	(51,393.2)
Treasury funding	—	—	(2,643.6)	—	(3,922.0)	(6,565.6)
Financial liabilities held for trading	—	—	(8,027.8)	—	—	(8,027.8)

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Abroad [1]	Group
Net interest income	1,343.7	51.9	1,395.6
Net trading income	186.7	10.0	196.7
Net fee and commission income	422.5	188.7	611.2
Share in profits earned by equity-accounted companies	321.2	—	321.2
Total income	**2,274.1**	**250.6**	**2,524.7**
Personnel costs	(457.1)	(124.6)	(581.7)
Administrative expenses	(513.9)	(66.3)	(580.2)
Operating costs	**(971.0)**	**(190.9)**	**(1,161.9)**
Gain (losses) on equity securities	—	—	—
Net loss provisions	(223.4)	(1.3)	(224.7)
Others	(52.2)	(1.8)	(54.0)
Profit before tax	**1,027.5**	**56.6**	**1,084.1**
Income tax for the period	(233.3)	(23.2)	(256.5)
Minority interest	(2.1)	(2.5)	(4.6)
Net profit	**792.1**	**30.9**	**823.0**
Cost/Income (%)	*42.7%*	*76.2%*	*46.0%*

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments and Messier Maris et Associés, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data: geographical breakdown

(€m)

Balance-sheet data	Italy	Abroad [1]	Group
Financial assets held for trading	9,666.5	99.2	9,765.7
Treasury funds	4,923.6	5,246.6	10,170.2
Banking book debt securities	5,914.5	781.4	6,695.9
Loans and advances to customers	38,041.0	6,352.7	44,393.7
Equity investments	3,960.9	19.4	3,980.3
Tangible and intangible assets	1,139.0	48.6	1,187.6
Other assets	1,780.9	270.4	2,051.3
Total assets	**65,426.4**	**12,818.3**	**78,244.7**
Funding	(40,619.7)	(10,773.5)	(51,393.2)

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments and Messier Maris et Associés, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

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 2019

(€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 Messier Maris & Associés)	488	46	534	196	166	362
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions (formerly Creditech)	105	—	105	255	—	255
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)	884	3	887	1,357	1	1,358
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	296	2	298	1,311	5	1,316
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investments	77	169	246	96	331	427
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	8	—	8	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). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	(3)	—	(3)	893	25	918
Adjustments [2]		(18)	(17)	(35)	—	—	—
Group total		1,837	203	2,040	4,119	528	4,647

* As per P&L heading 120 according to Bank of Italy circular 262/05, which differs from "Total income" of P&L scheme in pagg. 341 and 342 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce 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 row 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 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 MBFACTA and 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 the new division Mediobanca Private Banking (deriving from the merger of Banca Esperia) and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investments	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 120 according to Bank of Italy circular 262/05, which differs from "Total income" of P&L scheme in pagg. 341 and 342 of the Notes to the accounts (which better reflects the Group operating activity). Heading 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 row 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,
28 OCTOBER 2019

AGENDA

1) Financial statements as at 30 June 2019, Board of Directors' review of operations and other reports, reports by external auditors and Statutory Audit Committee; related resolutions.

2) Group staff remuneration and incentivization 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.

3) Resolution to update performance share scheme.

ACCOUNTS OF THE BANK

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Overview

Mediobanca S.p.A. earned a net profit of €386.2m in the twelve months under review, 14.6% higher than the €337m reported last year. Revenues reflect substantial growth overall, of 21.8% (up from €690.1m to €840.2m), chiefly attributable to dividends on equity investments which offset the reduction in other items. The main income sources performed as follows:

- Net interest income was down 3.5% (from €95.1m to €91.8m), reflecting the substantial liquidity position which has eroded margins in a negative interest rate scenario and despite a reduction in the cost of funding;
- Net treasury income rose by 26%, from €146.8m to €184.9m, chiefly due to a higher contribution from Capital Market Solutions business of €128.3m (€85m); conversely, the proprietary portfolio (banking and trading book) reflected a slight decrease, from €39.9m to €38.3m;
- Net fee and commission income decreased by 14.6%, from €270.7m to €231.1m, mostly due to the reduction in capital market activity (down 56%), in line with the market trend;
- Dividends on equity investments rose from €177.5m to €332.4m, due to the distribution by Compass Banca S.p.A. (€150m) and the higher contribution from Assicurazioni Generali (up from €172.3m to €182.4m).

Operating costs show a slight increase (up 1.2%, from €414.8m to €419.6m) due to enhancement of the commercial structure in private banking and intense project activity (IFRS 9; Brexit; MiFID II).

Writebacks of €58.6m were credited in respect of the loan book (€44.3m last year), mostly attributable to improvement in corporate UTP positions.

The results for the year were impacted by contributions to the resolution and deposit guarantee funds totalling €29m (€30.7m), €28.6m of which was the ordinary payment to the Single Resolution Fund (€30.3m), plus provisions in respect of other financial assets (including Group companies) totalling €9m (€0.8m), the lack of gains on disposals of AFS shares (€96.3m last year, chiefly Atlantia), and higher tax of €55m (€47m).

During the year under review, IFRS9 on accounting for financial instruments came into force [1]. The transition to the new standard has resulted in an approx. €18.2m reduction in net equity, due chiefly to the introduction of the new impairment model, the impact of which on regulatory capital will be spread over the next five years.

On the balance-sheet side, total assets increased from €59.2bn to €65.9bn, and there was particularly sharp growth in customer loans, from €25.7bn to €28.7bn, covered by higher funding of €42.8m (€39.2m).

Mediobanca's capital ratios as at 30 June 2019, taking into account the possibility of weighting the Assicurazioni Generali investment at 370% [2] 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 14.37%, lower than 16.24% last year following launch of the buyback scheme and the increase in RWAs (from €29.4bn to €31bn) due to higher business volumes; the total capital ratio decreased from 21.51% to 18.28%. The fully-loaded ratios, i.e. without weighting the Assicurazioni Generali investment at 370% and with full application of the IFRS 9 effect, reduce to 13.1% (CET1 ratio) and 17.4% (total capital ratio).

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.

[1] For further details and full disclosure on the effects of first-time adoption of IFRS9, which replaces IAS39, please refer to the document entitled "Summary of IFRS9 accounting standard adoption" published on the Group's website at www.mediobanca.com.

[2] With the new Capital Requirements Regulation (CRR II) coming into force on 28 June 2019, application of Article 471 (known as the "Danish Compromise") has been extended until 31 December 2024.

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

Profit-and-loss data	12 mths ended 30/6/18 *	12 mths ended 30/6/19	Chg. (%)
	IAS39	IFRS9	
Net interest income	95.1	91.8	-3.5%
Net treasury income	146.8	184.9	26.0%
Net fee and commission income	270.7	231.1	-14.6%
Dividends on investments	177.5	332.4	87.3%
Total income	**690.1**	**840.2**	**21.8%**
Labour costs	(237.8)	(240.8)	1.3%
Administrative expenses	(177.0)	(178.8)	1.0%
Operating costs	**(414.8)**	**(419.6)**	**1.2%**
Gains (losses) on disposal of equity investments	96.3	—	n.m.
Loan loss provisions	44.3	58.6	32.3%
Provisions for other financial assets	1.1	(4.8)	n.m.
Impairment on investments	(0.3)	(4.2)	n.m.
Other gains (losses)	(32.7)	(29.0)	-11.3%
Profit before tax	**384.0**	**441.2**	**14.9%**
Income tax for the period	(47.0)	(55.0)	17.0%
Net profit	**337.0**	**386.2**	**14.6%**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS39, are not fully comparable.

RESTATED BALANCE SHEET

(€m)

	30/6/18	01/7/18	30/6/19
	IAS39	IFRS9	IFRS9
Assets			
Financial assets held for trading	8,211.9	8,015.8	10,047.3
Treasury financial assets	9,236.0	9,234.0	11,517.4
Banking book securities	11,454.9	11,645.9	10,779.3
Loans and advances to customers	25,745.1	25,740.9	28,671.0
Equity Investments	3,831.0	3,831.0	3,876.5
Tangible and intangible assets	155.4	155.4	147.6
Other assets	600.1	604.6	869.0
Total assets	**59,234.4**	**59,227.6**	**65,908.1**
Liabilities and net equity			
Funding	39,173.0	39,179.0	42,753.7
Treasury financial liabilities	7,287.4	7,287.4	8,636.2
Financial liabilities held for trading	6,510.5	6,510.5	8,280.3
Other liabilities	872.5	853.3	925.1
Provisions	105.5	130.2	126.0
Net equity	4,948.5	4,930.2	4,800.6
Profit (loss) for the period	337.0	337.0	386.2
Total liabilities and net equity	**59,234.4**	**59,227.6**	**65,908.1**
Regulatory capital (€ mln)	*4,772.7*	*4,772.6*	*4,456.2*
Solvency margin (€ mln)	*6,323.1*	*6,323.0*	*5,668.5*
RWA (€ mln)	*29,395.2*	*29,395.0*	*31,005.8*
Regulatory capital/RWA	*16.24%*	*16.24%*	*14.37%*
Solvency margin/RWA	*21.51%*	*21.51%*	*18.28%*
No. of shares outstanding (mln)	*886.6*	*886.6*	*887.2*
Market capitalization (€ mln)	*7,062.6*	*7,062.6*	*8,116.3*
No. of staff	*982*	*982*	*986*

Review of key items

Funding – the increase in this item, from €39.2bn to €42.8bn, chiefly reflects higher deposits from Private Banking clientele (which virtually doubled, from €2bn to €4bn) and from the CheBanca! channel, from €11.2bn to €11.7bn, offsetting the reduction in debt securities (from €16.8bn to €15.8bn). New issuance of €2.5bn was recorded for the twelve months, against redemptions and buybacks on the market totalling €3.5bn.

	30/6/18 IAS39		01/7/18 IAS39		30/6/19 IFRS9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Debt securities	16,769.4	42%	16,775.3	*43%*	15,785.8	37%	-5.9%
Interbank funding	14,767.7	38%	14,915.9	*38%*	17,430.4	41%	18.0%
- of which: CheBanca! intercompany	*11,192.4*	*29%*	*11,192.4*	*29%*	*11,685.5*	*27%*	*4.4%*
ECB (T-LTRO / LTRO)	4,363.1	11%	4,336.5	11%	4,322.4	10%	-0.9%
Other funding	3,272.8	9%	3,151.3	8%	5,215.1	12%	59.3%
- of which: private banking	*1,958.2*	*5%*	*1,958.2*	*5%*	*3,989.4*	*9%*	*n.m.*
Total funding	**39,173.0**	**100%**	**39,179.0**	**100%**	**42,753.7**	**100%**	**9.1%**

Loans and advances to customers – loans and advances to customers rose by 11.4%, from €25.7bn to €28.7bn, with the increase regarding all three divisions: Corporate finance loans increased from €9.9bn to €11.1bn, on new loans of €4bn against repayments totalling €3bn, €1.2bn of which were early repayments; loans to Private Banking customers increased from €0.9bn to €1.1bn; while loans to Group companies increased from €14.8bn to €16.5bn, in particular to Mediobanca International, Compass Banca and CheBanca!.

	30/6/18 IAS39		01/7/18 IFRS9		30/6/19 IFRS9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Corporate customers	9,934.2	39%	9,941.3	39%	11,057.4	39%	11.3%
Private customers	965.0	4%	963.8	4%	1,156.3	4%	19.8%
Group companies	14,845.9	57%	14,835.8	57%	16,457.3	57%	10.9%
Total loans and advances to customers	**25,745.1**	**100%**	**25,740.9**	**100%**	**28,671.0**	**100%**	**11.4%**
– of which: impaired assets	*344.0*		*346.0*		*387.0*		*12.5%*

	30/6/18		30/6/19		Chg
	(€m)	%	(€m)	%	
Italy	6,525.1	60%	8,399.9	69%	28.7%
France	1,022.5	9%	1,245.5	10%	21.8%
Spain	1,312.0	12%	826.3	7%	-37.0%
Germany	645.7	6%	648.0	5%	0.4%
UK	500.0	5%	500.0	4%	n.m.
Other non-resident	893.9	8%	594.0	5%	-33.5%
Total loans and advances to customers	**10,899.2**	**100%**	**12,213.7**	**100%**	**12.1%**

	30/06/2018 IAS39		01/07/2018 IFRS9		30/06/2019 IFRS9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Compass Banca	4,405.1	30%	4,402.5	30%	4,840.9	29%	9.9%
CheBanca!	5,336.2	36%	5,333.2	36%	5,711.5	35%	7.0%
Leasing	1,639.0	11%	1,636.6	11%	1,352.0	8%	-17.5%
Mediobanca International	2,133.3	14%	2,132.3	14%	2,972.1	18%	39.3%
Others	1,332.3	*9%*	1,331.2	*9%*	1,580.8	*10%*	18.7%
Total loans and advances to Group companies	**14,845.9**	**100%**	**14,835.8**	**100%**	**16,457.3**	**100%**	**10.9%**

Gross non-performing loans totalled €643m (€662m), and chiefly consist of six Corporate positions (one more than last year, for a nominal amount of €50m), and four Private Banking exposures (unchanged); together they account for 5.1% (5.8%) of the total loan book. Net NPLs meanwhile totalled €387m (€344m), or 3.2% of the loan book (unchanged from last year), plus exposures in the form of endorsements totalling €12.7m (€9.3m). The coverage ratio stood at 39.9% (47.7%), lower than last year due to the revaluation of certain UTP positions which have shown signs of improvement. Bad debts, all of which in relation to Private Banking activity, increased from €3.8m to €11.1m (due to one new addition from the UTP category) and have been written off almost entirely (97.6%).

Equity investments – As a result of the new classifications introduced by IFRS9, from this financial year this heading includes controlling interests (€2,056.4m), interests in associates (€1,135.3m), equity positions recognized at fair value through other comprehensive income (formerly AFS) totalling €136.3m, and funds, including those promoted by the Group (seed capital) which are mandatorily recognized at fair value through profit and loss (€548.5m).

(€m)

	30/6/18		1/7/18		30/6/19	
	Book value	**AFS reserve**	**Book value**	**HTC&S reserve**	**Book value**	**HTC&S reserve**
Associates and subsidiaries	3,084.2	—	3,084.2	—	3,191.7	—
Other listed shares	239.3	51.3	239.3	51.3	102.6	52.7
Other unlisted shares	19.4	11.9	19.4	5.2	33.7	10.9
Seed capital	315.4	7.5	315.4	—	382.6	—
Private equity	67.0	22.1	67.0	—	63.6	—
Other funds	105.7	—	105.7	—	102.3	—
Total equity investments	**3,831.0**	**92.8**	**3,831.0**	**56.5**	**3,876.5**	**63.6**

Investments in associates are unchanged at €1,135.3m, and chiefly regard the stakes held in:

– Assicurazioni Generali, equal to 12.9% of the ordinary share capital booked at €1,096.3m, which reflects a gain at the reporting date of €2,260.7m (€2,446.1m based on current prices);

– Istituto Europeo di Oncologia, an interest of 25.4%, carried at €39m.

Interests in subsidiaries rose from €1,948.9m to €2,056.4m, and reflect the following movements:

– Acquisition of a 66.4% stake in french company Messier Maris & Associés for a consideration of €107.9m;

– An increase in the stake owned in Cairn Capital, from 51% to 60.8%, due to acquisition of minority interests for an outlay of €4.1m;

– MB Advisory Turkey has been placed into liquidation (the investment was carried at €4.2m).

Equities, listed and unlisted, decreased from €258.7m to €136.3m, after sales of €144.2m (with gains realized and taken directly to net equity €7.3m), purchase of €10.9m (unlisted companies only) and upward adjustments to reflect fair value at the reporting date totalling €3.6m (taken through net equity).

Seed capital invested in funds managed by Group companies rose by €67.2m, in addition to the net gains of €4.4m taken through profit and loss. Holdings in private equity and other funds decreased from €172.7m to €165.9m, following net redemptions of €3.2m and downward value adjustments totalling €3.7m.

	Percentage shareholding	30/6/18	30/6/19
Associates			
Assicurazioni Generali	12.9	1,096.3	1,096.3
Istituto Europeo di Oncologia	25.4	39.0	39.0
Total associates		**1,135.3**	**1,135.3**
Total subsidiaries		1,948.9	2,056.4
Total equity investments		**3,084.2**	**3,191.7**

Banking book securities – these include securities recognized at amortized cost (under the "Hold-To-Collect" business model, or "HTC") and FVOCI ("Hold-To-Collect and Sell", or HTC&S), and debt securities which have failed the SPPI test which, under IFRS9, are mandatorily recognized at FVTPL.

	30/6/18		1/7/18		30/6/19	
	(€m)	%	(€m)	%	(€m)	%
Hold to Collect	7,035.4	61%	7,145.4	61%	6,975.5	65%
Hold to Collect & Sell	4,419.5	39%	4,442.7	39%	3,748.2	35%
Other (mandatorily measured at FV)	—	—	57.8	—	55.6	—
Total banking book securities	**11,454.9**	**100%**	**11,645.9**	**100%**	**10,779.3**	**100%**

This segment reflects a value of €10.8bn, following purchases of €6.1bn and sales and redemptions totalling €7bn, due to some profit-taking. The OCI reserve remained in positive territory but declined from €72m to €36.2m, on sales for the period (totalling €58.3m) which were only in part offset by the fair value measurements at the reporting date (which resulted in upward adjustments of €25.6m).

Securitizations of inter-company receivables (Compass Banca and Futuro) were virtually unchanged at €3.9bn, and make up 36% of this segment; government securities total €4.3bn (40%), of which €2.1bn Italian government securities (19%) with a duration of approx. three years.

	30/6/18			1/7/18			30/6/19		
	Book value		AFS reserve	Book value		OCI reserve	Book value		OCI reserve
	HTM - LR	AFS		HTC	HTC&S		HTC	HTC&S	
Italian government securities	1,132.1	1,450.8	25.2	1,132.1	1,456.9	25.2	920.4	1,161.3	4.8
Other government bonds	738.6	1,822.1	14.0	738.6	1,821.6	13.5	534.2	1,701.8	5.0
Bonds issued by financial institutions	4,857.5	752.7	16.6	4,879.0	849.4	12.5	5,277.1	663.3	15.6
– of which: Consumer Banking ABS securities	*3,891.3*	—	—	*3,891.3*	—	—	*3,851.8*	—	—
Corporate bonds	307.2	393.9	16.2	395.7	314.9	11.6	243.8	221.8	10.8
Total banking book securities	**7,035.4**	**4,419.5**	**72.0**	**7,145.4**	**4,442.8**	**62.8**	**6,975.5**	**3,748.2**	**36.2**

Net treasury assets – the balance between financial instruments held for trading purposes and treasury assets and liabilities totalled €4,648.2m, far higher than the €3,650m reported last year, due to the objective of maintaining a substantial liquidity position in a market scenario still dominated by uncertainty, in Italy in particular. The strategy pursued was to increase net deposits in repos (which increased accordingly, from €316.7m to €2,078.3m). The heading includes equities worth €2,589.7m (€1,625.8m) and debt securities totalling €130.4m (€310.7m). The valuation of derivatives was negative overall by €959.9m (€260.1m), and chiefly involves operations with clients to hedge the exposure to equities.

	30/6/18 IAS39 (€m)	01/7/18 IAS39 (€m)	30/6/19 IFRS9 (€m)	Chg. %
Financial assets held for trading	8,211.9	8,015.8	10,047.3	22.4%
Treasury financial assets	9,236.0	9,234.0	11,517.4	24.7%
Financial liabilities held for trading	(6,510.5)	(6,510.5)	(8,280.3)	27.2%
Treasury financial liabilities	(7,287.4)	(7,287.4)	(8,636.2)	18.5%
Total net treasury assets	**3,650.0**	**3,451.9**	**4,648.2**	**27.3%**

	30/6/18 IAS39 (€m)	01/7/18 IAS39 (€m)	30/6/19 IFRS9 (€m)	Chg. %
Loan trading	25.0	25.0	6.9	72.4%
Derivatives contract valuations	(260.1)	(260.1)	(959.9)	n.m.
Equities	1,625.8	1,625.8	2,589.7	59.3%
Bond securities	310.7	114.6	130.4	-58.0%
Financial instruments held for trading	**1,701.4**	**1,505.3**	**1,767.1**	**3.9%**

	30/6/18 IAS39 (€m)	01/7/18 IAS39 (€m)	30/6/19 IFRS9 (€m)	Chg. %
Cash and banks	1,485.7	1,485.7	1,034.8	-30.3%
PCT&PT	(960.0)	(960.0)	2,185.3	n.m.
Financial assets deposits	146.2	146.2	(232.0)	n.m.
Stock Lending	1,276.7	1,274.7	(107.0)	n.m.
Other net treasury assets	**1,948.6**	**1,946.6**	**2,881.1**	**47.9%**

Tangible and intangible assets – these decreased, from €155.4m to €147.6m, reflecting depreciation and amortization charges for the twelve months (totalling €9.9m) with no new significant investments.

	30/6/18 IAS39		30/6/19 IFRS9		Chg.
	(€m)	%	(€m)	%	
Land and properties	112.3	72%	111.1	75%	-1%
- of which: core	*87.1*	*56%*	*86.2*	*58%*	*-1%*
Other tangible assets	4.5	3%	4.0	3%	-11%
Other intangible assets	38.6	25%	32.5	22%	-16%
- of which: goodwill	*12.5*	*8%*	*12.5*	*8%*	*n.m.*
- of which: brand	*15.5*	*10%*	*15.5*	*10%*	*n.m.*
Total tangible and intangible assets	**155.4**	**100%**	**147.6**	**100%**	**-5%**

Provisions – starting from this year, this item includes provisions to cover commitments to disburse finance and guarantees issued, totalling €22m. Net of this effect, provisions decreased by €1.4m, following withdrawals to cover legal expenses and staff costs. The staff severance component rose from €7.7m to €7.8m, due to the increase in the discount reserve (from €0.5m to €0.8m).

	30/6/18 IAS39		30/6/19 IFRS9		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given *	n.a.	n.a.	22.0	17%	n.a.
Provisions for risks and charges	*97.8*	*93%*	*96.2*	*77%*	*-1.7%*
Staff severance provision	7.7	7%	7.8	6%	1.3%
of which: staff severance provision discount	*0.5*	*—*	*0.8*	*—*	*60.0%*
Total provisions	**105.5**	**100%**	**126.0**	**100%**	**19.4%**

* With the introduction of Bank of Italy circular no. 262/2005, fifth amendment, collective provisions in respect of commitments to disburse funds and guarantees issued, which previously were accounted for as “Other liabilities”, are now treated as “Provisions for risks and charges”.

Net equity – net equity reduced from €5,285.5m to €5,186.8m, as the profit for the twelve months, of €386.2m, was offset by other items, notably:

– Distribution of the 2018 dividend (€411.2m);

– First-time adoption (FTA) of IFRS9 on financial instruments[3], which generated a reduction of €18.2m;

– Launch of the share buyback scheme, approved by shareholders at the annual general meeting held on 27 October 2018, involving the acquisition of 20.1 million shares for an outlay of €162.5m[4] and the use of 13.4 million

[3] See Part A of the Notes to the Accounts for further details.

[4] After the reporting date, a further 99,000 shares were acquired for an outlay of €0.9m.

shares, 11.6 million for the acquisition of Messier Maris & Associés, and 1.8 million for use in connection with the performance share schemes; at the reporting date, Mediobanca had a total of 15.3 million treasury shares (or 1.7% of its share capital);

– Lower valuation reserves, down from €130m to €85.7m, reflecting the reduction in FVOCI assets (from €126.7m to €80.3m).

The share capital increased from €443.3m to €443.6m during the year, following the exercise of 642,500 stock options worth a total of €4.2m, including the share premium, after 1,827,063 performance shares were awarded to staff members out of the treasury shares held.

(€m)

	30/6/18 IAS 39	01/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Share capital	443.3	443.3	443.6	0.1%
Other reserves	4,375.2	4,380.4	4,271.3	-2.4%
Valuation reserves	130.0	106.5	85.7	-34.0%
– of which: OCI	*126.7*	*100.1*	*80.3*	*-36.6%*
– of which: cash flow hedge	*(2.6)*	*0.6*	*(3.4)*	*31.0%*
Profit for the period	337.0	337.0	386.2	14.6%
Total net equity	**5,285.5**	**5,267.2**	**5,186.8**	**-1.9%**

Of the OCI reserve, €63.6m involved shares and €36.2m bonds and other securities (€4.8m of which Italian government securities) net of the €16.1m tax effect.

(€m)

	30/6/18 IAS 39	01/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Equity shares	92.7	56.3	63.6	-31.4%
Bonds	72.0	62.8	36.2	-49.7%
– of which: Italian government bonds	*25.2*	*25.2*	*4.8*	*-81.0%*
Tax effect	(38.0)	(24.4)	(16.1)	-57.7%
Total OCI reserve	**126.7**	**94.7**	**83.7**	**-33.9%**

Profit and loss account

Net interest income – Net interest income was down 3.5% (from €95.1m to €91.8m), reflecting the substantial liquidity position which has eroded margins in a negative interest rate scenario and despite a reduction in the cost of funding (with interest expense down 7.3%).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Interest income	762.7	710.8	-6.8%
Interest expense	(667.6)	(619.0)	-7.3%
Net interest income	**95.1**	**91.8**	**-3.5%**

Net treasury income – the increase in this item, from €146.8m to €184.9m, reflects the increase in activity with capital market solutions clients, totalling €128.3m (€85m), plus gains on the banking book amounting to €48.9m (€12.9m), only in part offset by the €10.6m loss incurred on the trading book (compared with a €27m gain last year), due to certain trades with exposure to the reduction in interest rates. Dividends on OCI shares and other income from funds decreased from €21.9m to €18.3m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Dividends	21.9	18.3	-16.4%
Fixed-income trading profit	69.2	108.6	56.9%
Equity trading profit	55.7	58.0	4.1%
Net treasury income	**146.8**	**184.9**	**26.0%**

Net fee and commission income – fees fell by 14.6%, from €270.7m to €231.1m, due mostly to the reduction in fees from capital market activity (from €65.8m to €28.9m), which in part was offset by good performances in M&A advisory activity (where fees rose from €64.7m to €82.2m) and Private Banking (fees up 3%, from €52.5m to €54.1m, despite lower performance fees).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Lending	46.8	40.3	-13.9%
Advisory M&A	64.7	82.2	27.0%
Capital Market	65.8	28.9	-56.1%
Sales and Markets	21.8	9.2	-57.8%
Private Banking	52.5	54.1	3.0%
Other income	19.1	16.4	-14.1%
Net fee and commission income	**270.7**	**231.1**	**-14.6%**

Dividends on equity investments totalled €332.4m, consisting of the Assicurazioni Generali dividend of €182.4m (€172.3m) and the contribution from Compass (€150m).

Operating costs show a slight increase (up 1.2%, from €414.8m to €419.6m), split equally between labour costs (up 1.3%, from €237.8m to €240.8m) and administrative expenses (up 1%, from €177m to €178.8m). The former reflect the enhancement of the commercial structure in Private Banking, plus a higher percentage of total compensation accounted for by the variable component; the latter reflect the increase in IT spending (data processing) and consultancy costs in relation to the intense project activity (IFRS9; Brexit; MiFID II).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Labour costs	237.8	240.8	1.3%
of which: directors	*3.5*	*3.4*	*-2.9%*
stock options and performance shares schemes	*10.3*	*11.2*	*8.7%*
Sundry operating costs and expenses	177.0	178.8	1.0%
of which: depreciations and amortizations	*11.8*	*9.9*	*-16.1%*
administrative expenses	*168.1*	*168.6*	*0.3%*
Operating costs	**414.8**	**419.6**	**1.2%**

The table below shows a breakdown of other administrative expenses by type.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Legal, tax and professional services	11.9	11.8	-0.8%
Other consultancy expenses	22.3	21.1	-5.4%
Marketing and communication	4.9	4.4	-10.2%
Rent and property maintenance	11.4	10.2	-10.5%
EDP	52.8	61.6	16.7%
Financial information subscription	19.5	20.0	2.6%
Bank services, collection and payment commissions	1.9	2.0	5.3%
Operating expenses	6.6	5.9	-10.6%
Other labour costs	11.9	9.9	-16.8%
Other costs	19.9	16.6	-16.6%
Direct and indirect taxes	5.0	5.1	2.0%
Total administrative expenses	**168.1**	**168.6**	**0.3%**

Gains (losses) on disposal of equity investments – under the new IFRS9 rules, gains on shares held as part of the banking book (formerly AFS) no longer pass through the profit and loss account; last year gains of €96m were recorded, and chiefly involved disposal of the Atlantia stake.

Loan loss provisions – writebacks of €58.6m were credited in respect of the loan book (€44.3m last year), mostly attributable to improvement in corporate UTP positions, which in some cases exceeded expectations.

Provisions for other financial assets – under IFRS9, the impairment process is extended to include all financial assets (securities, repos, deposits and current accounts) recognized at cost (Hold to collect model) and to debt securities recognized at FVOCI (Hold to collect and sell model), including intercompany exposures. During the year under review, provisions were taken through profit and loss in an amount of €3.6m (€2m of which in respect of intercompany items), split between bonds (€2.1m, €0.8m of which HTC&S) and other financial assets (€1.3m, chiefly time deposits). The heading also includes securities mandatorily recognized at fair value in an amount of €1.2m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Hold-to-Collect securities	2.9	(2.8)	n.m.
Hold-to-Collect & Sell securities	(1.8)	(0.8)	-55.6%
Other	—	(1.2)	n.m.
Total provisions for other financial assets	**1.1**	**(4.8)**	**n.m.**

Other gains and losses – this heading contains the contributions to the resolution and deposit guarantee funds, which impacted on the results for the year, totalling €29m (€30.7m), €28.6m of which was the ordinary payment to the Single Resolution Fund (€30.3m), €0.4m the payment to the Deposit Guarantee Scheme (DGS), and one-off contributions made to the voluntary FITD scheme (which entailed the investment in Carige being written off in full).

Income tax – on a GOP of €441.2m (versus €384m last year), income tax for the year was €55m (€47m). The effective tax rate, around 12.5% (12.3% last year), was assisted by the partial dividend exemption regime.

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 tax authorities.

* * *

Significant events that have taken place during the twelve months under review include:

– Launch of the share buyback scheme, approved by shareholders at the annual general meeting held on 27 October 2018, involving the acquisition of 20.1 million shares for an outlay of €162.5m[5] and the use of 13.4 million shares, 11.6 million for the acquisition of Messier Maris & Associés, and 1.8 million for use in connection with the performance share schemes; at the reporting date, Mediobanca had a total of 15.3 million treasury shares (or 1.7% of its share capital);

– On 11 April 2019 a long-term strategic partnership was announced between Mediobanca and Messier Maris & Associés, a French company specializing in corporate finance and M&A services. Mediobanca acquired a 66.4% stake in the company financed entirely with treasury shares.

[5] After the reporting date, a further 99,000 shares were acquired for an outlay of €0.9m.

* * *

The leading agencies all revised their rating for the republic of Italy in the summer months of 2018, impacting on the nation's banking system as a whole. As for other banks with the same rating, in September 2018 Fitch cut Mediobanca's outlook from "stable" to "negative", while affirming its long-term ratings at BBB, following the same rating action on Italian sovereign debt; in October 2018, S&P cut Mediobanca's outlook from "stable" to "negative", maintaining the rating at "BBB" after the outlook for Italy was similarly downgraded; and the end of the same month, despite downgrading the republic of Italy from baa2 to baa3, Moody's confirmed Mediobanca's long-term rating at baa1, i.e. two notches higher than sovereign debt, with stable outlook.

Related party disclosure

Financial accounts outstanding as at 30 June 2019 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 25.4 million Mediobanca shares were traded on behalf of customers, worth €215.1m.

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. 68 of the consolidated Review of Operations.

Information on the most important litigation pending involving the Bank is also provided in Liabilities, section 10.

Outlook

The performance for the next financial year should confirm the earnings trend visible in the Bank's core business, despite the interest rate scenario continuing to be negative, and despite the uncertainty on financial markets, in particular the Italian domestic one, not to mention the increasingly competitive conditions, which necessarily impact on the performance in terms of net interest, treasury and fee income. The latter should benefit from development of the Private Banking platform and from the investments made in CIB. The cost trend will continue to be impacted by the enhancement of the commercial structures and additional ICT investments supporting business development as well as to comply with regulatory requirements. The cost of risk should remain at favourable levels, helped by the performance of certain UTP positions.

Milan, 19 September 2019

THE BOARD OF DIRECTORS

Financial year ended 30 June 2019: proposal to approve financial statements and allocation of profit for the year

Dear shareholders,
The net profit for the year was €386,244,850.65, to be allocated as follows:

€ 17,323.70	to the Legal Reserve, which accordingly would amount to €88,721,617.70, or 20% of the Bank's share capital;
€ 38,607,161.37	to the *Statutory Reserve*;
€ 347,620,365.58	profit remaining

We therefore propose to distribute a €0.47 dividend on each of the 869,251,760 shares in issue entitling their holders to such rights, making a total amount of €408,548,327.20, consisting of the remaining profit plus €60,927,961.62 taken from the Statutory Reserve as shown in the table below.

It should be noted that the dividend per share will remain unchanged even if the Bank at the record date (19 November 2019) owns more treasury shares than it does at the date on 28 October 2019 (i.e. 17,964,417). If this should be the case, the overall amount of the profit distributed will be reduced accordingly, with the difference taken to the Statutory Reserve.

Accordingly, you are invited to approve the financial statements for the year ended 30 June 2019, including the balance sheet, profit and loss account and notes to the accounts, plus the following profit allocation:

Net profit for the year	€ 386,244,850.65
To the *Legal Reserve*	€ 17,323.70
To the *Statutory Reserve*	€ 38,607,161.37
Remaining profit	€ 347,620,365.58
From the *Statutory Reserve*	€ 60,927,961.62
Dividend of €0.47 on 869,251,760 shares	€ 408,548,327.20

The dividend of €0.47 per share will be paid on 20 November 2019, with the shares going ex-rights on 18 November 2019.

THE BOARD OF DIRECTORS

DECLARATION IN RESPECT OF INDIVIDUAL FINANCIAL STATEMENTS

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

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 2019.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the separate financial statements as at 30 June 2019 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 account ledgers;
   - is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer.

   3.2 the review of operations contains reliable analysis of the Mediobanca's operating performance and results, and of its situation, along with a description of the main risks and uncertainties to which it is exposed.

Milan, 19 September 2019

Chief Executive Officer	Head of Company Financial Reporting
Alberto Nagel	*Emanuele Flappini*

AUDITORS' REPORT

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 2019, 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 2019, 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 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.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
First-time adoption of IFRS 9 - "Financial Instruments"	

Notes to the accounts:
Part A- Accounting policies, Section 2, paragraph "Transition to IFRS 9 on financial instruments"

Starting from 1 July 2018 the Company has adopted IFRS 9 – Financial Instruments which introduced new rules for the classification and measurement of financial instruments, the measurement of related impairment losses, and hedge accounting as compared to the IAS 39 applied by the Company up to 30 June 2018. The adoption of the new financial reporting standard entailed a reduction of the Company's net equity on 1 July 2018 of Euro 18.2 million, after the related tax effect.

The new classification and measurement rules for financial assets are based on an entity's business model for managing the financial assets (Business Model) and on the characteristics of the related contractual cash flows (Solely Payments of Principal and Interest, "SPPI"); at the same time, for financial assets other than those carried at fair value through profit or loss, and for off-balance sheet exposures (guarantees and commitments), the new standard has replaced the impairment model of IAS 39 based on the Incurred Loss with an impairment model based on the Expected Credit Loss ("ECL"). As a consequence. by introducing significant changes in classification and measurement requirements, IFRS 9 has caused significant operating impacts, requiring the use of new models, more information, parameters and assumptions, thus determining a higher degree of complexity in estimation processes.

With reference to Hedge Accounting, the standard rewrote the rules for designating a hedging relationship and verifying its effectiveness, with the aim to align the accounting presentation with the entity's risk management activities and to

Since the Company adopted IFRS 9 starting from 1 July 2018, our audit procedures were applied to the opening balances on that date, to verify the transition from IAS 39 to IFRS 9. Our procedures involved, among other things, assessing the compliance of the accounting decisions made for the transition to the new financial reporting standard and the disclosures provided.

In detail, to address this key audit matter we performed the following main activities, including the support of experts belonging to the PwC network:

- Understanding and performing critical analysis of the policies, procedures and solutions adopted by the Company with reference to relevant aspects (definition of the business model, analysis of contractual cash flows and measurement methods) to assess their compliance with the new standard, together with an analysis of the results of the validation activities performed by the Company's competent internal functions;
- Verification of the completeness and accuracy of the new accounting categories based on the *business model* defined and the results of the analysis of contractual cash flows (the "SPPI test");
- Verification of the SPPI test for a sample of financial assets;
- Understanding and verifying of the appropriateness of the policies, procedures and methods used to measure the Significant Increase in Credit Risk ("SICR"), for the Staging allocation both for performing loans (stage 1 and 2) and non-performing

strengthen disclosure of the risk management activities performed by the reporting entity. Starting from 1 July 2018 the Company has opted to adopt the new requirements for general hedge accounting (opt-in), which did not generate a significant impact on net equity as of 1 July 2018.

For the reasons set out above, we focused on the first-time application of IFRS 9 as a key audit matter in relation to the financial statements of Mediobanca SpA as of 30 June 2019.

loans (stage 3), and for determining the ECL, also in regards to the matters connected with the application of multiple economic scenarios and the use of forward-looking information;

- Performed verification of the completeness and accuracy of the data bases used for the calculation of the ECL, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Performed, for non-performing loans (Stage 3), analysis and verification of the reasonableness of the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collateral securing those exposures and the estimated timing of recovery;
- Performed analysis of the appropriateness and completeness of disclosures.

Valuation of loans to customers carried at amortised cost

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the balance sheet, Assets, Section 4
Part C – Notes to the profit and loss account, Section 8
Part E – Information on risks and related hedging policies – 1.1 Credit risks

As of 30 June 2019 loans to customers were equal to Euro 18,301 million, corresponding to 75% of line item "40 b) Financial assets at amortized cost – Due from customers", equal to Euro 24,257 million and corresponding to 28% of total assets in the Company's financial statements.

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. Also having regard our procedures on the first-time application of IFRS 9, these activities were performed also with the support of experts belonging to the PwC network.

In detail, 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 over the IT systems and software applications used;

Net losses for credit risk to loans to customers posted in the year totalled reversals of Euro 39.3 million. We paid special attention to the measurement of the above assets in the course of our audit considering the materiality of the balance as well as the measurement processes and methods that require complex estimations of a number of variables. Estimation processes use significant assumptions, aside from the verification of the SICR and Staging allocation, also when determining the hypotheses and inputs to the ECL models and, for assets measured individually (Stage 3), when determining the alternative recovery scenarios hypothesised (sale or internal recovery), the related probabilities assigned, the estimated future cash flows, the timing of those cash flows, and the realisable value of any collateral.	• Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of credit and tests of the operating effectiveness of those controls; • Understanding and verification of the appropriateness of the policies, procedures and methods used to measure the SICR, for the Staging allocation and for determining the ECL; • Verification of the correct application of the measurement methods defined for performing loans (Stage 1 and Stage 2), of the completeness and accuracy of the data bases used in the ECL calculation, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default); • Verification, on a sample basis, of the reasonableness of classification of individual performing loans (Stage 3) based on the available information on the debtor’s status and other available evidence, including from external sources, and the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collateral securing those exposures and the estimated timing of recovery; • Analysis of the appropriateness and completeness of disclosures.

Measurement of financial instruments at fair value (securities and derivatives) not quoted in active markets

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 2, Section 3 and Section 5; Liabilities, Section 2, Section 3 and Section 4
Part C – Notes to the consolidated profit and loss account, Section 4, Section 5 and Section 7
Part E – Information on risks and related hedging policies – 1.2 Market risks

As part of our audit we paid special attention to the analysis of the valuation models of financial instruments not quoted in active markets and measured at fair value.
Certain types of securities and derivative financial instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, 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 over the IT systems and software applications used;
- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of financial instruments with fair value hierarchy levels 2 and 3 and tests of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and models used by the Company to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness the qualitative and quantitative assumptions made and inputs used; those analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the consolidated financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

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 either intend 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 auditor's 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 2012 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 2019, 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 2019 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 2019 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 2019

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 2019, 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 accountants and accounting experts. During the course of the year, the Statutory Audit Committee met on a total of 31 occasions, 11 of which with the Risks Committee; it also took part in 10 Board meetings, 11 Executive Committee meetings, 10 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 is able to provide reasonable confirmation 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, transactions in which the Directors held interests have been approved in accordance with the provisions of the law, the regulations and the Articles of Association in force.

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:

- As part of the drive to strengthen Corporate and Investment Banking activities in the capital-light businesses and towards countries offering potential cross-border synergies, on 11 April 2019 a long-term strategic partnership was announced between Mediobanca and Messier Maris & Associés, a French company specializing in corporate finance and M&A services. Mediobanca acquired a 66% stake in the company financed entirely with treasury shares. The company is fully consolidated as from this year;
- Confirmation of the existing prudential treatment for the Assicurazioni Generali investment (known as the "Danish Compromise" under Article 471 of the recently-approved CRR II) until year-end 2024;
- The ECB's decision, at the outcome of the Supervisory Review and Evaluation Process (the "SREP Decision 2018"): the authority has asked Mediobanca to maintain a CET 1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2 ("P2R") requirement of 1.25%, unchanged from last year, bearing out the Group's asset quality and the adequacy of its risk management. The decision reflects the results of the Group's stress test, which confirmed our solidity even in negative scenarios (the impact on CET1 fully loaded is 182 bps, one of the lowest levels among EU banks);
- Continuation of the roll-out plan for the Group's internal PD and LGD models for use in calculating the capital requirements to cover credit risk, with authorization received for the CheBanca! mortgage lending class;
- With a view to achieving long-term growth in consumer credit operations in markets with high potential, in August 2018 Compass reached an agreement with Trinugraha (the consortium which currently owns 45.7% of the share capital) to acquire 19.9% of PT BFI Finance Indonesia Tbk ("BFI Finance"). (Trinugraha currently owns 45.7% of BFI's share capital.) Twelve months since the agreement was signed, certain contractual formalities required in order to launch the local authorization process and receive clearance from the ECB , which are prerequisites to closing, are still pending (these are expected to be obtained by March 2020).

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 the Risk Management unit insofar as regards the ECB and the Compliance unit for Consob – of the checks which the authorities have carried out. On a monthly basis the unit informs the Committee of the various activities performed by the ECB, 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 liquidity and funding risk management and with the 2018 SREP letter.

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:

– Set up a new Debt platform, with a view to strengthening and complementing the product and service offering to borrower and/or issuer clients of the Mediobanca Group CIB division, increase distribution capacity, client coverage and business synergies.
  The new platform brings together and harmonizes the previous Debt Capital Markets, Lending and Structured Finance and Origination units.

– Integrated the Securities Finance desk into the Group Treasury unit. This organizational change has allowed management of refinancing activities on the market to be unified and enabled more effective coverage and governance of the regulatory liquidity indicators, in particular through execution of trades timed to match the trends in the Group's liquidity and collateral.

Our meetings with members of the Group companies' review Statutory Audit Committees and review of their annual reports on the financial statements revealed no critical issues. Equally, no such issues emerged from our meetings with the same Committees regarding the activities performed as supervisory bodies instituted pursuant to Italian Legislative Decree 231/01.

The Statutory Audit Committee also expressed its opinion on the remuneration of directors when requested.

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 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 obtained 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.

The Statutory Audit Committee has also monitored the compensation paid to the control units, to ensure that the remuneration policies have been complied with in this respect.

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 procedures for the Private Banking division deriving from the newly-merged Banca Esperia, the work of adapting the procedures is still in progress, although adaptation of the internal regulations on the most important issues 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.

The Statutory Audit Committee duly notes that the annual reports by the Control Units conclude with a positive overall verdict of the company's internal controls system: a summary of these units' activities is provided below.

Group Audit Unit

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 dialogue between the Statutory Audit Committee and the Group Audit Unit is ongoing during the year, as the latter takes part in the majority of the Committee meetings. The Group Audit Unit informs the Committee promptly if any negative evidence emerges in the course of its audit activity.

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 planning its own activities, the Committee asked the Group Audit Unit to carry out certain checks in relation to liquidity risk and IT data quality, the results were brought to the Committee's attention, and the Committee has also monitored the state of progress made in the mitigation activities implemented.

The Group Audit Unit has continued to provide support during the onsite visits, and twice a year has provided updates on the state of the findings formulated by the unit at Group level. Particular importance has been given during the year to the activities requested by the ECM in its SREP letter of December 2018 on IT data quality, regarding the correct representation of the main work completed, in progress and scheduled.

With regard to mandatory assurance activities, the Group Audit Unit has issued its annual report on the outsourcing of important corporate functions.

Compliance unit

The Compliance unit presides directly over those regulatory areas considered to present the highest reputational risks (e.g. MiFID, market abuse, transparency and conduct), and also, by means of a "graduated" model, the areas of regulations covered by other specialist units.

The unit has submitted its institutional and regular reports for the year ended 30 June 2019 to the Committee, along with its action plans for the twelve months ending 30 June 2020, as required under the Bank of Italy's Supervisory Instructions and the combined Bank of Italy-Consob Regulations for Intermediaries. Attached to the annual report is also the annual report on complaints and whistle-blowing, and the report on activities performed by the Group Data Protection unit. No whistle-blowing reports were recorded, while the number of complaints received was not material, and no gaps were found in the corpus of regulations or fraudulent conduct detected on the part of staff members.

Regarding the review of the Private Banking division's processes highlighted in the Committee's report last year, all critical work has been carried out as requested.

AML unit

Anti-money-laundering activities are managed via a centralized model headed up by the Group AML unit based at Mediobanca S.p.A., which covers all the Italian Group companies and co-ordinates the activities for the non-Italian subsidiaries. Organizationally it is part of the Compliance unit.

With regard to new regulations, the measures required by the Bank of Italy regulations implementing the provisions of the fourth EU money-laundering directive have been launched (the directive comes into force on 1 January 2020), and gap analysis has commenced on the new Bank of Italy regulations on customer due diligence.

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 were no changes in Mediobanca's exposure to money-laundering and terrorism financing risk which remains at a "Low" level.

Risk Management unit

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.

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 25 October 2018, *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.

The Committee has reviewed the new RAF document for the FY 2019-20 financial year, taking into account the recommendations made by the supervisory authorities and the regulatory guidance issued. The framework has developed in terms of the structure of the document itself and the calibration of the risk metrics and limits; in particular, a metric has been introduced for the MREL requirement, to allow the availability of eligible liabilities and own funds to be monitored relative to the minimum set by the authority; another metric has been introduced for the level of gross NPLs at Group level, distinguishing between those originated, and the limits have been revised in accordance with the Group's actual risk profile.

The Statutory Audit Committee has reviewed the annual reports by the Validation and Group Audit units on Mediobanca's corporate rating system. These reports both conclude with the verdict that the corporate rating system instituted by Mediobanca is adequate overall and meets the requisites set by the regulations in force on the IRB approach.

Other supervisory activities

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.

On the subject of business continuity, an *ad hoc* report has been prepared in accordance with the supervisory instructions in force, stating that the planned tests performed during the year have all been passed successfully.

The Bank has also prepared the report on IT risk required under the Supervisory Instructions, which 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 played a leading role in the activities of updating the Organizational, Management and Control Model which were formally completed in July 2018, and in the months that followed, for the other Group companies as well. 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 2019 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, the contents of the Control Units' six-monthly and annual reports, and in particular the overall favourable opinion expressed by the Group Audit Unit on the internal controls system, 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 C) 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 2018-19 on ensuring that the mapping of processes is aligned with the project initiatives undertaken, the new forms of operation commenced and the organizational changes that have taken place in the twelve months. Among these, we would highlight the following: the amendments made to the processes and IT architecture following the introduction of IFRS 9; the complete overhaul and revision of the administrative and accounting processes at Group company CMB; and the project launched to record administrative and accounting procedures in order to formalize the areas of interaction between Accounts and Risk Management, with reference to the production of reporting for disclosure to the public in particular.

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.

A Group Disclosure Policy was also prepared, to formalize governance of the process of generating and disclosing the Group's financial reporting.

The Committee also monitored – including through meetings with the external auditors – the effects of the introduction of IFRS on the model, which among other things entailed a new process for impairment. This in turn required the introduction of new controls at both Mediobanca itself and the Group companies included in the scope of controls.

The Statutory Audit Committee has met regularly with the Head of Company Financial Reporting to exchange information on the reliability of the administrative and accounting system, for purposes of 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.

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 27 June 2019, 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 27 June 2019. The changes involved: defining the scope of "related parties" following the winding-up of the original shareholders' agreement, plus a change to the formulation adopted, in order to clarify the procedure to be followed for transactions with related parties more accurately. The Statutory Audit Committee expressed a favourable opinion on the changes.

The Statutory Audit Committee, having reviewed the activities performed by the various units involved in the Related Parties procedure, and in particular the results of the checks carried out by the Group Audit Unit, considers that transactions with related parties are managed adequately, and as far as the Committee is aware, the procedure has been applied accurately in practice.

6. Corporate governance

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.

In March/July 2019, the Board of Directors carried out its own self-assessment exercise as required by the Supervisory Instructions. The results of this exercise are described at length in the Annual Statement on Corporate Governance. In conjunction with this process, the Board also reviewed its members' requisites to qualify as independent with reference to the risk of conflicts of interest.

The Statutory Audit Committee has ascertained that the criteria and procedures adopted by the Board of Directors to assess the independence of its members have been applied correctly.

The Statutory Audit Committee also carried out its own self-assessment as required by the Supervisory Instructions. The Committee expressed a positive opinion on its collective suitability, composition in qualitative and quantitative terms, and on the functioning of the governing body.

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 2018. On this occasion, the External Auditor submitted a document summarizing its activities, with reference in particular to the most significant valuation items. On 8 February 2019 the External Auditor issued a report on its limited audit of the consolidated interim financial statements, with no irregularities noted.

On 1 October 2019 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 2019. 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 2019, 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 2019 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 2019 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.

The Statutory Audit Committee has performed the duties required of it under the regulations in force in terms of approving the non-auditing services requested of the external auditor and/or the other companies forming part of its network. These services, charged to the profit and loss account and stated in the financial statements as required by Article 149-duodecies of the Regulations for Issuers, were as follows:

Type of service	**PricewaterhouseCoopers €'000**	**PricewaterhouseCoopers network €'000**
Statements	219	189
Other services	—	52
Total	219	241

Statements are services that are not audits 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 did not receive any letters pursuant to Article 2408.

The Statutory Audit Committee is not aware of any facts or complaints 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 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 19 September 2019 as a document separate from the consolidated Review of Operations for the year ended 30 June 2019.

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".

On 19 September 2019, the Board of Directors set up an ad hoc Corporate Social Responsibility (CSR) Committee, with responsibilities for prior analysis of the sustainability issues to be submitted to the attention of the Board itself, in particular the Group CSR Policy, sustainability objectives for the short and medium term, and monitoring the initiatives promoted by the managerial committee in implementing the Group Policy.

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 28 October 2019 includes the following items in addition to approval of the financial statements for the year ended 30 June 2019:

– Group staff remuneration and incentivization policies: remuneration policies; cap on variable and fixed remuneration based on a ratio of 2:1; policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca;

– Update on performance share scheme.

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 2019 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 2019

THE STATUTORY AUDIT COMMITTEE

INDIVIDUAL
FINANCIAL STATEMENTS *

* Figures in Euros.

Mediobanca S.p.A. Balance Sheet *

Assets	30/6/19	30/6/18
	IFRS9	IAS39
10. Cash and cash equivalents	632,611,676	1,173,154,677
20. Financial assets at fair value with impact taken to profit and loss	10,875,045,880	
a) Financial assets held for trading	*10,047,347,244*	
b) Financial assets designated at fair value	*51,975,440*	
c) Other financial assets mandatorily at fair value	*775,723,196*	
Financial assets held for trading (former heading 20 IAS39 pursuant)		8,211,913,655
Financial assets available-for-sale (former heading 40 IAS39 pursuant)		5,166,351,679
30. Financial assets at fair value with impact taken to comprehensive income	3,884,452,067	
40. Financial assets at amortized cost	46,363,397,516	
a) Due from banks	*22,106,678,647*	
b) Due from customers	*24,256,718,869*	
Financial assets held-to-maturity (former heading 50 IAS39 pursuant)		2,595,142,322
Due from banks (former heading 60 IAS39 pursuant)		19,553,430,989
Due from customers (former heading 70 IAS39 pursuant)		18,725,997,984
50. Hedging derivatives	409,863,001	235,591,092
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,191,843,987	3,084,158,386
80. Property, plant and equipments	115,176,613	116,806,552
90. Intangible assets	32,465,294	38,629,954
of which:		
goodwill	*12,514,145*	*12,514,145*
100. Tax assets	182,098,527	236,334,661
a) current	*93,947,800*	*133,984,760*
b) deferred	*88,150,727*	*102,349,901*
110. Assets classified as held for sale	—	—
120. Other assets	221,114,245	96,899,605
Total assets	**65,908,068,806**	**59,234,411,556**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

Liabilities and net equity	30/6/19	30/6/18
	IFRS9	IAS39
10. Financial liabilities at amortized cost	51,339,312,008	
a) Due to banks	*29,197,550,987*	
b) Due to customers	*6,140,023,616*	
c) Debt securities in issue	*16,001,737,405*	
Due to banks (former heading 10 IAS39 pursuant)		25,519,218,956
Due to customers (former heading 20 IAS39 pursuant)		4,124,182,895
Debt securities in issue (former heading 30 IAS39 pursuant)		16,827,008,980
20. Trading financial liabilities	8,280,325,892	
Trading liabilities (former heading 40 IAS39 pursuant)		6,510,480,039
30. Financial liabilities designated at fair value	55,859,366	
40. Hedging derivatives	184,650,189	220,712,763
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	424,720,381	363,933,424
a) current	*193,229,873*	*105,752,737*
b) deferred	*231,490,508*	*258,180,687*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	310,339,260	277,857,220
90. Staff severance indemnity provision	7,869,475	7,723,450
100. Provisions	118,113,416	97,786,044
a) commitments and financial guarantees	*21,954,092*	—
b) post-employment and similar benefits	—	—
c) other provisions	*96,159,324*	*97,786,044*
110. Valuation reserves	85,743,925	129,954,143
120. Redeemable shares repayable on demand	—	—
130. Equity instruments repayable on demand	—	—
140. Reserves	2,217,665,397	2,292,839,423
150. Share premium reserve	2,195,605,653	2,191,742,930
160. Share capital	443,608,089	443,275,220
170. Treasury share (-)	(141,989,096)	(109,337,765)
180. Profit/(loss) for the period (+/-)	386,244,851	337,033,834
Total liabilities and net equity	**65,908,068,806**	**59,234,411,556**

Mediobanca S.p.A. profit and loss accounts*

Items		30/6/19	30/6/18
		IFRS9	IAS39
10.	Interest and similar income	706,790,082	762,701,644
	of which: interest income calculated according to the effective interest method	*563,156,039*	
20.	Interest expense and similar charges	(619,870,465)	(667,617,589)
30.	**Net interest income**	**86,919,617**	**95,084,055**
40.	Fee and commission income	253,206,129	284,692,778
50.	Fee and commission expense	(34,342,664)	(26,134,905)
60.	**Net fee and commission income**	**218,863,465**	**258,557,873**
70.	Dividends and similar income	438,008,156	261,588,554
80.	Net trading income	(8,264,005)	
	Net trading income (former heading 80 IAS39 pursuant)		37,058,760
90.	Net hedging income (expense)	5,477,850	822,028
100.	Gain (loss) on disposal/repurchase:	83,167,824	
	a) financial assets measured at amortized cost	*9,425,511*	
	b) financial assets valued at fair value with impact taken to comprehensive income	*66,798,690*	
	c) financial liabilities	*6,943,623*	
	Gain (loss) on disposal/repurchase: (former heading 100 IAS39 pursuant)		112,753,049
	a) loans and advances		*1,584,206*
	b) AFS securities		*119,795,869*
	c) financial assets held to maturity		*(919,453)*
	d) financial liabilities		*(7,707,573)*
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	15,802,744	
	a) financial assets and liabilities designated at fair value	*(27,697)*	
	b) other financial assets mandatorily valued at fair value	*15,830,441*	
120.	**Total income**	**839,975,651**	**765,864,319**
130.	Net write-offs (write-backs) for credit risk:	36,710,805	
	a) financial assets measured at amortized cost	*37,489,930*	
	b) financial assets valued at fair value with impact taken to comprehensive income	*(779,125)*	
	Adjustments for impairment to: (former heading 130 IAS39 pursuant)		46,831,412
	a) loans and advances		*34,387,805*
	b) AFS securities		*(1,848,277)*
	c) financial assets held to maturity		*2,970,784*
	d) other financial assets		*11,321,100*
140.	Gains (losses) from contractual modifications without derecognition	—	
150.	**Net income from financial operations**	**876,686,456**	**812,695,731**
160.	Administrative expenses:	(436,843,296)	(430,233,782)
	a) personnel cost	*(240,815,414)*	*(237,826,064)*
	b) other administrative expenses	*(196,027,882)*	*(192,407,717)*
170.	Net transfers to provisions:	987,468	995,023
	a) commitments and financial guarantees	*1,262,984*	—
	b) other sums set aside (net)	*(275,516)*	*995,023*
180.	Net adjustments to tangible assets	(3,054,767)	(3,504,538)
190.	Net adjustments to intangible assets	(6,881,036)	(8,344,677)
200.	Other operating income (expense)	14,602,241	12,735,088
210.	**Operating costs**	**(431,189,390)**	**(428,352,886)**
220.	Gain (loss) on equity investments	(4,224,809)	(309,031)
230.	Net result from fair value valuation of tangible and intangible assets	—	—
240.	Goodwill write-offs	—	—
250.	Gain (loss) on disposal of investments	(27,406)	20
260.	**Profit (loss) on ordinary activity before tax**	**441,244,851**	**384,033,834**
270.	Income tax for the year on ordinary activities	(55,000,000)	(47,000,000)
280.	**Profit (loss) on ordinary activities after tax**	**386,244,851**	**337,033,834**
290.	Gain (loss) of ceded operating assets, net of tax	—	—
300.	**Net profit (loss) for the period**	**386,244,851**	**337,033,834**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS39, are not fully comparable.

Mediobanca S.p.A. Comprehensive Profit and Loss Account*

Items		30/6/19	30/6/18
10.	Profit (Loss) for the period	386,244,851	337,033,834
	Other income items net of tax without passing through profit and loss	**10,118,476**	**43,174**
20.	Equity securities designated at fair value with impact taken to comprehensive income	10,533,480	—
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	—	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(415,004)	43,174
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	—	—
	Other income items net of tax passing through profit and loss	**(27,251,916)**	**(155,256,387)**
100.	Foreign investments hedges	—	—
110.	Exchange rate differences	—	—
120.	Cash flow hedges	(4,073,668)	31,011,688
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(23,178,248)	(186,268,074) [1]
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	—	—
170.	**Total other income items, net of tax**	**(17,133,440)**	**(155,213,213)**
180.	**Comprehensive income (Heading 10 +170)**	**369,111,411**	**181,820,621**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS39, are not fully comparable.

[1] This heading shows the change in item 100 “Financial assets available-for-sale” pursuant to Bank of Italy Circular 262/2005 fourth amendment.

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/18	Modification of start-of-period amounts [1]	Amounts at 01/07/2018	Allocation of profit for previous period		Changes during the reference period								Total net equity at 30/6/19
				Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity						Other comprehensive income statement for the 12 mths ended 30/6/19	
							New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]		
Share capital:	443,275,220	—	443,275,220	—	—	—	332,869	—	—	—	—	—	—	443,608,089
a) ordinary shares	443,275,220	—	443,275,220	—	—	—	332,869	—	—	—	—	—	—	443,608,089
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,191,742,930	—	2,191,742,930	—	—	—	3,862,723	—	—	—	—	—	—	2,195,605,653
Reserves:	2,292,839,423	5,182,165	2,298,021,588	337,033,834	(411,230,100)	3,653,229	(11,619)	(22,006,283)	—	—	—	12,204,747	—	2,217,665,397
a) retained earnings	2,145,346,011	5,182,165	2,150,528,176	337,033,834	(411,230,100)	—	(11,619)	—	—	—	—	—	—	2,076,320,292
b) others	147,493,412	—	147,493,412	—	—	3,653,229	—	(22,006,283)	—	—	—	12,204,747	—	141,345,105
Valuation reserves	129,954,143	(23,423,548)	106,530,595	—	—	(3,653,229)	—	—	—	—	—	—	(17,133,440)	85,743,925
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(109,337,765)	—	(109,337,765)	—	—	—	—	(32,651,330)	—	—	—	—	—	(141,989,096)
Profit (loss) for the period	337,033,834	—	337,033,834	(337,033,834)	—	—	—	—	—	—	—	—	386,244,851	386,244,851
Total net equity	5,285,507,785	(18,241,383)	5,267,266,402	—	(411,230,100)	—	4,183,973	(54,657,614)	—	—	—	12,204,747	369,111,411	5,186,878,819

[1] Includes the effects of reclassification and revaluation of financial assets and liabilities consequent to the first application of the IFRS9 accounting standard and the effects deriving from the first application of IFRS15, as described in detail in the specific paragraphs of part A of the Notes to the Accounts.

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

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								Total net equity at 30/6/18
		Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity						Other comprehensive income statement for the 12 mths ended 30/6/19	
					New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	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 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.

Mediobanca Cash Flow Statement Direct Method

	Amount	
	30/6/19	30/6/2018
	IFRS9	**IAS39**
A. CASH FLOWS FROM OPERATING ACTIVITY		
1. Operating activity	**(293,780,044)**	**(205,874,865)**
- interest received	594,151,676	2,780,442,543
- interest paid	(559,221,354)	(2,520,886,308)
- dividends and similar income	94,370,724	78,058,468
- net fees and commission income	44,397,154	87,531,956
- cash payments to employees	(159,593,629)	(128,059,333)
- other expenses paid	(458,977,399)	(706,412,057)
- other income received	163,853,069	267,801,263
- income taxes paid	(12,760,285)	(64,351,396)
- expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(858,542,219)**	**1,255,364,989**
- financial assets held for trading	(978,475,405)	
- financial assets valued at fair value	—	
- financial assets mandatorily valued at fair value	(42,462,275)	
- financial assets valued at fair value with impact taken to profit and loss	961,655,082	
- financial assets valued at amortized cost	(674,329,265)	
- other assets	(124,930,356)	127,022,232
- financial assets held for trading (IAS39 pursuant)		(381,747,441)
- financial assets available for sale (IAS39 pursuant)		(725,508,303)
- due from customers (IAS39 pursuant)		2,653,967,433
- due from banks: on demand (IAS39 pursuant)		(426,199,021)
- due from banks: other (IAS39 pursuant)		7,830,088
3. Cash generated/absorbed by financial liabilities	**963,788,301**	**(627,157,974)**
- financial liabilities valued at amortized cost	329,030,280	
- financial liabilities held for trading	576,095,948	
- financial liabilities designated at fair value	—	
- other liabilities	58,662,073	(119,868,521)
- trading liabilities (IAS39 pursuant)		(216,234,772)
- due to banks: other (IAS39 pursuant)		944,100,559
- due to customers (IAS39 pursuant)		(3,785,370,455)
- debt securities (IAS39 pursuant)		(2,236,819,552)
- due to banks: on demand (IAS39 pursuant)		4,787,034,767
Net cash flow (outflow) from operating activities	**(188,533,962)**	**422,332,150**
B. CASH FLOWS FROM INVESTMENT ACTIVITY		
1. Cash generated from:	**333,926,475**	**360,771,360**
- disposal of shareholdings	1,440,286	350
- dividends received in respect of equity investments	332,442,189	177,506,484
- disposals/redemptions of financial assets held to maturity (IAS39 pursuant)		183,264,526
- disposals of tangible assets	17,000	—
- disposals of intangible assets	27,000	—
- disposals of business units	—	—
2. Cash absorbed by:	**(6,107,324)**	**(570,187,191)**
- purchases of shareholdings	(4,499,324)	(222,517,552)
- acquisitions of held-to-maturity investments		(342,582,640)
- purchases of tangible assets	(1,428,000)	(1,645,000)
- purchases of intangible assets	(180,000)	(3,442,000)
- purchases of business units	—	—
Net cash flow (outflow) from investment activity	**327,819,151**	**(209,415,832)**
C. CASH FLOWS FROM FUNDING ACTIVITY	**(679,828,190)**	**(295,391,109)**
- issuance/acquisition of treasury shares	(266,186,049)	24,835,250
- issuance/acquisition of capital instruments	(2,412,041)	—
- distribution of dividends and other purposes	(411,230,100)	(320,226,359)
Net cash flow (outflow) from funding activities	**(679,828,190)**	**(295,391,109)**
NET CASH FLOW (OUTFLOW) DURING THE PERIOD	**(540,543,001)**	**(82,474,791)**

Reconciliation of Movements in Cash Flow During the Period

Accounting items	Amount	
	30/6/19	30/6/18
Cash and cash equivalents: balance at start of period	1,173,154,677	1,255,629,468
Total cash flow (ouflow) during the period	(540,543,001)	(82,474,791)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	632,611,676	1,173,154,677

NOTES TO INDIVIDUAL ACCOUNTS

NOTES TO INDIVIDUAL 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 2019 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 30 June 2019 have also been prepared on the basis of 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 (fifth update issued on 22 December 2017), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts[1].

SECTION 2

General principles

These individual financial statements comprise:

– Balance sheet;
– Profit and loss account;
– Comprehensive income statement;
– Statement of changes to net equity;
– Cash flow statement (direct method);
– Notes to the accounts.

[1] The Bank of Italy has published the sixth update to its circular no. 262/05 which the Mediobanca Group has applied starting from 1 July 2019.

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.

International financial reporting standards IFRS9 and 15 came into force during the year under review, both of which have been incorporated into the Mediobanca accounting policies.

The table below lists the regulations approved by the European Commission that have supplemented the regulations on accounting standards in force and have therefore been incorporated into the accounting policies, despite not having a significant impact on the Mediobanca accounts:

Approval regulation	**Group application date**	**Topic**
2018/182 of 7 February 2018	1 July 2018	Amendments to IAS28 - *Investments in Associates and Joint Ventures* Amendments to IFRS1 - *First-time Adoption of International Financial Reporting Standards*
2018/289 of 26 February 2018	1 July 2018	Amendments to IFRS2 - *Share-Based Payment Transactions*
2018/400 of 14 March 2018	1 July 2018	Amendments to IAS40 - *Investment Property*
2018/519 of 28 March 2018	1 July 2018	Adoption of IFRIC22 - *Foreign Currency Transaction and Advance Consideration*

The following table lists the regulations approved by the European Commission during the twelve months which will be applied as from the next financial year, which supplement the regulations on accounting standards in force and will be incorporated into the Mediobanca accounting policies accordingly:

Approval regulation	**Group application date**	**Topic**
2017/1986 of 31 October 2017	1 July 2019	Adoption of IFRS16 - *Leasing*
2018/498 of 22 March 2018	1 July 2019	Amendments to IFRS9 - *Prepayment features with negative compensation*
2018/1595 of 23 October 2018	1 July 2019	Adoption of IFRIC23 - *Uncertainty over income tax treatments*
2019/237 of 8 February 2019	1 July 2019	Amendments to IAS28 - *Investments in Associates and Joint Ventures*
2019/402 of 13 March 2019	1 July 2019	Amendments to IAS19 - *Employee Benefits*
2019/412 of 14 March 2019	11 July 2019	Amendments to IAS12 - *Income Taxes* Amendments to IAS23 - *Borrowing Costs* Amendments to IFRS3 - *Business Combinations* Amendments to IFRS11 - *Joint Arrangements*

Transition to IFRS 9 "Financial instruments"[2]

1. Regulatory framework

In July 2014, the International Accounting Standards Board (IASB) issued the new IFRS9, "Financial Instruments", introducing new standards on the classification and measurement of financial instruments, on the criteria and means for calculating value adjustments, and on the hedge accounting model.

The ratification process was completed with the issue of Regulation (EU) 2016/2067 by the European Commission on 22 November 2016, published in the Official Journal of the European Union (L 323) on 29 November 2016.

The Mediobanca adopted IFRS 9 as from 1 July 2018.

IFRS 9, with regard to financial instruments, is structured into three different areas: "Classification and measurement", "Impairment" and "Hedge accounting".

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:

– How financial assets (apart from shares) are classified and measured depends on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the "Solely Payments of Principal and Interest Test" (or SPPI). Only those instruments which pass both tests can be recognized at amortized cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio ("Held to collect and sell"), for which, like with the previous Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income). Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales 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.

[2] A "Report on transition to IFRS 9" has been published on the Group's website at www.mediobanca.com.

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 moves from an incurred to an expected impairment model; provisioning will have to be carried out for the whole portfolio (i.e. for assets with no impairment as well) and based on estimates which reflect macroeconomic factors ("expected losses"). In particular, at stage 1 of the recognition process, the instrument will have to reflect the expected loss over a 12-month time horizon; if there is a significant increase in the credit risk, the asset is classified as under-performing (stage 2), meaning its valuation will have to factor in the expected loss over its whole life-time; and if further impairment is recorded, the asset will be classified as non-performing (stage 3), where the final recoverable value will be estimated. The expected loss will be based on point-in-time data reflecting the internal credit models
– 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.

2. Impact on Mediobanca

2.1 Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS 9 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 has been analysed by assessing Mediobanca entire financial assets portfolio in view of the strategy instituted by senior management, risk management on the portfolio, remuneration mechanisms, reporting methodologies and movements (past sales and future expectations). These considerations have been incorporated in the internal management policies, which as well as reiterating the link between the business model and accounting treatment, also introduce frequency and significance thresholds for portfolios recognized at cost.

The analysis performed showed that:

- The loan books – which under IAS 39 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 IAS 39, 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" 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 the business model associated with such instruments;
- As for equities, shares held for trading purposes also move to the "Other" business model, while Mediobanca 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 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 "FVTPL").

To complete the classification phase for financial instruments according to the new categories provided for by IFRS 9, 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, Mediobanca has drawn up a standardized process for performing the test, in which loans are analysed using a tool developed internally based on decision-making trees, for the individual financial instrument or product according to the degree of customization involved. 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 "FVTPL"). 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.

Shares in investment funds previously treated as AFS which fail the SPPI test, in accordance with the recent guidance issued by the IFRS Interpretation Committee, are treated as equities obliged to be recognized at fair value through profit and loss.

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

2.2 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, by adopting an "expected loss" approach, with the loss estimated at twelve months or the end of the instrument's remaining life. The losses must therefore 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, IFRS 9 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, Mediobanca 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, which are already used by Mediobanca, 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:

– Valuation of the significant increase in credit risk. This takes into account qualitative and quantitative items, and serves to identify significant deterioration in the counterparty's credit standing for each facility. The recognition of forbearance measures and the thirty days past due criterion are considered as backstop indicators. In accordance with the supervisory authority's expectations the simplified, or "low credit risk exemption" approach. has only been used to a very limited degree. The criteria defined for the purposes of transferring exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when significant deterioration indicators no longer apply, the exposure returns to stage 1);

- Inclusion of forward-looking information within the expected loss calculation model: forward-looking information is considered with reference to three possible scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, in order to ensure a time horizon considered to be reasonable. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by Mediobanca S.p.A. for risk management purposes, and are compiled by a specific unit;
- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. In particular, 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: with reference to models based on detecting expected losses, a process for validation and retrospective testing has been finalized. The framework adopted provides for the unit responsible for model development to be independent of the unit responsible for validation, in view of the clear definition of roles and responsibilities. Provision is also made for regular analysis to be carried out to ensure that the assumptions underlying the model continue to be valid and that new information available is taken into account;
- Twelve-month and life-time expected loss calculations: the IFRS 9 estimate of the PD, LGD and EAD parameters is based on existing prudential models, adapted to incorporate forward-looking information and the multi-period time horizon.

2.3 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 Mediobanca has nonetheless chosen to opt into the new general hedging criteria, with no significant impact as a result.

3. 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.

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 IAS 39 to IFRS 9 with reference to "Classification and Measurement" has entailed the following reclassifications (see tables 1 and 2 below for details):

– €219.4m of loans and receivables have been reclassified as FVTPL in view of the fact that the instruments' characteristics (subordination, equity convertible options, indirect exposure to equity) meant they did not pass the SPPI test;
– €118.9m of available-for-sale debt securities has been reclassified as HTC to provide a better representation of the business model's strategies, which led to the net equity reserve accumulated written back and the historical acquisition cost being recovered;
– €53.5m of debt securities held as part of the banking book have been reclassified as FVTPL;
– €488.6m 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;

– €258.7m in AFS equities have been reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
– €196.1m of held-for-trading financial assets have been reclassified as FVOCI following changes to the business model.

Moreover, with reference to the fifth update of Bank of Italy circular 262/05, the change in the method by which financial assets are classified compared to the fourth update should be noted:

IV update of Bank Italy of Circular 262
20. Financial assets held for trading
30. Financial assets at fair value through profit or loss
40. Financial assets available-for-sale
50. Financial assets held-to-maturity
60. Due from banks
70. Due from customers

V update of Bank Italy of Circular 262
20. Financial assets at fair value with impact taken to profit and loss *a) Financial assets held for trading* *b) Financial assets designated at fair value* *c) Other financial assets mandatorily at fair value*
30. Financial assets at fair value with impact taken to comprehensive income
40. Financial assets at amortized cost *a) Due from banks* *b) Due from customers*

* * *

As far as regards financial liabilities, no significant impact is estimated, apart from one restatement of loan loss provisions equal to €23.7m recorded in respect of commitments to disburse funds and financial guarantees given: in view of the fifth update of Bank of Italy circular 262/05, these amounts have to be reclassified under “Provisions” rather than as “Other liabilities”.

Mediobanca has also chosen to apply the fair value option for a limited number of financial liabilities with a book value of €51.4m in order to eliminate accounting asymmetries with some financial assets.

With regard to the mandatory schemes required by the Bank of Italy, the change in the method by which financial liabilities are classified compared to the fourth update should be noted:

IV update of Bank Italy of Circular 262
10. Due to banks
20. Due to customers
30. Debt securities in issue
40. Trading liabilities
50. Financial liabilities designated at fair value

V update of Bank Italy of Circular 262
10. Financial liabilities at amortized cost *a) Due to banks* *b) Due to customers* *c) Debt securities in issue*
20. Trading financial liabilities
30. Financial liabilities designated at fair value

Adoption of the new classification rules for financial instruments generates a negative effect on net equity of €7.7m, representing the balance between changes in business model and the adoption of the FV option (which added €11.1m) and instruments failing the SPPI test (which subtracted €3.4m) [3].

As mentioned, the most significant impact of the transition to IFRS 9 derives from changes in relation to "Impairment". Compared to the IAS 39 provisioning, the overall increase in the expected losses totals €18.5m (of €14.6m intragroup), 73% of which is attributable to the performing exposures (stage 1 and stage 2) and the other 27% to the non-performing exposures (stage 3).

The increase in provisioning for performing exposures (€13.6m) is 88% attributable to the positions classified as stage 1.

The reclassifications and increased provisioning referred to above drove a €12.4m increase in deferred tax assets and a €4.4m increase in deferred tax liabilities.

The combined effect of the changes on Mediobanca net equity totals €26.2m (€18.2m net of the tax effects), and implies a reduction of some 4 bps in Mediobanca CET1 ratio.

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

In order to mitigate the impact of the new reporting standard on prudential ratios, Regulation (EU) 2017/2395 “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”, amending Regulation (EU) 575/2013 (the “CRR”) to include a new Article 473-bis, “Introduction of IFRS9”, offers the possibility for banks to spread the impact deriving from the introduction of IFRS 9 on their own funds over a five-year transitional period by including a decreasing amount of such impact in their Common Equity Tier 1. Mediobanca will apply the static approach, in order to neutralize the effect of the higher provisioning for performing assets, starting from the IFRS 9 FTA financial statements and for the next five years [4].

With reference in particular to the means by which first-time adoption of the standard will be represented, Mediobanca will take advantage of the possibility provided for by IFRS 9 and IFRS 1 “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.

3.1 Reconciliation between IAS39-compliant and IFRS9-compliant balance-sheet data

The reconciliations between the published financial statements as at 30 June 2018 and the new schemes introduced by the fifth update of Bank of Italy circular 262 as at 1 July 2018 are shown below. IAS39-compliant values as at 30 June 2018 are assigned to new headings, without taking into account the classification and measurement provisions introduced by IFRS9 (i.e. the value of total assets and total liabilities remains unchanged).

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

Table 1: Reconciliation between IAS39 and IFRS9 – assets

IAS39 / IFRS 9	10 Cash and cash equivalents	20 Financial assets held for trading	30 *Financial assets at fair value*	40 Financial assets available-for-sale	50 Financial assets held-to-maturity	60 Due from banks	70 Due from customers	80 Hedging derivatives	90 Adjustment of hedging financial assets (+/-)	100 Equity investments	120 Property, plant and equipments	130 Intangible assets	140 Tax assets	150 Assets classified as held for sale	160 Other assets	Total assets
10 Cash and cash equivalents	1,173,154,677	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,173,154,677
20 Financial assets at fair value with impact taken to profit and loss	—	8,015,778,042	—	542,096,694	—	—	219,394,448	—	—	—	—	—	—	—	3,842,427	8,781,111,611
a) Financial assets held for trading	—	8,015,778,042	—	—	—	—	—	—	—	—	—	—	—	—	—	8,015,778,042
b) Financial assets designated at fair value	—	—	—	53,509,000	—	—	—	—	—	—	—	—	—	—	—	53,509,000
c) Other financial assets mandatorily at fair value	—	—	—	488,587,694	—	—	219,394,448	—	—	—	—	—	—	—	3,842,427	711,824,569
30 Financial assets at fair value with impact taken to comprehensive income	—	196,134,641	—	4,505,358,846	—	—	—	—	—	—	—	—	—	—	—	4,701,493,487
40 Financial assets at amortized cost	—	971	—	118,896,139	2,595,142,322	19,553,430,989	18,506,603,536	—	—	—	—	—	—	—	4,079,519	40,778,153,478
50 Hedging derivatives	—	—	—	—	—	—	—	235,591,092	—	—	—	—	—	—	—	235,591,092
60 Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
70 Equity investments	—	—	—	—	—	—	—	—	—	3,084,158,386	—	—	—	—	—	3,084,158,386
80 Property, plant and equipments	—	—	—	—	—	—	—	—	—	—	116,806,552	—	—	—	—	116,806,552
90 Intangible assets	—	—	—	—	—	—	—	—	—	—	—	38,629,954	—	—	—	38,629,954
of which: goodwill	—	—	—	—	—	—	—	—	—	—	—	12,514,145	—	—	—	12,514,145
100 Tax assets	—	—	—	—	—	—	—	—	—	—	—	—	236,334,661	—	—	236,334,661
a) current	—	—	—	—	—	—	—	—	—	—	—	—	133,984,760	—	—	133,984,760
b) deferred	—	—	—	—	—	—	—	—	—	—	—	—	102,349,901	—	—	102,349,901
110 Assets classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
120 Other assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	88,977,658	88,977,658,–
Total assets	1,173,154,677	8,211,913,654	—	5,166,351,679	2,595,142,322	19,553,430,989	18,725,997,984	235,591,092	—	3,084,158,386	116,806,552	38,629,954	236,334,661	—	96,899,604	59,234,411,556

Table 2: Reconciliation between IAS39 and IFRS9 – liabilities

IAS39 / IFRS 9	10 Due to banks	20 Due to customers	30 Debt securities in issue	40 Trading liabilities	50 Financial liabilities designated at fair value	60 Hedging derivatives	70 Adjustment of hedging financial liabilities (+/-)	80 Tax liabilities	90 Liabilities included in disposal groups classified as held for sale	100 Other liabilities	110 Staff severance indemnity provision	120 Provisions	140 Revaluation reserves	150 Redeemable shares repayable on demand	160 Equity instruments repayable on demand	170 Reserves	180 Share premium reserve	190 Share capital	200 Treasury share (-)	220 Profit/ (loss) for the period (+/-)	Total liabilities and net equity
10 Financial liabilities at amortized cost	25,519,218,956	4,124,182,895	16,775,581,980	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	46,418,983,831
20 Trading financial liabilities	–	–	–	6,510,480,039	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	6,510,480,039
30 Financial liabilities designated at fair value	–	–	51,427,000	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	51,427,000
40 Hedging derivatives	–	–	–	–	–	220,712,763	–	–	–	–	–	–	–	–	–	–	–	–	–	–	220,712,763
50 Adjustment of hedging financial liabilities (+/-)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
60 Tax liabilities	–	–	–	–	–	–	–	363,933,424	–	–	–	–	–	–	–	–	–	–	–	–	363,933,424
70 Liabilities included in disposal groups classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
80 Oher liabilities	–	–	–	–	–	–	–	–	–	254,198,863	–	–	–	–	–	–	–	–	–	–	254,198,863
90 Staff severance indemnity provision	–	–	–	–	–	–	–	–	–	–	7,723,450	–	–	–	–	–	–	–	–	–	7,723,450
100 Provisions	–	–	–	–	–	–	–	–	–	23,658,357	–	97,786,044	–	–	–	–	–	–	–	–	121,444,401
110 Revaluation reserves	–	–	–	–	–	–	–	–	–	–	–	–	129,954,143	–	–	–	–	–	–	–	129,954,143
120 Redeemable shares repayable on demand	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
130 Equity instruments repayable on demand	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
140 Reserves	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,292,839,423	–	–	–	–	2,292,839,423
150 Share premium reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,191,742,930	–	–	–	2,191,742,930
160 Share capital	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	443,275,220	–	–	443,275,220
170 Treasury share (-)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(109,337,765)	–	(109,337,765)
180 Profit/(loss) for the period (+/-)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	337,033,834	337,033,834
Total liabilities and net equity	25,519,218,956	4,124,182,895	16,827,008,980	6,510,480,039	–	220,712,763	–	363,933,424	–	277,857,220	7,723,450	97,786,044	129,954,143	–	–	2,292,839,423	2,191,742,930	443,275,220	(109,337,765)	337,033,834	59,234,411,556

3.2 Reconciliation of assets and liabilities

The table below shows, for each asset and liability heading pursuant to the fifth update of Bank of Italy circular 262/05, the impact arising from application of the new IFRS9 accounting standard, for the "Classification and measurement" and "Impairment" work streams.

The column headed "Classification and measurement" shows the value changes arising from the different valuation criterion. The column entitled "Impairment" shows value changes arising from the adoption of the new impairment model introduced by IFRS9.

Table 3: Reconciliation of balance-sheet items - assets

Heading	**30.06.2018**	**Transition effect**		**IFRS 9 01.07.2018**
		Classification and measurement	**Impairment**	
10 Cash and cash equivalent	1,173,155	—	—	1,173,155
20 Financial assets at at fair value with impact taken to profit and loss	8,781,112	(411)	—	8,780,701
a) financial assets held for trading	*8,015,778*	—	—	*8,015,778*
b) Financial assets designated at fair value	*53,509*	—	—	*53,509*
c) Other financial assets mandatorily at fair value	*711,825*	*(411)*	—	*711,414*
30 Financial assets at fair value with impact taken to comprehensive income	4,701,493	—	—	4,701,493
40 Financial assets at amortized cost	40,778,153	(1,369)	(17,447)	40,759,337
50 Hedging derivatives	235,591	—	—	235,591
60 Adjustment of hedging financial assets (+/-)	—	—	—	—
70 Equity investments	3,084,158	—	—	3,084,158
80 Property, plant and equipment	116,807	—	—	116,807
90 Intangible assets	38,630	—	—	38,630
100 Tax assets	236,335	3,082	9,352	248,769
110 Assets classified as held for sale	—	—	—	—
120 Other assets	88,978	—	—	88,978
Total assets	59,234,412	1,302	(8,095)	59,227,619

Table 4: Reconciliation of balance-sheet items – liabilities

Heading	**30.06.2018**	**Transition effect**		**IFRS 9 01.07.2018**
		Classification and measurement	**Impairment**	
10 Financial liabilities at amortized cost	46,418,984	—	—	46,418,984
20 Trading liabilities	6,510,480	—	—	6,510,480
30 Financial liabilities designated at fair value	51,427	5,938	—	57,365
40 Hedging derivatives	220,713	—	—	220,713
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—
60 Tax liabilities	363,933	2,243	2,193	368,369
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—
80 Oher liabilities	254,199	—	—	254,199
90 Staff severance indemnity provision	7,723	—	—	7,723
100 Provisions	121,444	—	1,073	122,517
110 Revaluation reserves	129,954	(25,620)	2,197	106,531
120 Redeemable shares repayable on demand	—	—	—	—
130 Equity instruments repayable on demand	—	—	—	—
140 Reserves	2,292,839	18,741	(13,558)	2,298,022
150 Share premium reserve	2,191,743	—	—	2,191,743
160 Share capital	443,275	—	—	443,275
170 Treasury share (-)	(109,338)	—	—	(109,338)
180 Profit/(loss) for the period (+/-)	337,034	—	—	337,034
Total liabilities and net equity	59,234,412	1,302	(8,095)	59,227,619

3.3 Reconciliation of post-FTA net equity

The following table shows the reconciliation for net equity between IAS39-compliant values as at 30 June 2018 and the corresponding headings introduced by the new classification, measurement and impairment requirements introduced by IFRS9.

	Values
Net equity as at 30 June 2018	**5,285,508**
– Group	*5,285,508*
– of which: minorities	—
Total effects of IFRS9 transition - 1 July 2018	
of which: change in Reserves	*(18,241)*
of which: Classification	**(7,719)**
of which: Impairment	**(18,520)**
- Stage 1 and 2	*(13,572)*
- Stage 3	*(4,948)*
of which: Tax effect	**7,997**
Net equity (IFRS9) as at 1 July 2018	**5,267,267**
– Group	*5,267,267*
– of which: minorities	—

Transition to IFRS 15 “Revenue 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 for the Mediobanca Group starting from 1 July 2018, and requires revenues to be recognized on the basis of 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.

Implementation of the standard was co-ordinated centrally by Mediobanca S.p.A. through an ad hoc working group to extend the analysis to the whol Group involving the subsidiaries as and where necessary.

The analysis led to all types of contracts with customers being identified, and the means by which to record the revenues generated by them to establish their compliance with the new standard's provisions. No significant impact emerged from application of the new standard.

New IFRS 16: Leasing

Regulatory provisions

In 2016, the IASB issued the new IFRS 16 on "Leasing" to replace IAS 17 previously in force and its respective interpretations.[5] IFRS 16 was adopted by the European Commission under Commission Regulation (EU) 1986/2017 and as far as the Mediobanca Group is concerned, takes effect from the new financial year starting on 1 July 2019.

The main changes introduced by the new reporting standard are a change in the definition of leasing and a single accounting model for operating and financial contracts. Under the new standard, a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, which means that long-term rental or hire contracts are also included.

The new standard requires the lessee to represent the amount of the "right of use" for the asset covered by the leasing/rental agreement in its accounts, matched by the future instalments due on it discounted as at the reporting date. Thereafter the "right of use" asset will be ammortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing.

[5] IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease"..

The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in continuity with the existing IAS17.

The IFRS 16 project

Mediobanca has launched a project to manage transition to the new reporting standard, which involves analysis of the contracts , definition of the choices, assessment of the estimated impact and adaptation of the internal regulations.

Mediobanca has adopted an IT solution to manage the new reporting standard in terms of quantifying and accounting for amounts payable and receivable in respect of leases, based on the application currently used to manage such contracts.

Mediobanca S.p.A. choices

At the first-time adoption stage for the new reporting standard, Mediobanca S.p.A. has decided to use the "modified retrospective approach", i.e. recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption.

Mediobanca has also elected to adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months or less calculated at FTA, contracts involving amounts of less than €5,000 ("low value"), and contracts for intangible assets.

Mediobanca has also decided not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question in view of the contract's duration.

If the original contract has been sub-leased to a counterparty and the conditions apply for it to be treated as a finance sub-lease, the liability in respect of the original list is balanced by an amount receivable from the subscriber rather than by the value in use.

Results

Overall, the changes introduced by IFRS 16 will generate an increase in assets of someestimated €31m [6], matched by payables (amounts due to the lessor) for the same amount without impacting on net equity. Right of use related to immovable properties represents 87% of the amount.

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 twelve months ended 30 June 2019 to be amended.

SECTION 4

Other aspects

The consolidated financial statements and the individual accounts of MediobancaS.p.A.havebeenauditedbyexternalauditorsPricewaterhouseCoopers S.p.A. as required by Italian Legislative Decree 39/10 and under the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012, for the 2013-21 financial years.

[6] The increase in assets will determine a rise in RWAs of the same amount (i.e. risk weighting 100%), impacting on the CET1 ratios by around 2 bps.

A.2 - Significant accounting policies

Financial assets recognized at amortized cost

These include loans and advances to customers and banks, debt securities and repo transactions which meet the following conditions:

– The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;

– Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS17 (cf. below), even though the impairment rules introduced by IFRS9 apply for valuation purposes.

The Group business model should reflect the ways in which financial assets are managed at a portfolio level (and not at instrument level), on the basis of factors observable at a portfolio level (and not at instrument level):

– Operating procedure adopted by management in the process of performance evaluation;

– Risk type and procedure for managing risks taken, including indicators for portfolio rotation;

– Means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering "worst case" and "best case" scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.

At initial recognition, the Group analyses contractual cash flows for the instrument as part of the SPPI test; when contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

The instrument is recognized at amortized cost, i.e. the initial value less/plus the repayments of principal made, writedowns/writebacks, and amortization – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, adjusted to reflect expected losses.

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate 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.

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.

Following initial recognition, all financial assets recognized at amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing assets.

Impairment regards losses which are expected to materialize in the twelve months following the reference date of the financial statement, or, in cases where a significant increase in credit risk is noted, the losses which are expected to materialize throughout the rest of the instrument's life. Both the twelve-month and outstanding life expected losses can be calculated on an individual or collective basis according to the nature of the underlying portfolio.

In accordance with the provisions of IFRS9, the financial assets are split into three different categories:

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. The Group uses the simplified, low credit risk exemption approach only to a very limited extent.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, with interest calculated later using an internal rate of return adapted to the circumstances. The expected credit losses are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default (for further details see the section specifically on credit quality in Part E of the Notes to the Accounts), the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value [7].

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. 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).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost.

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

Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at amortize cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

[7] See Part A – Information on fair value on pp. 460-471.

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 respective headings.

Assets which must be recognized at fair value also include loans which do not guarantee full repayment of principal in the event of the counterparty finding itself in financial difficulties and which therefore do not pass the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

Financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

Financial assets recognized at fair value through other comprehensive income

These are financial instruments, mostly debt securities, for which both the following conditions are met:

– The instruments are on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments;

– The contractual terms which pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in the same way as financial assets recognized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

The category also includes equities not held for trading which meet the definition provided by IAS 32, and which the Group decided to classify irrevocably in this category at the initial recognition stage. As the instruments in question are equities they are not subject to impairment, and the gains/losses on equities are never taken through profit and loss, even following the sale of the instrument. Conversely, dividends on the instruments are recorded through profit and loss when the right of collection takes effect.

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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.

When a financial asset recognized at amortized cost is renegotiated, the Group derecognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument's carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as stage 1 for purposes of calculating the expected loss (save in cases where the new instrument is classified as a POCI).

In cases where the renegotiation does not result in substantially different cash flows, the Group does not derecognize the instrument, but the difference between the original carrying value and the estimated cash flows discounted using the original internal rate of return must be recorded through profit and loss (taking due account of any provisions already set aside to cover it).

Leasing

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods), even if the good itself is not stated explicitly in the agreement.

A leasing contract must be classified at the execution date as either a financial lease or an operating lease.

A lease which transfers basically all risks and benefits typical of ownership to the lessee is a financial lease.

Financial leases in which the Group is the lessor are capitalized at the start of the transaction based on the fair value of the good at the execution date, or the current value of the minimum payments provided for by the agreement if lower. Payments are split into the two components of interest payable and repayment of the amount due under the lease itself based on methods which reflect a constant, regular return on the lessor's net investment.

The good being leased is recorded in the accounts and amortized over the course of its useful life. If there is no reasonable certainty that the Group will acquire the good at the end of the lease, it is amortized over its useful life or the duration of the lease itself, whichever is shorter.

Payments made in respect of operating lease contracts are recorded through profit and loss as costs on a straight-line basis throughout the life of the leasing contract itself.

Leases in which the Group is the lessor and does not transfer basically all risks and benefits associated with ownership of the good are classified as operating leases. Revenues generated from contracts such as these are recorded through profit and loss on a straight-line basis throughout the life of the leasing contract. Any costs incurred to negotiate the contract are added to the value of the good and recorded throughout the life of the contract using the same criterion adopted to record the revenues.

Hedges

For hedging transactions, the Group has adopted the provisions of IFRS9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS39 to this type of operation.

Two types of hedge are used by the Group:

– 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.

At inception, the Group formally designates and documents the hedging relationship, with an indication of the risk management objectives and strategy for the hedge. The documentation includes identification of the hedging instrument, the item hedged, the nature of the risk hedged and how the entity intends to assess if the hedging relationship meets the requisites for the hedge to be considered effective (including analysis of the sources of any ineffectiveness and how this affects the hedging relationship). The hedging relationship meets the eligibility criteria for accounting treatment reserved for hedges if, and only if, the following conditions are met:

- The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
- The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Bank actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

Fair value hedges

As long as the fair value hedge meets the criteria for eligibility, the profit or loss on the hedge instrument must be recorded in the profit and loss account or under one of the other comprehensive income headings if the hedge instrument hedges another instrument representative of equity for which the Group has chosen to recognize changes in fair value through OCI. The hedge profit or loss is recorded as an adjustment to the book value of the hedged item with a matching entry through the profit and loss account, even in cases where the item hedged is a financial asset (or one of its components) recognized at fair value with changes taken through OCI. However, if the item hedged is an equity instrument for which the entity has opted to recognize changes in fair value through OCI, the amounts remain in the other items in the comprehensive income statement.

If the item hedged is an irrevocable commitment (or one of its components) not booked to the accounts, the cumulative change in the fair value of the item hedged resulting from its designation as such is recorded as an asset or liability with corresponding gain or loss recorded in the profit (loss) for the period.

Cash flow hedges

As long as the cash flow hedge meets the criteria for eligibility, it is accounted for as follows:

- The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss;
- The cash flow reserve is adjusted to reflect the lower amount of:
  - The gain or loss accumulated on the hedge instrument since the hedge's inception; and
  - The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception;

The amount accumulated in the cash flow hedge reserve must be reclassified from the cash flow hedge reserve to profit (loss) for the period as an adjustment due to reclassification in the same period or periods in which the estimated future cash flows hedged impact on the profit (loss) for the period (e.g. in periods when interest receivable or payable are recorded, or when the planned sale takes place).

However, if the amount constitutes a loss and the entity does not expect to recover the whole loss or part of it in one or more future periods, the entity must classify the amount it does not expect to recover in the profit (loss) for the period (as an adjustment due to reclassification) immediately.

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.

The heading also includes tangible assets classified pursuant to IAS 2 – *Inventories*, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

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 deriving from business combinations subject to IFRS 3R.

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.

Financial liabilities recognized at amortized cost

These include the items *Due to banks, Due to customers and Debt securities in issue* less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IAS17 but which are also affected by the IFRS9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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 when they are not closely correlated to the host instrument. 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 and the changes are taken through the profit and loss account.

Liabilities designated at fair value

This item include financial liabilities designated at fair value with impact taken to profit and loss, based on the faculty allowed by the IFRS9 to the enterprises (so called "fair value option") and in compliance with the cases permitted by the Regulation.

Provisions for liabilities and charges

These regard risks linked Group activity, not necessarily connect to the non-repayment of loans, which could lead to expenses in the future. If the time effect is material, provisions are discounted using current market rates; and the provision is 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 IAS 37, para. 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

These also include provisions for credit risks linked to commitments to disburse funds and guarantees issued in accordance with the rules on impairment introduced by IFRS 9. Criteria to identify stages and calculate the expected loss are the same adopted in case of financial assets valued at amortized cost of at FVTPL.

Staff severance indemnity provision

The staff severance indemnity provision qualifies as a defined-contribution benefit scheme for units accruing starting from 1 January 2007 (the date on which the reform of complementary pension schemes came into force under Italian Legislative Decree 252/05), for cases where the employee opts into a complementary pension scheme, and also for cases where contributions are paid to the treasury fund held with the Italian national pension scheme (INPS). For such payments, the amount accounted for under labour costs is determined on the basis of the contributions due without application of actuarial calculation methods.

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, 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 using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

Actuarial gains and/or losses are recorded in the Other Comprehensive Income statement, while the interest component is taken through profit and loss.

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 using the average of the average monthly exchange rate readings 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.

Contributions 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.

Schemes which involve payment through the award of shares are recognized through profit and loss, with a corresponding increase in net equity, based on the fair value of the financial instruments allocated at the award date, thus spreading the cost of the scheme throughout the period of time in which the requisites in terms of service and performance where appropriate) are met.

The overall cost of the scheme is recorded in each financial year up to the date on which the plan vests, so as to reflect the best possible estimate of the number of shares that will actually vest. Requisites in terms of service and performance objectives are not considered in determining the fair value of the instruments awarded, but the probability of such objectives being reached is estimated by the Group and this is factored into the decision as to the number of instruments that will vest. Conversely, market conditions will be included in establishing the fair value, whereas conditions unrelated to the requisites in terms of service are considered “non-vesting conditions” and are reflected in the fair value established for the instruments, and result in the full cost of the scheme being recorded in the profit and loss account immediately in the absence of any service requisites and/or performance conditions.

In the event of performance or service conditions not being met and the benefit failing to be allocated as a result, the cost of the scheme is written back. However, if any market conditions fail to be reached, the cost must be recorded in full if the other conditions have been met.

In the event of changes to the scheme, the minimum cost to be recorded is the fair value at the scheme award date pre-change, if the original conditions for vesting have been met. An additional cost, established at the date on which the change is made to the scheme, must be recorded if the change has entailed an increase in the overall fair value of the scheme for the beneficiary.

For schemes which will involve payments in cash, the Group records an amount payable equal to the fair value of the scheme measured at the award date of the scheme and at every reporting date thereafter, up to and including the settlement date, with any changes recorded as labour costs.

Treasury shares

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

Fees and commissions receivable in respect of services

This heading includes all revenues deriving from the provision of services to customers with the expectation of those relating to financial instruments, leases and insurance contracts.

Revenues from contracts with clients are recorded through profit and loss when ownership of the service is transferred to the client, in an amount that reflects the consideration to which the Group considers it is entitled in return for the service rendered.

In order to record the revenues, the Group analyses the contracts to establish whether they contain more than one obligation to provide services to which the price of the transaction should be allocated. The revenues are then recorded throughout the time horizon over which the service is rendered, using suitable methods to recognize the measurement in which the service is provided. The Group also takes into consideration the effects of any variable commissions, and whether or not a significant financial component is involved.

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requisites of IFRS15, the Group will assess whether to capitalize them and then amortize them through the life of the contract, or to make use of the exemption provided by IFRS15 to expense the costs immediately in cases where the amortization period for them would be complete within twelve months.

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS28.

Recognition of costs

Costs are recorded through profit and loss in accordance with the revenues to which they refer, save in cases where the requisites for capitalizing them apply and where provided in order to determine amortized cost. Any other costs which cannot be associated with revenues are accounted for immediately in profit and loss.

Related parties

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

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in Mediobanca's share capital [8], 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.

[8] Excluding market-makers and asset managers, Italian and international, which, in the exercise of their collective fund management activity, undertake not to take an active part in the management of the companies in which they are investing.

A.3 - Information on transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: change in business model, book value and interest income

(€'000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt decurities	AFS securities	Financial assets at amortized cost	FY 2010/2011	112,742	5,837
Total				112,742	5,837

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.

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 [9].

In accordance with the provisions of IFRS 13 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 (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:

– 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.

[9] Cf. IFRS 13, 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 IFRS 13, paragraphs 72-90.

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/debt valuation adjustment;

– Other adjustments.

Credit/debt 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 (FVA)

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 and to take account of 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. To take account of 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 in 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. Basically ABS 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;
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data.
- 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 and

for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost.

– 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 Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as 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 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 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), 30/6/19	+/- delta vs MtM (€'000), 30/6/18
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)	460	620
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	612	325

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value * Assets 30/6/19 (€m)	Fair value * Liabilities 30/6/19 (€m)	Fair value * Assets 30/6/18 (€m)	Fair value * Liabilities 30/6/18 (€m)
OTC equity single name options, variance swap	Black-Scholes/ Black model	Implicit volatility[1]	0.81	(3.89)	1.46	(7.81)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation[2]	9.85	(9.40)	2.70	(4.84)

* 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.

A.4.3 Fair value ranking

Transfers between 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 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.

Conversely, transfers from Level 2 to Level 3 (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.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, 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 recognized at fair value on a non-recurring basis, by fair value ranking

(€ '000)

Financial assets/liabilities measured at fair value	30/6/19		
	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	7,364,652	2,887,585	622,808
a) financial assets held for trading	7,054,588	2,633,695	359,064
b) financial assets designated at fair value	—	51,975	—
c) other financial assets mandatorily valued at fair value	310,064	201,915	263,744
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,611,042	240,572	32,838
3. Hedging derivatives	—	409,863	—
4. Tangible assets	—	—	—
5. Intangible assets	—	—	—
Total	10,975,694	3,538,020	655,646
1. Financial liabilities held for trading	4,948,023	3,082,526	249,777
2. Financial liabilities valued at fair value	—	55,859	—
3. Hedging derivatives	—	184,650	—
Total	4,948,023	3,323,035	249,777

The Level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, totalled €236m (30/6/18: €72.6m), plus €0.5m (€1.9m) in options linked to bonds issued and hedged on the market. Net of these items, the Level 3 assets increased from €77.8m to €122.6m, following new deals of €51.1m (deriving chiefly from the bridge subscribed to by Mediobanca in its role as arranger with Intesa/ICCREA receivables as the underlying instrument, amounting to approx.

€246.2m, which is gradually being sold, in an amount of €186.7m during the twelve months under review), redemptions totalling €3.8m, and other reductions, including downward movements in fair value, totalling €2.5m.

Financial assets compulsorily recognized at fair value,[10] which mostly consist of investments in funds (including seed capital) decreased from €302.1m to €263.7m, following investments of €19.9m, and sales and redemptions totalling €58.3m (mostly in respect of a Cairn fund, for €39.2m).

Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), rose slightly from €19.5m to €32.8m.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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**		
	Level 1	**Level 2**	**Level 3**
1. Financial assets held for trading	4,805,778	3,253,877	152,259
2. Financial assets held for trading	—	—	—
3. AFS securities	4,563,419	298,863	304,070
4. Hedge derivatives	—	235,591	—
5. Tangible assets	—	—	—
6. Intangible assets	—	—	—
Total	9,369,197	3,788,331	456,329
1. Financial liabilities held for trading	3,206,919	3,216,430	87,131
2. Financial liabilities recognized at fair value	—	—	—
3. Hedge derivatives	—	220,713	—
Total	3,206,919	3,437,143	87,131

[10] A financial asset is classified as a financial asset which must compulsorily be recognized at fair value if it does not meet the conditions, in terms of business model and cash flow characteristics ("solely payment of principal and interest" – i.e. if it does not pass the SPPI test) to be recognized at amortized cost or at fair value through Other Comprehensive Income.

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

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading [1]	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value				
1. Opening balance	399,368	77,780	—	302,114	19,474	—	—	—
2. Increases	300,840	254,240	—	31,315	15,285	—	—	—
2.1 Purchases	279,900	251,248	—	19,865	8,787	—	—	—
2.2 Profits recognized in:	19,057	1,681	—	10,878	6,498	—	—	—
2.2.1 profit and loss	12,559	1,681	—	10,878	—	—	—	—
- of which, gains	*1,035*	*1,035*	—	—	—	—	—	—
2.2.2 net equity	6,498	X	X	X	6,498	—	—	—
2.3 Transfers from other levels	—	—	—	—	—	—	—	—
2.4 Other increases	1,883	1,311	—	572	—	—	—	—
3. Decreases	281,052	209,446	—	69,685	1,921	—	—	—
3.1 Disposals	254,305	200,104	—	53,001	1,200	—	—	—
3.2 Redemptions	9,071	3,789	—	5,282	—	—	—	—
3.3 Losses recognized in:	17,676	5,553	—	11,402	721	—	—	—
3.3.1 profit and loss	16,963	5,553	—	11,402	8	—	—	—
- of which, losses	*5,553*	*5,553*	—	—	—	—	—	—
3.3.2 net equity	713	X	X	X	713	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	—	—	—	—	—	—	—	—
4. Closing balance	419,156	122,574	—	263,744	32,838	—	—	—

([1]) Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level 3 liabilities)

(€ ‘000)

	Held for trading [1]	***Designated at fair value***	**Hedging derivatives**
1. Opening balance	12,652	—	—
2. Increases	6,722	—	—
2.1 Issuance	4,935	—	—
2.2 Losses recognized in:	1,607	—	—
2.2.1 profit and loss	1,607	—	—
- of which, losses	*1,607*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	180	—	—
2.4 Other increases	—	—	—
3. Decreases	6,089	—	—
3.1 Redemptions	3,193	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2,896	—	—
3.3.1 profit and loss	2,896	—	—
- of which, gains	*442*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	13,285	—	—

([1]) Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), 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	30/6/19			
		Fair value		
	Book value	Level 1	Level 2	Level 3
1. Financial assets valued at amortised cost	46,363,398	2,149,798	32,117,056	12,892,319
2. Tangible assets held for investment purposes	24,884	—	—	94,174
3. Non-current assets and groups of assets being sold	—	—	—	—
Total	46,388,282	2,149,798	32,117,056	12,986,493
1. Financial liabilities valued at amortised cost	51,339,312	—	51,578,885	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—
Total	51,339,312	—	51,578,885	48,237

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Financial assets held to maturity	2,595,142	2,576,912	28,086	—
2. Due from banks	19,553,431	—	6,620,038	12,952,352
3. Due from customers	18,725,998	—	7,136,216	10,702,838
4. Tangible assets held for investment purposes	25,162	—	—	94,077
5. Non-current assets and groups of assets being sold	—	—	—	—
Total	40,899,733	2,576,912	13,784,340	23,749,267
1. Due to banks	25,519,219	—	25,519,219	—
2. Due to customers	4,124,183	—	4,124,183	—
3. Debt securities in issue	16,827,009	—	17,108,510	49,719
4. Liabilities in respect of non-current assets being sold	—	—	—	—
Total	46,470,411	—	46,751,912	49,719

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.

The only transaction of this kind involved 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 in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument which, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €4.7m, and the portion that passed through profit and loss during the period totalled €2m.

Part B - Notes to the Individual Balance Sheet (*)

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	Total 30/6/19	Total 30/6/18
a) Cash	561	574
b) On demand deposits with Central banks	632,051	1,172,581
Total	632,612	1,173,155

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

SECTION 2

Heading 20: Financial assets recognized at fair value through profit and loss

*2.1 Financial assets held for trading: composition **

Items/Values	30/6/19		
	Level 1	Level 2	Level 3
A. Balance-sheet assets			
1. Debt securities	3,857,970	361,666	58,831
1.1 Structured securities	17,251	10,451	—
1.2 Other securities	3,840,719	351,215	58,831
2. Equity securities [1]	2,441,048	—	47,024
3. UCITs	245,002	—	6,055
4. Loans	6,894	—	—
4.1 REPOs	—	—	—
4.2 Others	6,894	—	—
Total (A)	6,550,914	361,666	111,910
B. Derivative instruments			
1. Financial derivatives	503,674	1,781,837	247,154
1.1 trading	503,674	1,737,302	246,957 [2]
1.2 related to the fair value option	—	—	—
1.3 others	—	44,535	197 [3]
2. Credit derivatives	—	490,192	—
2.1 trading	—	490,192	—
2.2 related to the fair value option	—	—	—
2.3 others	—	—	—
Total (B)	503,674	2,272,029	247,154
Total (A+B)	7,054,588	2,633,695	359,064

* 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 include shares committed in securities lending transactions totalling €834,916,000.

[2] Includes €235,984,000 in options traded, with the matching amount booked as financial instruments held for trading.

[3] Includes the market value of options (30/6/19: €0.5m) matching those associated with bond issues booked as financial instruments held for trading.

2.2 Financial assets held for trading: composition by borrower/issuer

Items/Values	**30/6/19**
A. Cash assets	
1. Debt securities	4,278,467
a) Central Banks	—
b) Public Administrations	3,398,524
c) Banks	619,409
d) Other financial companies	197,994
of which: insurance companies	—
e) Non financial companies	62,540
2. Equity instruments	2,488,072
a) Banks	391,154
b) Other finanzial companies	205,008
of which: Insurance companies	*94,336*
c) Non financial companies	1,891,910
d) Other issuers	—
3. Units investment funds	251,057
4. Loans	6,894
a) Central Banks	—
b) Public Administrations	—
c) Banks	—
d) Other financial companies	2,031
of which: insurance companies	—
e) Non financial companies	4,863
f) Families	—
Total (A)	7,024,490
B. Derivative instruments	
a) Central Counterparties	95,465
b) Others	2,927,392
Total (B)	3,022,857
Total (A+B)	10,047,347

The tables below show the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

*2.1 Financial assets held for trading: composition **

Items/values	30/6/18		
	Level 1	Level 2	Level 3
A. Cash assets			
1. Debt securities [1]	2,538,652	252,030	14,128
1.1 Structured securities	109	11,526	—
1.2 Others	2,538,543	240,504	14,128
2. Equity securities [2]	1,616,416	—	50,145
3. Units in investment funds	101,498	—	9,342
4. Loans	24,966	—	—
4.1 Repos	—	—	—
4.2 Others	24,966	—	—
Total A	4,281,532	252,030	73,615
B. Derivative instruments			
1. Financial derivatives	524,246	2,796,956	78,644
1.1 Trading	524,246	2,727,313	77,072 [2]
1.2 Related to the fair value option	—	—	—
1.3 Others	—	69,643	1,572 [3]
2. Credit derivatives	—	204,891	—
2.1 Trading	—	204,891	—
2.2 Related to the fair value option	—	—	—
2.3 Others	—	—	—
Total B	524,246	3,001,847	78,644
Total (A+B)	4,805,778	3,253,877	152,259

* 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 include shares committed in securities lending transactions totalling €982,223,000.

[2] Includes €72,603,000 in options traded, with the matching amount booked as financial instruments held for trading.

[3] Includes the market value of options (30/6/18: €1.9m) matching those associated with bond issues booked as financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/values	30/6/18
A. Cash assets	
1. Debt securities	2,804,810
a) Governments and central banks	2,333,021
b) Other public-sector entities	20,680
c) Banks	120,771
d) Other issuer	330,338
2. Equity securities	1,666,561
a) Banks	118,343
b) Other issuers	1,548,218
- Insurance companies	16,939
- Financial companies	16,942
- Non financial companies	1,514,337
- Others	—
3. Units in investment funds	110,840
4. Loans	24,966
a) Governments and central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other issuer	24,966
Total A	4,607,177
B. Derivative instruments	
a) Banks	2,431,842
- Fair value	2,431,842
b) Customers	1,172,895
- Fair value	1,172,895
Total B	3,604,737
Total (A+B)	8,211,914

2.3 Financial assets designated at fair value: composition *

Items/Values	Total		
	30/6/19		
	Level 1	Level 2	Level 3
1.Debt securities	—	51,975	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	—	51,975	—
2. Loans	—	—	—
2.1 Structured	—	—	—
2.2 Others	—	—	—
Total	—	51,975	—

* 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".

These financial assets recognized at fair value, which failed the SPPI test on first-time adoption, are matched by equivalent liabilities also designated at fair value.

2.4 Financial assets designated at fair value: composition by borrower/issuer

Items/Values	**30/6/19**
1. Debt securities	51,975
a) Central Banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	51,975
of which: Insurance companies	—
e) Non financial companies	—
2. Loans	—
a) Central Banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	—
of which: Insurance companies	—
e) Non financial companies	—
f) Households	—
Total	51,975

*2.5 Other financial assets mandatorily valued at fair value: composition **

Items/Values	**30/6/19**		
	Level 1	**Level 2**	**Level 3**
1. Debt securities	489	—	3,146
1.1 Structured securities	—	—	—
1.2 Others	489	—	3,146
2. Equity instruments	—	—	—
3. Units investment funds	309,575	—	238,822
4. Loans	—	201,915	21,776
4.1 REPO	—	—	—
4.2 Others	—	201,915	21,776
Total	310,064	201,915	263,744

* 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".

This is a residual item consisting of banking book debt securities that have failed the SPPI test. The loans in particular include equity instruments deriving from the restructuring of unlikely-to-pay positions.

2.6 Other financial assets mandatorily valued at fair value: composition by borrower/issuer

Items/Values	30/6/19
1. Equity instruments	—
of which: banks	—
of which: other financial companies	—
of which: other non financial companies	—
2. Debts securities	3,635
a) Central Banks	—
b) Public sector entities	489
c) Banks	—
d) Other financial companies	3,146
of which: insurance companies	—
e) Non financial companies	—
3. Units investment funds	548,397
4. Loans	223,691
a) Central Banks	—
b) Public sector entities	—
c) Banks	—
d) Other financial companies	206,209
of which: insurance companies	—
e) Non financial companies	17,482
f) Households	—
Total	775,723

SECTION 3

Heading 30: Financial assets recognized through other comprehensive income

*3.1 Financial assets recognized at fair value through other comprehensive income: composition **

Item/Values	30/6/19		
	Level 1	Level 2	Level 3 [1]
1. Debts securities	3,507,591	240,572	—
1.1 Structured securities	—	—	—
1.2 Other	3,507,591	240,572	—
2. Equity instruments	103,451	—	32,838
3. Loans	—	—	—
Total	3,611,042	240,572	32,838

* 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 investments in unlisted companies valued based on internal models.

3.2 Financial assets at fair value with impact taken to comprehensive income: composition by borrower/issuer

Items/Values	**30/6/19**
1. Debt securities	3,748,163
a) Central Banks	—
b) Public entities	2,863,097
c) Banks	507,767
d) Other financial companies	216,529
of which: insurance companies	*131,292*
e) Non financial companies	160,770
2. Equity securities	136,289
a) Banks	114
b) Other issuers:	136,175
- other financial companies	31,371
of which: insurance companies	—
- non financial companies	104,804
- others	—
3. Loans	—
a) Central Banks	—
b) Public entities	—
c) Banks	—
d) Other financial companies	—
of which: insurance companies	—
e) Non financial companies	—
f) Households	—
Total	3,884,452

The tables below show the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 Financial assets available for sale: composition

Items/value	30/6/18		
	Level 1	Level 2	Level 3 *
1. Debt securities	4,120,642	298,863	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	4,120,642	298,863	—
2. Equity securities	239,266	—	21,478
2.1 Valued at fair value	239,266	—	21,478
2.2 Valued at cost	—	—	—
3. Units in investment funds	203,511	—	282,592
4. Loans	—	—	—
Total	4,563,419	298,863	304,070

* These include investments in unlisted companies valued on the basis of internal models.

4.2 AFS securities: composition by borrower/issuer

Items/value	30/6/18
1. Debt securities	4,419,505
a) Government and central banks	2,886,008
b) Other public sector entities	386,845
c) Banks	656,736
d) Other issuers	489,916
2. Equity securities	260,744
a) Banks	112
b) Other issuers	260,632
- Insurance companies	—
- Financial companies	24,352
- Non financial companies	236,280
- Others	—
3. Units in investment funds	486,103
4. Loans	—
a) Government and central banks	—
b) Other public sector entities	—
c) Banks	—
d) Other issuers	—
Total	5,166,352

3.3 Financial assets valued at fair value with impact taken to comprehensive income: gross value and total writedowns

	Gross value				Writedown			Write off partial total
	First stage	*of which: low credit risk **	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	3,750,003	204,812	—	—	1,840	—	—	—
Loans	—	—	—	—	—	—	—	—
Total	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	*X*	*X*	—	—	*X*	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

SECTION 4

Heading 40: Financial assets at amortized cost *

4.1 Financial assets at amortized cost: composition of due from banks

Type of transaction/Values	30/6/19					
	Book value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks	211,382	—	—	—	211,382	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	211,382	—	—	X	X	X
3. REPOs	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	21,895,297	—	—	222,033	21,497,050	622,159
1. Loans	20,874,797	—	—	—	20,682,461	622,159
1.1 Current accounts and demand deposits	708,311	—	—	X	X	X
1.2. Time deposits	389,988	—	—	X	X	X
1.3 Other loans:	19,776,498	—	—	X	X	X
- REPOs	4,482,055	—	—	X	X	X
- Finance leases	—	—	—	X	X	X
- Others	15,294,444	—	—	X	X	X
2. Debts securities	1,020,499	—	—	222,033	814,589	—
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	1,020,499	—	—	222,033	814,589	—
Total	22,106,679	—	—	222,033	21,708,432	622,159

* 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".

4.2 Financial assets at amortized cost: composition of due from customers *

Type of transaction/Values	30/6/19					
	Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	17,932,739	368,981	—	—	10,359,379	8,246,345
1.1. Current accounts	1,030,755	—	—	X	X	X
1.2 REPOs	2,550,975	—	—	X	X	X
1.3 Mortgages	12,278,257	368,981	—	X	X	X
1.4 Credit cards, personal loans and salary-backed finance	—	—	—	X	X	X
1.5 Finance lease	—	—	—	X	X	X
1.6 Factoring	—	—	—	X	X	X
1.7 Other loans	2,072,752	—	—	X	X	X
2. Debt securities	5,954,999	—	—	1,927,765	49,245	4,023,815
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities [1]	5,954,999	—	—	1,927,765	49,245	4,023,815
Total	23,887,738	368,981	—	1,927,765	10,408,624	12,270,160

* 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] €3,851,751,000 of which in relation to securitizations by Group companies (in this case Compass).

4.4 Financial assets at amortized cost: composition by borrower/issuer of due from customers

Type of transaction / Values	30/6/19		
	First and second stage	Third stage	*of which: impaired assets aquired or created*
1. Debt securities	5,954,999	—	—
a) Public Administration	1,454,675	—	—
b) Other financial company	4,284,239	—	—
of which: insurance companies	*229,762*	—	—
c) Non financial companies	216,085	—	—
2. Loans to:	17,932,739	368,981	—
a) Public Administration	103,200	—	—
b) Other financial company	9,877,374	2,034	—
of which: insurance companies	*684,511*	—	—
c) Non financial companies	7,208,670	366,947	—
d) Households	743,495	—	—
Total	23,887,738	368,981	—

4.5 Financial assets at amortized cost: gross value and total writedowns

	Gross value				Writedown			Write off partial total
	First stage	*of which: low credit risk **	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	6,950,572	170,834	28,069	—	2,739	404	—	—
Loans	38,726,272	—	331,707	509,749	33,247	5,813	140,768	—
Total 30/6/19	45,676,844	170,834	359,776	509,749	35,986	6,217	140,768	—
of which: impaired financial assets aquired or originated	*X*	*X*	—	—	*X*	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "of which" must show the gross value of the low credit risk instruments as defined by IFRS9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade

The tables below show the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

5.1 Financial assets held to maturity: composition

	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Debt securities	2,595,142	2,576,912	28,086	—
- structured	—	—	—	—
- others	2,595,142	2,576,912	28,086	—
2. Loans	—	—	—	—

5.2 Financial assets held to maturity: composition by borrower/issuer

Tipologia operazioni/Valori	30/6/18
1. Debt securities	2,595,142
a) Government and central banks	1,838,768
b) Other public sector entities	—
c) Banks	176,968
d) Other issuers	579,406
2. Loans	—
a) Government and central banks	—
b) Other public sector entities	—
c) Banks	—
d) Other issuers	—
Total	2,595,142
Total Fair Value	2,604,998

6.1 Due from banks: composition

Type of operation/Value	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
A. Due from central banks	163,515	—	163,515	—
1. Time deposits	—	X	X	X
2. Compulsory reserve	163,515	X	X	X
3. Repos	—	X	X	X
4. Others	—	X	X	X
B. Due from banks	19,389,916	—	6,456,523	12,952,352
1. Loans	19,003,904	—	6,070,511	12,952,352
1.1 Current accounts and demand deposits	597,132	X	X	X
1.2 Time deposits	51,551	X	X	X
1.3 Other loans	18,355,221	X	X	X
- Repos	4,902,337	X	X	X
- Finance lease	—	X	X	X
- Others	13,452,884	X	X	X
2. Debt securities	386,012	—	386,012	—
2.1 Structured	—	X	X	X
2.2 Others	386,012	X	X	X
Total	19,553,431	—	6,620,038	12,952,352

*7.1 Due from customers: composition **

Type of operation/Value	30/6/18					
	Book value			Fair Value		
	Performing	Non performing		Level 1	Level 2	Level 3
		Purchased	Others			
Loans [1]	14,327,748	—	343,993	—	7,136,216	6,649,518
1. Current accounts	1,029,162	—	—	X	X	X
2. Repos	446,410	—	—	X	X	X
3. Mortgages	11,198,337	—	343,993	X	X	X
4. Credit cards, personal loans and salary backed finance	—	—	—	X	X	X
5. Finance lease	—	—	—	X	X	X
6. Factoring	—	—	—	X	X	X
7. Other loans	1,653,839	—	—	X	X	X
Debt securities	4,054,257	—	—	—	—	4,053,320
8. Structured	—	—	—	X	X	X
9. Others [1]	4,054,257	—	—	X	X	X
Total	18,382,005	—	343,993	—	7,136,216	10,702,838

* 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: composition by borrower/issuer*

Type of operation/Value	**30/6/18**		
	Performing	**Non performing**	
		Purchased	**Others**
1. Debt securities	4,054,257	—	—
a) Governments	—	—	—
b) Other public sector companies	—	—	—
c) Other issuers	4,054,257	—	—
- Non financial companies	2,140	—	—
- Financial companies	4,019,298	—	—
- Insurance companies	32,819	—	—
- Others	—	—	—
2. Loans to:	14,327,748	—	343,993
a) Governments	—	—	—
b) Other public sector companies	150,762	—	—
c) Other entities	14,176,986	—	343,993
- Non financial companies	6,054,969	—	329,100
- Financial companies	6,495,032	—	14,790
- Insurance companies	655,099	—	1
- Others	971,886	—	102
Total	18,382,005	—	343,993

SECTION 5

Heading 50: Hedging derivatives

5.1 *Hedging derivatives: by hedge type and level*

	Fair Value			**Notional value**	**Fair Value**			**Notional value**
	30/6/19				**30/6/18**			
	Level 1	**Level 2**	**Level 3**	**30/6/19**	**Level 1**	**Level 2**	**Level 3**	**30/6/18**
A. Financial derivatives								
1. Fair value	—	409,863	—	15,187,647	—	235,591	—	9,953,466
2. Cash flows	—	—	—	—	—	—	—	—
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	409,863	—	15,187,647	—	235,591	—	9,953,466

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair Value							Cash-flow hedges		Net Investments on foreign subsidiaries
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets vslued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	402	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	402	—	—	—	—	—	—	—	—	—
1. Financial liabilities	409,461	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	409,461	—	—	—	—	—	—	—	—	—
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

As at 30 June 2019, the book value carried under the “Equity investments” heading totalled €3,191.8m.

7.1 Equity investments: disclosure on relationship

Company name	Legal office	Operating office	Shareholding %	Voting right %
A. Directly-held investments				
Cairn Capital Group Limited Share capital GBP 263, in par value GBP0.005 shares	London	London	100.00 *	60.80
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 (under liquidation) Share capital GBP 1.8m, 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 Share capital € 500,000 in par value € 10 shares	Luxembourg	Luxembourg	100.00	100.00
Mediobanca SGR Share capital € 10.3m, in par value € 51.65 shares	Milan	Milan	100.00	100.00
Messier Maris et Associés S.C.A. Share capital € 50,000, in par value €0.1 shares	Paris	Paris	100.00 **	66.40
MBFACTA 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 and arrangement with custmers) Share capital € 743,000, in par value € 0.52 shares	Milan	Rome	100.00	100.00
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 € 1,565.2m, in par value € 1 shares	Trieste	Trieste	12.92	12.92
Burgo Group S.p.A. Share capital € 20m, without nominal value	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 as from the third anniversary of the execution date of the transaction.

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

*** Taking into account the put and call options exercisable from the fifth anniversary of the execution date of the transaction.

7.2 Significant investments: book value, fair value and dividends received

Company name	Book value	*Fair Value*	Dividends received
A. Directly-held companies			
Cairn Capital Group Limited	37,546	n.a.	—
CheBanca! S.p.A.	383,497	n.a.	—
Compagnie Monegasque de Banque - CMB S.A.M.	372,168	n.a.	—
CMB Wealth Management S.A.M. (under liquidation)	190	n.a.	—
Compass Banca S.p.A.	765,894	n.a.	150,000
Mediobanca Innovation Services - MIS S.c.p.A.	35,020	n.a.	—
Mediobanca Management Company	3,993	n.a.	—
Mediobanca SGR	38,096	n.a.	—
Messie Maris et Associés S.C.A.	107,856	n.a.	
MBFACTA S.p.A.	120,051	n.a.	—
MB Funding Lux	831	n.a.	—
MB International (Luxembourg) S.A.	5,942	n.a.	—
MB Securities USA LLC	211	n.a.	—
Prominvestment S.p.A. (under liquidation and arrangement with customers)	—	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	2,260,664	182,442
Burgo Group S.p.A.	—	n.a.	—
Istituto Europeo di Oncologia S.r.l.	38,995	n.a.	—
Total	3,191,844		

For an illustration of the reasons why an investee company is considered to be subject to joint control or significant influence, please refer to section 3, Part A – “Accounting Policies”.

7.3 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	—	3,909	9,414	—	1,008	16,477	(161)	(141)	(5,663)	(4,795)	—	(4,795)	—	(4,795)
CheBanca! S.p.A.	98,948	21,125,428	267,284	15,032,061	16,036	297,566	210,895	(7,458)	26,149	17,230	—	17,230	(193)	17,037
Compagnie Monegasque de Banque - CMB S.A.M.	3,217	4,252,293	18,710	3,430,943	—	89,072	40,775	(3,632)	34,224	28,938	—	28,938	—	28,938
CMB Wealth Management UK (under liquidation)	—	136	—	—	—	—	—	—	90	90	—	90	—	90
Compass Banca S.p.A.	3,568	12,612,402	664,216	18,032	28,824	832,701	841,081	(2,415)	410,706	274,347	—	274,347	(19,396)	254,951
Mediobanca Innovation Services - MIS S.c.p.A.	—	18,707	41,733	—	2,267	—	—	(11,966)	168	1	—	1	(17)	(16)
Mediobanca Management Company	1	7,034	4,829	—	387	4,294	—	(3)	1,548	915	—	915	—	915
Mediobanca SGR	2	22,132	11,111	—	687	20,406	—	(5)	6,601	4,480	—	4,480	25	4,505
Messier Maris et Associés S.C.A.	—	8,786	3,666	10	—	5,311	—	(23)	296	296	—	296	—	296
MBFACTA S.p.A.	—	1,997,155	6,026	7,122	9,259	52,097	47,745	(7)	28,110	18,908	—	18,908	(12)	18,896
MB Funding Lux S.A.	—	10,237	798	—	10,051	—	16,947	—	—	—	—	—	—	—
MB International (Luxembourg) S.A.	1	7,871,471	17,122	243,572	4,136,318	17,892	12,218	(4)	4,321	3,222	—	3,222	—	3,222
MB Securities USA LLC	—	5,859	263	—	—	2,444	—	(23)	308	202	—	202	—	202
Prominvestment S.p.A. (under liquidation and arrangement with customers)	—	390	31	—	—	(9)	(8)	—	(151)	(151)	—	(151)	—	(151)
RAM Active Investments S.A.	—	10,496	14,081	—	478	31,818	(72)	(88)	12,635	9,448	—	9,448	—	9,448
Ricerche e Studi S.p.A.	1	686	56	—	193	—	—	—	14	9	—	9	(11)	(2)
SelmaBipiemme Leasing S.p.A.	5	1,997,296	56,570	11,633	28,824	40,950	39,961	(2,053)	6,622	5,326	—	5,326	287	5,613
Spafid S.p.A.	2	32,061	9,159	—	784	9,354	2	(388)	35	27	—	27	(38)	(11)
B. Companies subject to significant influence														
Assicurazioni Generali S.p.A.	X	412,228,000	96,902,000	38,540,000	452,644,000	74,699,000	X	X	3,450,000	2,324,000	173,000	2,497,000	(2,564,000)	(67,000)
Burgo Group S.p.A.	X	503,161	989,811	1,064,750	181,089	1,882,537	X	X	11,364	9,909	—	9,909	1,272	11,181
Istituto Europeo di Oncologia S.r.l.	X	106,016	113,669	84,079	65,610	348,474	X	X	10,812	8,321	—	8,321	—	8,321

* All figures are in Euros, including those for the non-Italian subsidiaries.

** Refers to interim results; total income as stated in financial statements.

The following significant events took place in the year under review:

On 10 April 2019, Mediobanca acquired a 66.4% stake in the share capital of Messier Maris & Associés(MMA), a French company specializing in M&A activities for mid-cap to large corporates and a wide range of financial sponsors, as well as in debt and capital advisory and debt restructuring activities.

The deal was structured in such a way as to retain the involvement of the founding partners, who will continue to run the company and are fully committed to developing its future growth. The acquisition was paid for in full from Mediobanca shares acquired as part of the buyback scheme in progress. Accordingly, a total of 11.6 million Mediobanca shares (or 1.3% of its share capital) valued at the stock market price recorded on 12 April 2019 was delivered, equivalent to a consideration for the transaction totaling €107.9m. A put-and-call option was also taken out which will allow the stake to be increased to 100%.

Also completed during the twelve months under review was the buyout of certain minority interests in Cairn Capital Group Limited, bringing Mediobanca's stake up from 51% to 60.8%. The cost of the interests acquired was €4.1m (£3.5m).

A partial repayment was made to Group company CMB Wealth Management, in an amount of €1.4m (£1.2m).

Both Quarzo MB S.r.l. and MB Advisory Kurumsal Danismanlik Hizmetleri, the Turkish subsidiary in extraordinary administration, entered liquidation during the twelve months under review.

The Assicurazioni Generali investment continues to be recognized at cost.

The book value of the investments in CheBanca!, Mediobanca SGR, Cairn Capital Group Limited and RAM Active Investments SA have been tested for impairment, with no evidence of any loss of value on them emerging *.

7.5 Equity investments: movements during the year

	30/6/19	30/6/18
A. Opening balance	3,084,158	3,056,998
B. Increases	113,351	222,509
B.1 Purchases	109,131	221,836
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	4,220	673
C. Decreases	5,665	195,349
C.1 Sales	—	195,349
C.2 Adjustments	—	—
C.3 Other changes	5,665	—
D. Closing balance	3,191,844	3,084,158
E. Total revaluations	—	—
F. Total adjustments	820,806	820,806

* For further details see Section 7 of Consolidated financial statements.

SECTION 8

Heading 80 - Property, plant and equipment

8.1 Core assets: composition of assets stated at cost

Activities/Values	Total 30/6/19	Total 30/6/18
1. Property assets	90,293	91,645
a) lands	67,897	67,897
b) buildings	18,345	19,245
c) furniture	824	921
d) electronic system	1,424	1,539
e) other	1,803	2,043
2. Leased assets	—	—
a) lands	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic system	—	—
e) other	—	—
Total	90,293	91,645
of which: arising from the recovery of guarantees received	—	—

8.2 Assets held for investment purposes: composition of assets stated at cost

Activities/Values	Total 30/6/19				Total 30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	24,884	—	—	94,174	25,162	—	—	94,077
a) lands	20,350	—	—	74,474	20,350	—	—	74,103
b) buildings	4,534	—	—	19,700	4,812	—	—	19,974
2. Leased assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	24,884	—	—	94,174	25,162	—	—	94,077
of which: arising from the recovery of guarantees received	—	—	—	—	—	—	—	—

8.6 Core properties: movements during the period

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	67,897	41,491	8,342	8,695	23,951	150,376
A.1 Total net reduction value	—	(22,246)	(7,421)	(7,156)	(21,908)	(58,731)
A.2 Net opening balance	67,897	19,245	921	1,539	2,043	91,645
B. Increase:	—	428	163	331	463	1,385
B.1 Purchasing	—	—	163	331	454	948
B.2 Capitalised expenditure on improvements	—	428	—	—	—	428
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	—	—	—	9	9
C. Decrease:	—	1,328	260	446	703	2,737
C.1 Sales	—	—	17	—	—	17
C.2 Amorization	—	1,245	243	446	703	2,637
C.3 Impairment losses allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative exchange difference	—	—	—	—	—	—
C.6 Transfer to:	—	—	—	—	—	—
a) held for sale investment	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	83	—	—	—	83
D. Net closing balance	67,897	18,345	824	1,424	1,803	90,293
D.1 Total net write-down	—	(23,491)	(7,443)	(7,600)	(22,637)	(61,171)
D.2 Final gross balance	67,897	41,836	8,267	9,024	24,440	151,464
E. Carried at cost	—	—	—	—	—	—

8.7 Assets held for investment purposes: movements during the period

	Total	
	Lands	**Buildings**
A. Opening balance	20,350	4,812
B. Increase	—	140
B.1 Purchasing	—	—
B.2 Capitalised expenditure on improvements	—	57
B.3 Positive changes in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange differences	—	—
B.6 Transfer from investment properties	—	—
B.7 Other adjustment	—	83
C. Decrease	—	418
C.1 Sales	—	—
C.2 Amortization	—	418
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C5 Negative exchange difference	—	—
C.6 Transfer to:	—	—
a) held for sale investments	—	—
b) non-current assets and group of assets held for sale;	—	—
C.7 Other adjustment	—	—
D. Closing balance	20,350	4,534
E. Measured at fair value	74,474	19,700

SECTION 9

Heading 90: Intangible assets

9.1 Intangible assets: composition

Activities/Values	30/6/19		30/6/18	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	12,514	X	12,514
A.2 Other intangible asset	4,461	15,490	10,626	15,490
A.2.1 Assets valued at cost	4,461	15,490	10,626	15,490
a) intangible assets generated internally	—	—	—	—
b) other assets	4,461	15,490	10,626	15,490
A.2.2 Assets valued at fair value	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	4,461	28,004	10,626	28,004

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.

The value of the brand and goodwill have been tested for impairment, but no need emerged for adjustments to be made.

9.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	12,514	—	—	95,878	15,490	123,882
A.1 Reductions of total net value	—	—	—	(85,252)	—	(85,252)
A.2 Net opening balance	12,514	—	—	10,626	15,490	38,630
B. Increases	—	—	—	743	—	743
B.1 Purchases	—	—	—	179	—	179
B.2 Increments of internal intagible assets	X	—	—	—	—	—
B.3 Value recoveries	X	—	—	564	—	564
B.4 Positive variations of fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other variations	—	—	—	—	—	—
C. Decreases	—	—	—	6,908	—	6,908
C.1 Sales	—	—	—	27	—	27
C.2 Value adjustment	—	—	—	6,881	—	6,881
- Amortisations	X	—	—	6,881	—	6,881
- Depreciations	—	—	—	—	—	—
+ net equity	X	—	—	—	—	—
+ P&L statement	—	—	—	—	—	—
C.3 Negative variations of fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
C.4 Transfer to non-current assets	—	—	—	—	—	—
C.5 Negative exchange differrences	—	—	—	—	—	—
C.6 Other variations	—	—	—	—	—	—
D. Net final surplus	12,514	—	—	4,461	15,490	32,465
D.1 Adjustment of net total values	—	—	—	(91,570)	—	(91,570)
E. Gross final surplus	12,514	—	—	96,032	15,490	124,035
F. Evaluation at cost	—	—	—	—	—	—

SECTION 10

Asset heading 100 and Liability heading 60: Tax assets and liabilities

10.1 Advance tax assets: composition

	Total 30/6/19	**Total 30/6/18**
- P&L Exchange	82,710	92,422
- Patrimony exchange	5,441	9,928
Total	88,151	102,350

10.2 Deferred tax liabilities: composition

	Total 30/6/19	**Total 30/6/18**
- P&L Exchange	205,063	203,254
- Patrimony exchange	26,427	54,927
Total	231,490	258,181

Tax assets and liabilities reflect the effects of IFRS9 first-time adoption; for further details, see Part A of the Notes to the Accounts and/or the "Report on transition to IFRS9" published on the Group's website at www.mediobanca.com.

10.3 Changes in advance tax during the period

	Total 30/6/19	Total 30/6/18
1. Initial amount	92,422	107,998
2. Increase	28,022	14,007
2.1 Anticipated levy observed in fiscal year	28,022	1,648
a) related to previous fiscal year	—	—
b) due to changes in accountable parameters	—	—
c) recovery of value	—	—
d) others	28,022	1,648
2.2 New levies or increases in fiscal rates	—	—
2.3 Other increases	—	12,359
3. Decreases	37,734	29,583
3.1 Anticipated levies cancelled in fiscal year	37,734	29,583
a) reversals of temporary differences	37,734	29,583
b) devaluation for appeared irrecoverability	—	—
c) changes in accountable parameters	—	—
d) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
a) trasformation in levy credits of which law n.214/2011	—	—
b) others	—	—
4. Final amount	82,710	92,422

*10.3bis Changes in advance tax (pursuant to Italian Law 214/11) **

	Total 30/6/19	Total 30/6/18
1. Initial amount	50,323	54,950
2. Increases	—	682
- of which: business combinations	—	*682*
3. Decreases	—	5,309
3.1 Reversals of temporary differences	—	4,698
3.2 Transformation in levy credits	—	—
a) deriving from losses of the fiscal year	—	—
b) deriving from fiscal losses	—	—
3.3 Other decreases	—	611
4. Final amount	50,323	50,323

* Italian decree law 59/16 on 29 April 2016 on deferred tax receivable pursuant to Italian decree law 214/11, as amended by Italian decree law 237/16, provides that in order to be able to retain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be specifically exercised, which involves payment of an annual instalment equal to 1.5% of the difference between the increase in advance tax assets at the reporting date since 30 June 2008 and the tax paid during the same period each year until 2029. Mediobanca has exercised this option in order to retain the possibility of converting DTAs for all companies adhering to the tax consolidation. No payment shall be due in this respect, however, given that the payments made to the tax consolidation exceed the increase in DTAs recorded since 30 June 2008.

10.4 Changes in deferred tax during the period (balancing to profit and loss)

	Total 30/6/19	Total 30/6/18
1. Initial amount	203,254	212,536
2. Increase	95,568	597
2.1 Defered levies observed in the fiscal year	—	—
a) related to precedent fiscal year	—	—
b) due to change in accountability parameters	—	—
c) others	—	—
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	95,568	597
3. Decreases	93,759	9,879
3.1 Defered levies cancelled in the fiscal year	93,759	9,879
a) reversals of temporary differences	93,759	9,879
b) due to changes in accountable parameters	—	—
c) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
4. Final amount	205,063	203,254

The changes chiefly involve restatement of taxes following the adoption of IFRS9.

*10.5 Changes in advance tax during the period (balancing to net equity) **

	Total 30/6/19	Total 30/6/18
1. Initial amount [1]	22,362	5,855
2. Increases	19,283	12,808
2.1 Anticipated levies observed in fiscal year	19,283	12,581
b) related to previous fiscal years	—	—
b) due to changes in accountable parameters	—	—
c) others	19,283	12,581
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	—	227
- of which: business combinations	—	*227*
3. Decreases	36,204	8,735
3.1 Anticipated levies cancelled in the fiscal year	36,204	8,735
a) reversals of temporary differences	36,204	8,735
b) devaluation for appeared irrecoverability	—	—
c) due to changes in accountable parameters	—	—
d) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
- of which: business combinations	—	—
4. Final amount	5,441	9,928

* Taxes on cash flow hedges, adjustments due to IFRS 9 FTA, and valuations of financial instruments recognized at FVOCI.

[1] Initial balance as at 31/12/19 includes the effects of FTA of the new financial reporting standards.

10.6 Changes in deferred tax during the period (balancing to net equity)

	Total 30/6/19	Total 30/6/18
1. Initial amount [1]	59,363	77,838
2. Increases	95,641	254,898
2.1 Defered levies observed in fiscal year	95,641	253,687
a) related to previous fiscal year	—	—
b) due to changes in accountable parameters	—	—
c) others	95,641	253,687
2.2 New levies or increases in fiscal rates	—	—
2.3 Other increases	—	1,211
3. Decreases	128,577	277,809
3.1 Anticipated levies cancelled in fiscal year	128,577	277,809
a) reversals of temporary differences	128,577	277,809
b) due to changes in accountable parameters	—	—
c) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
4. Final amount	26,427	54,927

[1] Initial balance as at 30/6/19 includes the effects of FTA of the new financial reporting standards.

The change is mainly due to taxes being restated as a result of IFRS9 first-time adoption.

SECTION 12

Heading 120: Other assets

12.1 Other assets: composition

	30/6/19	30/6/18
1. Accrued income other than capitalized income from financial assets	1,890	12,791
2. Trade receivables or invoices to be issued	44,352	41,253
3. Amounts due from tax revenue authorities (not recorded under Heading 140)	51,980	32,295
4. Other items:	122,892	10,561
- futures and other securities transactions	168	938
- advance payments on deposit commissions	—	—
- other items in transit [1]	57,422	6,857
- amounts due from staff	237	226
- improvements on third parties' assets	1,626	1,846
- fiscal consolidated [2]	51,879	—
- group VAT	3,204	—
- sundry other items [3]	8,356	694
Total Other Assets	221,114	96,900

[1] Chiefly attributable to the Private Banking division.

[2] This refers to the amount receivable upon tax consolidation, which is higher than last year as previously it was classified in “Other liabilities” as an amount payable in connection with tax consolidation.

[3] Includes €6,570,000 in accrued income.

Liabilities

SECTION 1

Heading 10: Financial liabilities recognized at amortized cost

1.1 Financial liabilities recognized at amortized cost: composition, due to banks

Type of transaction/Values	30/6/19				30/6/18			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	4,367,257	X	X	X	4,384,592	X	X	X
2. Due to banks	24,830,294	X	X	X	21,134,627	X	X	X
2.1 Current accounts and on demand deposits	14,778,186	X	X	X	13,320,028	X	X	X
2.2 Deposits to maturity	2,238,912	X	X	X	1,729,319	X	X	X
2.3 Loans	7,306,000	X	X	X	5,941,371	X	X	X
2.3.1. Reverse repos	4,482,590	X	X	X	4,224,600	X	X	X
2.3.2. Other	2,823,410	X	X	X	1,716,771	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Other liabilities	507,196	X	X	X	143,909	X	X	X
Total	29,197,551	—	29,197,551	—	25,519,219	—	25,519,219	—

1.2 Financial liabilities recognized at amortized cost: composition, due to customers

Type of transaction/Value	30/6/19				30/6/18			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	4,244,821	X	X	X	3,129,363	X	X	X
2. Time deposits	1,224,167	X	X	X	62,644	X	X	X
3. Loans	669,611	X	X	X	931,850	X	X	X
3.1 Reverse repos	471,387	X	X	X	806,937	X	X	X
3.2 Other	198,224	X	X	X	124,913	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Other liabilities	1,425	X	X	X	326	X	X	X
Total	6,140,024	—	6,140,024	—	4,124,183	—	4,124,183	—

1.3 Financial liabilities recognized at amortized cost: composition, debt securities in issue

Type of transaction/Value	30/6/19				30/6/18			
	Book value	Fair Value *			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt securities								
1. bonds	15,953,500	—	16,241,310	—	16,777,290	—	17,108,510	—
1.1 structured	3,950,844	—	4,125,394	—	5,021,049	—	5,145,546	—
1.2 other	12,002,656	—	12,115,916	—	11,756,241	—	11,962,964	—
2. other securities	48,237	—	—	48,237	49,719	—	—	49,719
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	48,237	—	—	48,237	49,719	—	—	49,719
Total	16,001,737	—	16,241,310	48,237	16,827,009	—	17,108,510	49,719

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2019 would show a gain of €185.5m (€251.2m).

Debt securities in issue declined from €16,777,290,000 to €15,953,499,000, on new issuance of €2.5bn, redemptions and buybacks of €3.5bn (generating gains of €6.9m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €26.3m.

1.4 Breakdown of debt securities/subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,452,216,000:

Issue	30/6/19		
	ISIN	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,475
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	651,652
MB OPERA 3.75 2026	IT0005188351	299,820	307,309
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	394,424
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,897
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	541,459
Total subordinated issues		2,351,944	2,452,216

SECTION 2

Heading 20: trading liabilities

2.1 Trading liabilities: composition

Operation type / Values	30/6/19				
	Notional value	Fair Value			Fair Value *
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X
3.2.2 Other	—	—	—	—	X
Total (A)	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments					
1. Financial derivatives		650,530	1,666,824	249,777	2,567,131
1.1 Trading	X	650,530	1,608,327	247,959 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Other	X	—	58,497	1,818 [2]	X
2. Credits derivatives		—	1,415,702	—	1,415,702
2.1 Trading	X	—	1,415,702	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Other	X	—	—	—	X
Total (B)	X	650,530	3,082,526	249,777	X
Total (A+B)	X	4,948,023	3,082,526	249,777	X

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

[1] Including €235,984,000 for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value of options (€0.5m as at 30/6/19) covering others attached to bonds issued, matching the amount booked as financial assets held for trading.

The table below shows the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 Trading liabilities: composition

Type of transactions/Values	**30/6/18**				
	Nominal value	**Fair Value**			**Fair Value ***
		Level 1	**Level 2**	**Level 3**	
A. Cash liabilities					
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210
2. Deposits from customers	213,819	246,452	—	—	246,452
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 structured	—	—	—	—	X
3.1.2 other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 structured	—	—	—	—	X
3.2.2 other bonds	—	—	—	—	X
Total A	2,295,648	2,645,662	—	—	2,645,662
B. Derivative instruments					
1. Financial derivatives	—	561,257	1,983,295	87,131	2,631,683
1.1 Trading	X	561,257	1,896,136	83713 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Others	X	—	87,159	3418 [2]	X
2. Credit derivatives	—	—	1,233,135	—	1,233,135
2.1 Trading	X	—	1,233,135	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Others	X	—	—	—	X
Total B	X	561,257	3,216,430	87,131	X
Total (A + B)	X	3,206,919	3,216,430	87,131	X

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

[1] Respectively €72,603,000 for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value (€1.9m at 30/6/18) of options covering those attached to bonds issued, matching the amount booked as financial assets held for trading.

SECTION 3

Heading 30: Financial liabilities recognized at fair value

3.1 Financial liabilities recognized at fair value; composition

Type of transaction/Values	Total 30/6/19				
	Book Value	Fair value			Fair value *
		Level 1	Level 2	Level 3	
1. Debts to banks	—	—	—	—	—
1.1 Structured	—	—	—	—	X
1.2 Others	—	—	—	—	X
of which:					
- obligation to distribute funds	—	*X*	*X*	*X*	*X*
- financial release warranties	—	*X*	*X*	*X*	*X*
2. Debts to clients	—	—	—	—	—
2.1 Structured	—	—	—	—	X
2.2 Others	—	—	—	—	X
of which:					
- obligation to distribute funds	—	*X*	*X*	*X*	*X*
- financial release warranties	—	*X*	*X*	*X*	*X*
3. Debt securities	50,000	—	55,859	—	55,859
3.1 Structured	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X
Total	50,000	—	55,859	—	55,859

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

The above financial liabilities recognized at fair value are matched by equivalent financial assets also recognized at fair value.

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by type of hedge/ranking

	Notional value 30/6/19	Fair value 30/6/19			Notional value 30/6/18	Fair value 30/6/18		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	9,946,692	—	184,650	—	9,235,466	—	220,713	—
1) Fair value hedges	9,946,692	—	184,650	—	9,235,466	—	220,713	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	9,946,692	—	184,650	—	9,235,466	—	220,713	—

4.2 Hedging derivatives: composition by portfolio hedged/hedge type

Transactions/Type of hedge	Fair Value							Cash flow		Foreign invest.
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken on comprehensive income	63,980	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	28,415	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4 Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	92,395	—	—	—	—	—	—	—	—	—
1. Financial liabilities	92,255	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	92,255	—	—	—	—	—	—	—	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see Asset section 10

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/19	30/6/18
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements [1]	—	23,658
3. Working capital payables and invoices pending receipt	44,183	33,645
4. Prepayments other than those capitalized on related financial assets	2,917	3,509
5. Amounts due to revenue authorities	33,979	26,226
6. Amounts due to staff	142,053	119,030
7. Other items:	87,207	71,789
- bins for collection	—	—
- coupons and dividends pending collection	2,372	2,324
- avaible sums payable to third parties	6,782	4,489
- premiums, grants and other items in respect of lending transactions	70	—
- fiscal consolidation [2]	3,731	63,918
- other	74,252	1,058
Total	310,339	277,857

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as “Other liabilities”, are now stated as “Provisions”.

[2] This refers, as at 30 June 2018, to the amount payable in respect of tax consolidation, which has decreased since last year due to having been classified under “Other assets” as amount receivable in respect of tax consolidation.

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	Total 30/6/19
A. Opening balance	7,723
B. Increases	896
B.1 Provision of the year [1]	153
B.2 Other increases	743
C. Reductions	750
C.1 Liquidations performed	522
C.2 Other reductions	228
D. Closing balance	7,869
Total	7,869

[1] This refers, as at 30 June 2019, to the amount transferred to the severance provision held at the Italian state pension authority treasury.

9.2 Other information

The staff severance indemnity provision, calculated in accordance with the provisions of the Italian Civil Code, amounts to €7,055,000 (30/6/18: €7,259,000); no new service costs accrued for the year.

The staff severance indemnity provision is a defined benefit scheme, and the actuarial model used to account for it relies on a series of assumptions, both demographic and economic in nature.

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2019 has been used for similar companies to those being valued (equal to 0.77%), while the inflation rate is 1.50%.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Values	30/6/19	30/6/18
1. Funds for credit risk related to financial obligations and warranties [1]	21,954	—
2. Funds on other obligations and warranties release	—	—
3. Funds of business retirement	—	—
4. Other funds for risks and obligations	96,159	97,786
4.1. legal and fiscal controversies	—	—
4.2. obligations for employees	2,658	3,834
4.3. others	93,501	93,952
Total	118,113	97,786

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as "Other liabilities", are now stated as "Provisions".

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 2019, the heading "Other provisions" totalled €118.1m, and includes €22m in commitments to disburse funds and financial guarantees issued (which until last year were accounted for as other liabilities), €2.7m in in staff-related expenses (which last year reflected €1.4m in withdrawals), and €93.5m for litigation and other contingent liabilities.

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 participation in the alleged damages caused by 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 29 October 2019;

– 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 unduly favourable guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. Judgement is currently pending at the court of Milan; the next hearing – for the taking up of any means of test – has been set for 19 November 2019.

With reference to the disputes outstanding with the Italian revenue authorities, during the period under review Mediobanca S.p.A. received notification of the alleged failure to apply the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion. In particular, the notice of assessment regards the alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest). The same charge was made in a report of findings for FY 2014-15 (2014 earnings), [11] for which no notice of assessment has yet been issued. The company is convinced there has been no wrongdoing, and has challenged the rulings and is waiting to hear when the appeal session will take place. Furthermore, since 2016 both Group companies have paid income tax in the Principality of Monaco, meaning they would be excluded from application of the CFC regulations.

In addition to the cases described above, there were two other disputes outstanding at 30 June 2019:

– One claim regards 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 paid the disputed amount accordingly; however, an appeal is still pending at the Court of Cassation;

[11] The allegation involved the failure to apply withholding tax to interest expense payable in connection with a secured financing transaction.

– The other claim involves the alleged failure to apply withholding tax to a medium-/long-term loan executed outside Italy, involving a notified higher amount of €375,000 in tax; the Bank was successful at the second stage of the ruling process, but the Italian tax authority has appealed to the Court of Cassation where the case is still pending.

On 26 June 2019, Mediobanca received a tax collection notice following an automatic check carried out on Banca Esperia's Unico tax return. The Bank has taken steps to defend itself and will appeal against the notice before the tax commission.

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca.

10.2 Provisions for risks and charges: changes during the period

	Provisions on commitments and other guaranties given	Pensions and post retirement benefit obligations	Other risk and obligation funds	Total
A. Initial existence	—	—	97,786	97,786
B. Increases	—	—	276	276
B.1. Reserve of the fiscal year	—	—	276	276
B.2. Variation due to pass of time	—	—	—	—
B.3. Variation due to modifies of discount rate	—	—	—	—
B.4. Other variations	—	—	—	—
C. Decreases	—	—	1,903	1,903
C.1. Use in the exercise	—	—	1,903	1,903
C.2. Variations due to modifies of discount rate	—	—	—	—
C.3 .Other variations	—	—	—	—
D. Final surplus	—	—	96,159	96,159

10.3 Provisions in respect of commitments and financial guarantees issued

	Provisions for credit risk related to financial obligation and warranties release			
	First stage	Second stage	Third stage	Total
1. Obligation to distribute funds	2,934	37	2,153	5,124
2. Financial warranties release	12,239	4,591	—	16,830
Total	15,173	4,628	2,153	21,954

SECTION 12

Headings 110, 130, 140, 150, 160, 170 and 180: Net equity

12.1 "Capital" and "Treasury shares": composition

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

On 8 November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the "CRR") on 23 October 2018. The buyback involves a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 30 June 2019, a total of 15.3 million shares have been purchased, for an outlay of €162.5m. Since the year-end a further 99,000 have been purchased, for an outlay of €0.9m.

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

Item/Type	**Ordinary**
A. Shares in issue at start of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—
A.1 Treasury shares (-)	(8,714,833)
A.2 Shares in issue: balance at start of period	877,835,607
B. Additions	14,122,756
B.1 New shares issuance as a result of:	665,737
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	665,737
- to staff members	665,737
- to Board members	—
- others	—
B.2 Treasury shares' disposals	13,457,019
B.3 Other additions	—
C. Reductions	(20,088,481)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(20,088,481)
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	871,869,882
D.1 Add: treasury shares	(15,346,295)
D.2 Shares in issue at end of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—

12.3 Share capital: other information

The change in treasury shares is due to the launch of the buyback scheme approved by shareholders at the annual general meeting held on 27 October 2018, which involved the acquisition of 20.1 million shares for an outlay of €162.5m, and the use of 13.4 million shares, 11.6 million of which to acquire Messier Maris & Associés. During the year under review, a total of 1,827,063 treasury shares were awarded in connection with the performance share scheme; as at 30 June 2019, there were no other treasury shares tied to awards of any kind.

12.4 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	443,608	—	—	—	—
Share premium reserve	2,195,606	A – B – C	2,195,606	—	—
Reserves:					
- Legal reserve	88,704	B	88,704	—	—
- Statutory reserve	1,157,437	A – B – C	1,157,437	—	143,217
- Treasury share reserve	141,989	—	—	—	—
- Other reserves	829,535	A – B – C	829,535	—	—
- Valuation reserves					
- FVOCI valuation reserve	83,723	—	—	—	—
- Cash flow hedges	(3,432)	—	—	—	—
- Special revaluation laws	9,632	A – B – C	9,632	—	—
- Defined benefit plans	(4,179)	—	—	—	—
- Treasury shares	(141,989)				
Total	4,800,634	—	4,280,914	—	143,217
Portion unavailable	—	—	88,704	—	—
Remainder distributable	—	—	4,192,210	—	—

Legend:
A: Due to rights issues
B: To cover losses
C: Distribution to shareholders.

Other information

1. Guarantees and commitments (other than those recognized at fair value)

	Nominal value of commitments and financial guarantees given			30/6/19
	First stage	Second stage	Third stage	
1. Commitment to disburse funds	11,240,535	2,525	14,821	11,257,881
a) Central Banks	—	—	—	—
b) Public Administration	4,069,826	—	—	4,069,826
c) Banks	705,928	—	—	705,928
d) Other financial companies	1,141,969	—	—	1,141,969
e) Non-financial companies	5,102,687	2,525	14,821	5,120,033
f) Families	220,125	—	—	220,125
2. Financial guarantees given	7,282,854	76,680	47	7,359,581
a) Central Banks	—	—	—	—
b) Public Administration	—	—	—	—
c) Banks	3,412,618	—	—	3,412,618
d) Other financial companies	1,332,440	—	—	1,332,440
e) Non-financial companies	2,530,812	76,680	47	2,607,539
f) Families	6,984	—	—	6,984

2. Other commitments and guarantees issued

	Nominal value Total 30/6/19
1. Other guarantees issued	136,790
of which: impaired	—
a) Central Banks	—
b) Public Administration	—
c) Banks	25,083
d) Other financial companies	19,519
e) Non-financial companies	27,852
f) Families	64,336
2. Other commitment	—
of which: impaired	—
a) Central Banks	—
b) Public Administration	—
c) Banks	—
d) Other financial companies	—
e) Non-financial companies	—
f) Families	—

The table below shows the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1. Guarantees and commitments

Operations	**30/6/18**
1) Financial guarantees given to	6,127,832
a) Banks	2,554,934
b) Customers	3,572,898
2) Commercial guarantees given to	77,160
a) Banks	19,598
b) Customers	57,562
3) Irrevocable commitments to disburse funds	10,234,617
a) Banks	1,118,165
i) usage certain	1,118,165
ii) usage uncertain	—
b) Customers	9,116,452
i) usage certain	8,286,231
ii) usage uncertain	830,221
4) Commitments underlying credit derivatives: protection sales [1]	19,593,735
5) Assets formed as collateral for third-party obligations	—
6) Other commitments	3,094,714
Total	39,128,058

[1] Includes transactions fully matched by hedge buys (€9,075,742,000).

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	**Amounts 30/6/19**
1. Financial assets valued to fv with impact taken to profit and loss	5,073,206
2. Financial assets valued to fv with impact taken other comprehensive income	1,996,773
3. Financial assets valued to amortized cost	6,144,500
4. Tangible assets	—
of which: tangible assets that constitue surplus	—

The table below shows the data stated in accordance with IAS39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

2. Assets established as collateral to secure own liabilities and commitments

Portfolio	30/6/18
1. Financial instruments held for trading	3,089,233
2. Financial instruments designated at fair value	—
3. Financial instruments available for sale	1,823,019
4. Financial instruments held to maturity	1,262,240
5. Loans and receivables with banks	691,165
6. Loans and receivables with customers	4,966,219
7. Property, plant and equipments	—

5. Assets managed and traded on behalf of third parties

Type of service	Total 30/6/19	Total 30/6/18
1. Order execution on behalf of client		
a) purchases	14,820,923	16,781,419
1. regulated	14,711,791	16,633,525
2. non-regulated	109,132	147,894
b) sales	14,199,338	16,400,547
1. regolated	14,090,206	16,252,653
2. non regolated	109,132	147,894
2. Individual portfolios management		
a) individual	4,119,329	3,864,382
b) collective	—	—
3. Bonds custody and management		
a) bonds of third parties in depository	12,423,169	8,894,582
1. bonds issued by bank preparing the financial statements	160,049	194,759
2. other bonds	12,263,120	8,699,823
b) bonds of third parties in depository: others	4,703,943	5,054,619
1. bonds issued by bank preparing the financial statements	—	—
2. other bonds	4,703,943	5,054,619
c) Bonds of third parties in own depository	13,048,737	13,673,186
d) own bonds in depository at third parties	14,223,136	14,371,868
4. Other operations	1,702,426	1,934,851

[1] Entirely attributable to the Private Banking division.

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities compensated in balance sheet (b)	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e) 30/6/19	Net amounts (f=c-d-e) 30/6/18
				Financial instruments (d)	Cash deposit received in guarantee (e)		
1. Derivatives	2,821,219	279,269	2,541,950	1,638,023	28,730	875,197	448,849
2. Repo's	7,033,030	—	7,033,030	7,033,030	—	—	—
3. Stocks loan	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/19	9,854,249	279,269	9,574,980	8,671,053	28,730	875,197	X
Total 30/6/18	8,560,288	—	8,560,288	7,744,542	366,897	X	448,849

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

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets compensed in BS (b)	Net amount of the financial liabilities reportes in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e) 30/6/19	Net amount (f=c-d-e) 30/6/18
				Financial instruments (d)	Cash deposit placed to warrant (e)		
1. Derivatives	2,251,364	—	2,251,364	1,638,023	393,766	219,575	233,658
2. Repos	4,953,977	—	4,953,977	4,953,977	—	—	—
3. Stocks loan	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/19	7,205,341	—	7,205,341	6,592,000	393,766	219,575	X
Total 30/6/18	8,161,886	49,050	8,112,836	7,427,332	451,846	X	233,658

8. Securities lending operations

The tables below illustrate the Group's operations in securities lending (and borrowing), broken down by type of instrument (sovereign debt, bank bonds and others), market counterparty (banks, financial intermediaries and clients) and form (loan secured by cash, other instruments, or unsecured).

Securities lending transactions for which collateral is put up in the form of cash fully available to the borrower are represented in the balance sheet as amounts due to or from banks or customers under the heading "Repos". Securities lending transactions for which collateral is put up in the form of other instruments, or which are unsecured, are represented as "Off-balance-sheet exposures". Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2019, in 52% the counterparty was three major banking groups, and in another 25% the deals involved other Group companies.

Type of securities lending operations	Type of securities		
	Sovereign debt	Bank bonds	Others
1. Securities borrowedsecured by cash - Due from:	613,777	314,712	401,007
a) Banks	612,808	309,775	351,902
b) Financial intermediaries	969	4,937	41,993
c) Clients	—	—	7,112
2. Securities lend secured by cash - Due to:	(422,226)	(102,199)	(906,691)
a) Banks	(422,226)	(36,644)	(818,099)
b) Financial intermediaries	—	(65,555)	(88,592)
c) Clients	—	—	—
Total lending securities (book value)	191,551	212,513	(505,684)

Type of securities lending operations	Type of securities		
	Sovereign debt	Bank bonds	Others
1. Securities borrowed by other instruments or unsecured:	2,248,654	588,000	1,541,022
a) Banks	552,110	588,000	1,376,632
b) Financial intermediaries	1,599,298	—	164,209
c) Clients	97,246	—	181
2. Securities lend secured by other instruments or unsecured:	(3,068,746)	(966,853)	(1,456,037)
a) Banks	(2,050,476)	(436,582)	(747,535)
b) Financial intermediaries	(1,018,270)	(530,271)	(708,502)
c) Clients	—	—	—
Total lending securities (fair value)	(820,092)	(378,853)	84,985

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

Items/Technical forms	Debt securities	Loans	Other operations	12 mths ended 30/6/19
1. Financial assets at fair value with impact taken to P&L:	30,528	2,751	—	33,279
1.1 Financial assets held for trading	28,516	429	—	28,945
1.2 Financial assets designated at fair value	1,416	—	—	1,416
1.3 Other financial assets mandatorly at fair value	596	2,322	—	2,918
2. Financial assets at fair value with impact taken to comprehensive income	63,473	—	X	63,473
3. Financial assets at amortized cost	100,460	437,328		537,788
3.1 Due from banks	19,153	250,790	X	269,943
3.2 Due from customers	81,307	186,538	X	267,845
4. Hedging derivatives	X	X	51,379	51,379
5. Other assets	X	X	1,057	1,057
6. Financial liabilities	X	X	X	19,814
Total	194,461	440,079	52,436	706,790
of which: income interests on impaired financial assets	*—*	*9,990*	*—*	*9,990*

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.1 Interest and similar income: breakdown

Voices/Techincal forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18
1. Financial assets held for trading	9,670	1,486	—	11,156
2. Available for sale financial assets	55,478	—	—	55,478
3. Held to maturity investments	40,212	—	—	40,212
4. Loans and receivables with banks	5,201	259,443	—	264,644
5. Loans and receivables with customers	52,773	194,581	—	247,354
6. Financial assets designated at fair value through profit or loss	-	—	—	—
7. Hedging derivaives	X	X	125,758	125,758
8. Other assets	X	X	18,100	18,100
Total	163,334	455,510	143,858	762,702

1.2 Interest and similar income: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest income on foreign currency financial assets	84,452	71,112
Interest income on finance leasing operations	—	—
Total	84,452	71,112

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	12 mths ended 30/6/19
1. Financial liabilities at amortized cost	(249,723)	(361,112)	—	(610,835)
1.1 Due to central banks	(761)	X	X	(761)
1.2 Due to banks	(235,482)	X	X	(235,482)
1.3 Due to customers	(13,480)	X	X	(13,480)
1.4 Debt securities in issue	X	(361,112)	X	(361,112)
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,450)	—	(2,450)
4. Other liabilities and funds	X	X	—	—
5. Hedging derivatives	X	X	—	—
6. Financial assets	X	X	X	(6,585)
Total	(249,723)	(363,562)	—	(619,870)

1.4 Interest and similar charges: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest expense on foreign currency financial liabilities	(113,265)	(76,144)
Interest expense on finance leasing operations	—	—
Total	(113,265)	(76,144)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.4 Interest expense and similar charges: breakdown

Voices/Techincal forms	**Debts**	**Securities**	**Other transactions**	**12 mths ended 30/6/18**
1. Deposits from central banks	(714)	X	—	(714)
2. Deposits from banks	(203,667)	X	—	(203,667)
3. Deposits from customers	(5,578)	X	—	(5,578)
4. Debt securities in issue	X	(453,987)	—	(453,987)
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)
8. Hedging derivatives	X	X	—	—
Total	(209,959)	(453,987)	(3,672)	(667,618)

1.5 Margins on hedging transactions

Items	**Total 12 mths ended 30/6/19**	**Total 12 mths ended 30/6/18**
A. Positive differentials related to hedging operations	183,174	1,535,920
B. Negative differentials related to hedging operations	(131,795)	(1,410,162)
C. Net balance (A-B)	51,379	125,758

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees given	8,457	5,773
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	97,501	137,239
1. securities trading	13,798	12,343
2. currency trading	—	—
3. individual portfolio management	23,085	24,122
4. custody and administration of securities	1,588	1,127
5. custodian bank	7,458	7,458
6. placement of securities	37,918	72,554
7. Areception and transmission of orders	83	3,748
8. advisory services	4,896	5,672
8.1 related to investments	4,896	5,672
8.2 related to financial structure	—	—
9. distribution of third parties services	8,675	10,215
9.1 porfolio management	5,046	7,356
9.1.1 individual	3,962	832
9.1.2 collective	1,084	6,524
9.2 insurance products	3,629	2,859
9.3 other products	—	—
d) collection and payment services	185	159
e) securitization servicing	—	—
f) factoring services	—	—
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	414	435
j) other services	146,649	141,087
Total	253,206	284,693

2.2 Fee and commission income: by product/service distribution channel

Channels/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) through Group bank branches:	69,678	106,891
1. portfolio management	23,085	24,122
2. securities placement	37,918	72,554
3. others' products and services	8,675	10,215
b) off-site:	—	—
1. portfolio management	—	—
2. securities placement	—	—
3. others' products and services	—	—
c) other distribution channels:	—	—
1. portfolio management	—	—
2. securities placement	—	—
3. others' products and services	—	—

2.3 Fee and commission expense: breakdown

Services/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees received	—	—
b) credit derivatives	—	—
c) management and brokerage services:	(14,932)	(11,471)
1. trading in financial instruments	(2,698)	(3,786)
2. currency trading	—	—
3. portfolios management:	(5,359)	(3,309)
3.1 own portfolio	(5,359)	(3,309)
3.2 third parties portfolio	—	—
4. custody and administration securities	(2,052)	(1,501)
5. financial instruments placement	(4,823)	(2,875)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(4,422)	(3,556)
e) other services	(14,989)	(11,108)
Total	(34,343)	(26,135)

SECTION 3

Heading 70: Dividends and similar income

3.1 1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/19	
	Dividends	Similar income
A. Financial assets held for trading	87,269	—
B. Other financial assets that are duly measured at fair value	—	13,983
C. Financial assets measured at fair value with impact on overall profitability	4,314	—
D. Shareholdings [1]	332,442	—
Total	424,025	13,983

[1] Refers to dividends received by the subsidiaries Compass Banca and by the associate Assicurazioni Generali.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

Items/Income	12 mths ended 30/6/18	
	Dividends	Incomes from units in investment funds
A. Financial assets held for trading	61,455	729
B. Available for sale financial assets	2 ,953	18 ,946
C. Financial assets at fair value through profit or loss	—	—
D. Investments	177,506	X
Total	241,914	19,675

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions / 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	167,583	189,857	(272,300)	(225,171)	(140,031)
1.1 Debt securities	98,850	56,498	(112,528)	(41,085)	1,735
1.2 Equity	62,307	132,236	(153,308)	(181,767)	(140,532)
1.3 Units in investments funds.	6,301	953	(6,415)	(2,319)	(1,480)
1.4 Loans	125	170	(49)	—	246
1.5 Others	—	—	—	—	—
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 [1]	X	X	X	X	(71,121)
4. Derivatives	2,901,506	1,807,811	(2,966,254)	(1,626,613)	202,888
4.1 Financial derivatives:	2,313,297	1,305,663	(2,384,448)	(1,135,757)	185,193
- Son debt securities and interest rates [2]	1,772,262	680,883	(1,827,423)	(616,363)	9,359
- on equity securities and shares indexes	541,035	624,780	(557,025)	(519,394)	89,396
- on currencies and gold	X	X	X	X	86,438
- other	—	—	—	—	—
4.2 Credit derivatives	588,209	502,148	(581,806)	(490,856)	17,695
of which: natural hedges connected to fair value option	*X*	*X*	*X*	*X*	—
Total	3,069,089	1,997,668	(3,238,554)	(1,851,784)	(8,264)

[1] This item contains valuations for banking book positions based at current exchange rates totalling €18,137,000.

[2] Of which €4,010,000 in negative margins on interest rate derivatives (30/6/18: minus €3,388,000).

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Income from:		
A.1 Fair value hedging instruments	356,660	499,777
A.2 Hedged asset items (in fair value hedge relationship)	55,527	27,938
A.3 Hedged liability items (in fair value hedge relationship)	30,247	79,090
A.4 Cash-flows hedging derivatives	—	—
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	442,434	606,805
B. Losses on:		
B.1 Fair value hedging instruments	(85,399)	(479,784)
B.2 Hedged asset items (in fair value hedge relationship)	(50,519)	(63,163)
B.3 Hedged liability items (in fair value hedge relationship)	(301,038)	(63,036)
B.4 Cash-flows hedging derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(436,956)	(605,983)
C. Net profit from hedging activities (A-B)	5,478	822
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: breakdown

Items / Income	12 mths ended 30/6/19		
	Gains	Losses	Net profit
A. Financial assets			
1. Financial assets at amortized cost	9,425	—	9,425
1.1 Loans and receivables with banks	—	—	—
1.2 Loans and receivables with customers	9,425	—	9,425
2. Financial assets at fair value with impact taken to comprehensive income	73,260	(6,461)	66,799
2.1 Debt securities	73,260	(6,461)	66,799
2.2 Loans	—	—	—
Total assets (A)	82,685	(6,461)	76,224
B. Financial liabilities at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	10,762	(3,818)	6,944
Total liabilities (B)	10,762	(3,818)	6,944

Gains on financial assets recognized at fair value through other comprehensive income and those recognized at amortized cost include exchange rate valuations of €14.4m and €3.7m respectively.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

6.1 Gain (loss) on disposal/repurchases: breakdown

Items/Income	12 mths ended 30/618		
	Gains	Losses	Net profit
Financial assets			
1. Loans and receivables with banks	5,502	(7,350)	(1,848)
2. Loans and receivables with customers	5,232	(1,800)	3,432
3. Financial assets available for sale	130,090	(10,294)	119,796
3.1 Debt securities	33,682	(10,178)	23,504
3.2 Equity instruments	94,241	—	94,241
3.3 Units in investment funds	2,167	(116)	2,051
3.4 Loans	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)
Total assets	141,286	(20,825)	120,461
Financial liabilities			
1. Deposits with banks	1,097	—	1,097
2. Deposits with customers	—	—	—
3. Debt securities in issue	—	(8,805)	(8,805)
Total liabilities	1,097	(8,805)	(7,708)

The losses on debt securities (AFS and held to maturity) involve exclusively valuations of bonds denominated in foreign currencies (€11.6m, €10.2m of which in the AFS segment).

SECTION 7

Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Transactions / Income	Capital gain (A)	Income from negotiation (B)	Capital loss (C)	Realized loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(1,534)	—	(1,534)
1.1 Debt securities	—	—	(1,534)	—	(1,534)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	1,506	—	—	—	1,506
2.1 Outstanding securities	1,506	—	—	—	1,506
2.2 Debts to banks	—	—	—	—	—
2.3 Debts to customers	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	—
Total	1,506	—	(1,534)	—	(28)

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Transactions / Income	Capital gain (A)	Income from negotiation (B)	Capital loss (C)	Realized loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets	39,979	984	(23,654)	—	17,309
1.1 Debt securities	—	984	(72)	—	912
1.2 Equity securities	—	—	—	—	—
1.3 Units investment funds	15,220	—	(15,993)	—	(773)
1.4 Loans	24,759	—	(7,589)	—	17,170
2. Financial assets in currency: exchange differences	X	X	X	X	(1,479)
Total	39,979	984	(23,654)	—	15,830

SECTION 8

Heading 130: Net write-offs (write-backs) for credit risk

8.1 Net write-offs for credit risk related to financial assets valued at amortized cost: breakdown

Transactions/Income	Writedowns			Writebacks		12 mths ended 30/6/19
	First and second stage	Third stage		First and second stage	Third stage	
		Write-off	Others			
A. Loans and receivables with banks	(5,021)	—	—	—	—	(5,021)
- Loans	(4,156)	—	—	—	—	(4,156)
- Debt receivables	(865)	—	—	—	—	(865)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	(5,544)	—	(13,691)	4,125	57,621	42,511
- Loans	(5,544)	—	(13,691)	875	57,621	39,261
- Debt receivables	—	—	—	3,250	—	3,250
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	(10,565)	—	(13,691)	4,125	57,621	37,490

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18
	Specific		Portfolio	Specific		Portfolio		
	Write - offs	Others		A	B	A	B	
A. Loans and receivables with banks								
- Loans	—	—	—	—	—	—	771	771
- Debt securities	—	—	—	—	—	—	—	—
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
- Debt securities	—	—	—	—	—	—	666	666
C. Total	—	(4,677)	—	—	23,153	—	15,912	34,388

Legend

A = interest

B = other amounts recovered

8.2 Net write-offs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/Income	Adjustments			Write - backs		12 mths ended at 30/6/19
	First and second stage	Third stage		First and second stage	Third stage	
		Write-off	Others			
A. Debt Securities	(779)	—	—	—	—	(779)
B. Loans	—	—	—	—	—	—
- To clients	—	—	—	—	—	—
- To banks	—	—	—	—	—	—
of which: impaired financial assets acquired or originated	—	—	—	—	—	—
Total	(779)	—	—	—	—	(779)

SECTION 10

Heading 160: Administrative expenses

10.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended at 30/6/19	12 mths ended at 30/6/18
1) Employees	(229,251)	(224,479)
a) wages and salaries	(166,468)	(162,826)
b) social security contributions	(35,301)	(34,976)
c) severance pay (only for Italian legal entities)	(153)	—
d) social security costs	—	—
e) allocation to employees severance pay provision	(5,539)	(5,513)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(6,985)	(7,019)
- defined contribution	(6,985)	(7,019)
- defined benefits	—	—
h) expenses resulting from share based payments	(11,210)	(10,300)
i) other employees' benefits	(3,595)	(3,845)
2) Other staff	(4,641)	(5,186)
3) Directors and Statutory Auditors	(3,367)	(3,464)
4) Early retirement costs	(4,649)	(5,832)
5) Recovery of expenses for employees seconded to other companies	1,093	1,135
6) Refunds of expenses for third party employees seconded to the company	—	—
Total	(240,815)	(237,826)

10.2 Average number of staff by category

	12 mths ended 30/6/19	12 mths ended 30/6/18
Employees		
a) Senior managers	259	247
b) Managers	550	567
c) Remaining employees staff	165	174
Other staff	105	110
Total	1,079	1,098

10.5 Other administrative expenses: breakdown

Type of services/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(33.251)	(34.209)
- loan recovery activity	—	—
- marketing and communications	(4.395)	(4.855)
- property	(10.179)	(11.374)
- EDP	(61.606)	(52.763)
-info-provider	(19.991)	(19.486)
- bank charges, collection and payment fees	(1.995)	(1.914)
- operating expenses	(5.857)	(6.586)
- other staff expenses	(9.908)	(11.926)
- other costs [1]	(43.550)	(44.231)
- indirect and other taxes	(5.296)	(5.064)
Total other administrative expenses	(196.028)	(192.408)

[1] Includes €29,000,000 (30/6/18: €30,700,000) of contributions to various resolution funds.

SECTION 11

Heading 170: Net transfers to provisions

11.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	12 mths ended 30/6/19		
	Provisions	**Reallocation surplus**	**Total**
Loan committments	(3,632)	7,549	3,917
Financial guarantees given	(9,851)	7,197	(2,654)
Total	(13,483)	14,746	1,263

11.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/19		
	Provisions	**Reallocation surplus**	**Total**
1. Other provisions			
1.1 Legal disputes	—	—	—
1.2 Staff costs	—	—	—
1.3 Other	(276)	—	(276)
Total	(276)	—	(276)

SECTION 12

Heading 180: Net adjustments to tangible assets

12.1 Net adjustments to tangible assets: breakdown

Asset/Income	**Depriciation (a)**	**Impairment losses (b)**	**Write-backs (c)**	**Net result (a + b - c)**
A. Property, equipment and investment property				
A.1 Owned	(3,055)	—	—	(3,055)
- For operational use	(2,637)	—	—	(2,637)
- For investment	(418)	—	—	(418)
- Inventories	X	—	—	—
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(3,055)	—	—	(3,055)

SECTION 13

Heading 190: Net adjustments to intangible assets

13.1 Net adjustments to intangible assets: breakdown

	Amortizations (a)	Writeoffs (b)	Writebacks (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(6,881)	—	—	(6,881)
- Software	(6,881)	—	—	(6,881)
- Others	—	—	—	—
A.2 Acquired in leasing transactions	—	—	—	—
Total	(6,881)	—	—	(6,881)

SECTION 14

Heading 200: Other operating income (expense)

14.1 Other operating expense: breakdown

Income-based components/values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Leasing activity	—	—
b) Sundry costs and expenses	(2,026)	(6,741)
Total	(2,026)	(6,741)

14.2 Other operating income: breakdown

Income-based components/values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Amounts recovered from customers	181	271
b) Other income	16,447	19,205
Total	16,628	19,476

SECTION 15

Heading 220: Gain (loss) on equity investments

15.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended at 30/6/19	12 mths ended at 30/6/18
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(4.225)	(309)
1. Write-downs	—	—
2. Impairment losses	—	(309)
3. Losses on disposal [1]	(4.225)	—
4. Other expenses	—	—
Net profit	(4.225)	(309)

[1] This amount refers to the winding up of Turkish subsidiary MB Advisory Kurumsal Danismanlik Hizmetleri in extraordinary administration and of SPV Quarzo MB S.r.l.

SECTION 18

Heading 250: Gain (loss) on disposal of investment

18.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended at 30/6/19	12 mths ended at 30/6/18
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	(27)	—
- Gains on disposal	—	—
- Losses on disposal	(27)	—
Net profit	(27)	—

SECTION 19

Heading 270: Income tax for the year on ordinary activities

19.1 Income tax for the year on ordinary activities: breakdown

Income/Value	12 mths ended at 30/6/19	12 mths ended at 30/6/18
1. Current tax expense (-)	(46,821)	(28,943)
2. Adjustment to current tax of prior periods (+/-)	—	—
3. Reduction in current tax for the period (+)	—	—
3.bis Reductions in current tax expense for the period due tax credit related to L. 214/2011 (+)	—	—
4. Adjustment to deferred tax income (+/-)	(21,742)	(27,936)
5. Adjustment to deferred tax expense (+/-)	13,563	9,879
6. Tax espense for the year (-1+/-2+3+3bis+/-4+/-5))	(55,000)	(47,000)

19.2 Reconciliation between theoretical and effective tax burden

Income/Value	12 mths ended 30/6/19	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.00%	441,245
Theoretical tax rate	27.50%	121,342
Dividends (-)	-19.94%	(87,978)
Gains on disposals of equity investments (PEX) (-)	-0.14%	(608)
Gains on equity-accounted investments (-)	—	—
Changes in deferred tax for previous years (-)	—	—
Other taxes (non-Italian companies) (+/-)	—	—
Non-taxable income 10% IRAP (-)	-0.15%	(679)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.09%	(391)
Non-deductible interest expense 4% (+)	—	—
Benefit from tax consolidation (-)	—	—
Impairment (+/–)	0.25%	1,092
Extraordinary items	—	—
Other differences (+/-)	0.39%	1,722
TOTAL IRES	7.82%	34,500
IRAP	4.65%	20,500
TOTAL HEADING [1]	12.46%	55,000

[1] Compared with a tax rate of 12.26% in the previous financial year.

SECTION 22

Earnings per share

22.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/19	12 mths ended 30/6/18
Net profit	386,245	337,034
Avg. no. of shares in issue	871,819,196	859,633,153
Avg. no. of potentially diluted shares	5,081,612	5,738,709
Avg. no. of diluted shares	876,900,808	865,371,862
Earnings per share	0.44	0.39
Earnings per share, diluted	0.44	0.39

Part D – Comprehensive Profit and Loss Account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect
10.	**Net profit (loss) of the year**	**X**	**X**	**386.245**
	Other comprehensive income not reclassified to profit or loss			
20.	Equity instruments designated at fair value through other comprehensive income:	10,965	(432)	10,533
	a) fair value changes	3,677	(227)	3,450
	b) tranfers to other shareholders' equity items	7,288	(205)	7,083
30.	Financial liabilities designated at fair value through profit or loss (own creditworthiness changes):	—	—	—
	a) fair value changes	—	—	—
	b) tranfers to other shareholders' equity items	—	—	—
40.	Hedge accounting of equity instruments measured at fair value through other comprehensive income:	—	—	—
	a) fair value change (hedged instrument)	—	—	—
	b) fair value change (hedging instrument)	—	—	—
50.	Property, plant and equipment	—	—	—
60.	Intangible assets	—	—	—
70.	Defined benefit plans	(572)	157	(415)
80.	Non-current assets and disposal groups classified as held for sale	—	—	—
90.	Part of valuation reserves from investments valued at equity method	—	—	—
100.	Tax expenses (income) relating to items not reclassified to profit or loss	—	—	—
	Other comprehensive income reclassified to profit or loss			
110.	Foreign investments hedging:	—	—	—
	a) fair value changes	—	—	—
	b) reclassification to profit or loss	—	—	—
	c) other changes	—	—	—
120.	Foreign exchange differences:	—	—	—
	a) fair value changes	—	—	—
	b) reclassification to profit or loss	—	—	—
	c) other changes	—	—	—
130.	Cash flow hedging:	(5,770)	1,696	(4,074)
	a) fair value changes	(5,770)	1,696	(4,074)
	b) reclassification to profit or loss	—	—	—
	c) other changes	—	—	—
	of which: net position	—	—	—
140.	Hedging instruments (not designated items):	—	—	—
	a) fair value changes	—	—	—
	b) reclassification to profit or loss	—	—	—
	c) other changes	—	—	—
150.	Financial assets (different from equity instruments) at fair value through other comprehensive income:	(34,587)	11,409	(23,178)
	a) fair value changes	22,871	(7,592)	15,279
	b) reclassification to profit or loss	(57,458)	19,001	(38,457)
	- impairment losses	815	(269)	546
	- gains/losses on disposals	(58,273)	19,270	(39,003)
	c) other changes	—	—	—
160.	Non-current assets and disposal groups classified as held for sale:	—	—	—
	a) fair value changes	—	—	—
	b) reclassification to profit or loss	—	—	—
	c) other changes	—	—	—
170.	Part of valuation reserves from investments valued at equity method:	—	—	—
	a) fair value changes	—	—	—
	b) reclassification to profit or loss	—	—	—
	- impairment losses	—	—	—
	- gains/losses on disposals	—	—	—
	c) other changes	—	—	—
180.	Tax expenses (income) relating to items reclassified to profit or loss	—	—	—
190.	**Total other comprehensive income**	**(29,964)**	**12,830**	**(17,134)**
200.	**Other comprehensive income (Item 10+190)**	**X**	**X**	**369,111**

Part E – Information on risks and related hedging policies

SECTION 1

CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

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 leadership, 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 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 carries 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 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 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.

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.

2. Credit risk management policies

2.1 Organizational aspects

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 guarantee 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 Plan 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, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group 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; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

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. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank's capability in terms of governing its own company risks, and also ensuring sustainable growth over the medium and long term. In this connection, a Risk Appetite Framework governance model has been developed, which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, Mediobanca:

- Identifies the risks which it is willing to assume;
- Defines, for each risk, the objectives and limits in normal and stressed conditions;
- Identifies the action necessary in operating terms to bring the risk back within the set objective.

For the purposes of defining the RAF, based on the strategic positioning and risk profile selected, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the four framework risk pillars, in line with best international practice: capital adequacy; liquidity; bank-specific factors; conduct/operational risk. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each dimension analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. 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. As required by the provisions of the Capital Requirements Directive IV (“CRD IV”), the Bank prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group’s liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating the expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable for direct use in an accounting environment (for example, reconverting the data to reflect a point-in-time approach). Indeed, the calculation of expected losses required under IFRS 9 derives from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which the risk has undergone significant increase in credit risk ("Stage 2") or which show objective signs of impairment ("Stage 3") and on a time horizon over twelve months for the instruments not included in the previous two categories ("Stage 1").

The Bank adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are also identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor's scale, or a corresponding internal PD estimate. In accordance with the provisions of IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Bank verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time.

In cases where there is no internal rating model for a specific portfolio, the backstop indicators apply as qualitative criteria; the qualitative factors considered by the Group for reclassification to Stage 2 include counterparties being classified in the watchlist as "amber" and "red".

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months or to the contractual expiry date of the relevant exposure, depending on which Stage it is classified in) discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring. The scenarios, determined at Group level, are updated once every six months. In particular, the Group defines the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations regarding interest rates. Levels of deviation from the baseline scenario are defined in order to determine the mild-negative and mild-positive scenarios.

2.4 Credit risk mitigation techniques

The Bank has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral are set out in in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the "CRR"). Specific criteria are also compiled by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The Bank also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in establishing eligibility criteria for regulatory and management purposes remains central. Controls on the mitigation instruments are included in the general risk control and management framework.

3. Non-performing credit exposures

The Bank is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep the level of them on the books low, including the use of different options typically available, such as disposals, collateral enforcement activity, and negotiating restructuring agreements.

Non-performing exposures are identified on the basis of definitions that give equal weight to the guidance provided by the regulations in force on regulatory capital requisites (for the concept of "default"), supervisory statistical reporting (for the definition of "non-performing"), and Stage 3 assets (for the definition of "credit-impaired").

Provisioning is quantified individually, through valuations of discounted cash flows and balance-sheet multiples for companies which operate as going concerns, or asset valuations for companies entering liquidation.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts may be written off even before legal action to recover the asset is completed, and this does not necessarily entail waiving the Bank's legal right to recover the amount due to it.

4. Financial assets subject to commercial renegotiations and concessions

Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client's initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Bank assesses whether or not, such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to 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 on individual analysis.

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as represented in the previous sections, an account being assigned the status of "forborne" is considered to be incompatible with its being classified as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned the "forborne" status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the "forborne performing exposure" status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for "non-performing forborne exposure" to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the "forborne performing exposure" status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as "forborne" must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, "forborne" exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately to Stage 3 on prudential grounds.

5. Details by individual business segment

Corporate activity

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.

The Credit Risk Management unit also 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 with the same frequency.

In terms of monitoring the performance of individual credit exposures, Mediobanca has adopted 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 (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. All forborne positions are also 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 parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

Private banking

Private banking operations include granting loans as a complementary activity in serving affluent, 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 backed by collateral or 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/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. 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. The LGD values used differ according on the type of collateral and guarantees involved.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Other exposures (non performing)	Other not impaired exposures *	Total
1. Financial assets at amortized cost	—	368,977	4	74,870	45,919,547	46,363,398
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	51,975	51,975
4. Other financial assets mandatorily at fair value	264	17,482	—	—	209,580	227,326
5. Financial assets being sold	—	—	—	—	—	—
Total 30/6/19	264	386,459	4	74,870	49,929,264	50,390,862

* No performing exposures which are past due or subject to renegotiation under collective agreements.

Non-performing exposures refer exclusively to the Private Banking segment.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans				Performing loans			Total (net exposition)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off*	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	509,749	140,768	368,981	—	46,036,620	42,203	45,994,417	46,363,398
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,750,003	1,840	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	X	X	51,975	51,975
4. Other financial assets mandatorily at fair value	133,417	115,671	17,746	—	X	X	209,580	227,326
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 30/6/19	643,166	256,439	386,727	—	49,786,623	44,043	50,004,135	50,390,862

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	7,308,218
2. Hedging Derivatives	—	—	409,863
Total 30/6/19	—	—	7,718,081

Information on sovereign debt exposures

*A.1.2a Exposures to sovereign debt securities by state, 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	(905,979)	(905,979)
France	—	—	—	—	X	X	(643,671)	(643,671)
Italy	—	—	—	—	X	X	229,952	229,952
Germany	—	—	—	—	X	X	(468,815)	(468,815)
United Kingdom	—	—	—	—	X	X	(36,400)	(36,400)
Others	—	—	—	—	X	X	12,955	12,955
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,863,099	—	2,863,099	2,863,099
Italy	—	—	—	—	1,161,290	—	1,161,290	1,161,290
Germany	—	—	—	—	807,022	—	807,022	807,022
United States	—	—	—	—	433,925	—	433,925	433,925
Spain	—	—	—	—	256,482	—	256,482	256,482
Others	—	—	—	—	204,380	—	204,380	204,380
3. Financial assets at amortized cost	—	—	—	—	1,454,673	—	1,454,673	1,454,673
Italy	—	—	—	—	920,431	—	920,431	920,431
France	—	—	—	—	351,946	—	351,946	351,946
Spain	—	—	—	—	100,020	—	100,020	100,020
Germany	—	—	—	—	50,253	—	50,253	50,253
Others	—	—	—	—	32,023	—	32,023	32,023
Total 30/6/19	—	—	—	—	4,317,772	—	3,411,793	3,411,793

* 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 €14.7m.

A.1.2b 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	268,940	229,952	1.90	2,064,818	2,081,721	2,088,488	3.14
Germany	(432,500)	(468,815)	2.23	840,000	857,275	857,681	2.10
Spain	4,400	4,198	0.09	350,000	356,502	358,815	3.37
United States	—	—	—	430,580	433,925	433,925	0.75
France	(582,656)	(643,671)	3.94	500,000	504,451	507,980	2.14
Others	(25,817)	(27,643)	—	82,000	83,898	85,541	—
Total 30/6/19	(767,633)	(905,979)		4,267,398	4,317,772	4,332,430	

* The figure does not include forward sales with a notional amount of €104m.

[1] Does not include sales of €414m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €4.0m; or sales of €156.8m on the *BPT* future (Italy) with a negative fair value of €1.5m. Net hedge buys of €836m have also not been included (virtually all of which allocated to France country risk).

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

A.1.3 Financial assets by past-due buckets (book values)

Portfolios / stages of risk	First step			Second step			Third step		
	From 1 day to 30 days	Over 30 days until 90 days	Over 90 days	From 1 day to 30 days	Over 30 days until 90 days	Over 90 days	From 1 day to 30 days	Over 30 days until 90 days	Over 90 days
1. Financial assets valued at amortized cost	43,957	9,139	61	9,164	985	11,564	—	39,904	2,036
2. Financial assets valued at fair value with impact on overall profitability	—	—	—	—	—	—	—	—	—
Total 30/6/19	43,957	9,139	61	9,164	985	11,564	—	39,904	2,036

A.1.4 Financial assets, commitments to disburse fund and financial guarantees given: trend in overall writedowns and provisions

Risk stages	Total value adjustments													Total writedowns on commitments to disburse funds and financial guarantees given			Total
	First stage activities				Second stage activities				Third stage activitites				Of which: purchased or originated credit impaired exposures				
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns		First stage	Second stage	Third stage	
Total openingl adjustments	34,165	2,197	—	36,362	6,040	—	—	6,040	183,717	—	183,717	—	—	15,389	5,512	3,830	250,850
Changes in increase from financial assets acquired or originated	66	—	—	66	3,850	—	—	3,850	12,060	—	12,060	—	—	—	—	—	15,976
Cancellations other than write-offs	—	—	—	—	(4,612)	—	—	(4,612)	—	—	—	—	—	—	—	—	(4,612)
Net value adjustments / write-backs for credit risk (+/-)	457	(14)	—	443	840	—	—	840	(53,090)	—	(53,090)	—	—	(657)	1,334	—	(51,130)
- Gross opening variation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in the estimation methodology	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-offs non recorded directly in the income statement	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,449)	(1,449)
Other variations	1,298	(343)	—	954	99	—	—	99	(1,919)	—	(1,919)	—	—	441	(2,218)	(228)	(2,870)
Total closing adjustments	35,986	1,840	—	37,825	6,217	—	—	6,217	140,768	—	140,768	—	—	15,173	4,628	2,153	206,765
Recoveries from financial assets subject to write-off	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-offs recorded directly in the income statement	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portofolios/risk stages	Gross exposure / Par value					
	Transfers between first stage and second stage		Transfers between second stage to thirth stage		Transfer between first stage and thirth stage	
	From first to second stage	From second stage to first stage	From second to third step	From thirth to second step	From first to thirth step	From thirth to first step
1. Financial assets valued at amortized cost	281,694	73,695	53,242	—	76	18
2. Financial assets valued at fair value with an impact on overall profitability	—	—	—	—	—	—
3. Commitments to provide funds and financial guarantees given	18,274	1,174	—	—	—	—
Total 30/6/19	299,968	74,869	53,242	—	76	18

A.1.6 Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/assets	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off*
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	23,248,049	(14,194)	23,233,855	—
- of which: forborne exposures	*X*	—	—	—	—
Total (A)	—	23,248,049	(14,194)	23,233,855	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	18,924,341	(2,568)	18,921,773	—
Total (B)	—	18,924,341	(2,568)	18,921,773	—
Total (A+B)	—	42,172,390	(16,762)	42,155,628	—

A.1.7 Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Impairment	Non impairment			
A. Credit exposures for cash					
a) Non performing loans	11,078	X	(10,814)	264	—
- of which: forborne exposures	*4,194*	*X*	*(4,041)*	*153*	—
b) Probable defaults	631,914	X	(245,454)	386,460	—
- of which: forborne exposures	*578,810*	*X*	*(234,286)*	*344,524*	—
c) Impaired expired exposures	175	X	(171)	4	—
- of which: forborne exposures	—	*X*	—	—	—
d) Expired exposures not impaired	X	75,264	(394)	74,870	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other non-impaired exposures	X	31,010,225	(29,454)	30,980,771	—
- of which: forborne exposures	*X*	*234,922*	*(298)*	*234,624*	—
Total (A)	643,167	31,085,489	(286,287)	31,442,369	—
B. Non-balance sheet credits exposures					
a) Impaired	14,868	X	(2,153)	12,715	—
b) Not impaired exposures	X	21,959,149	(17,233)	21,941,916	—
Total (B)	14,868	21,959,149	(19,386)	21,954,631	—
Total (A+B)	658,035	53,044,638	(305,673)	53,397,000	—

As at 30 June 2019 non-performing forborne loans amounted to €344.7m (30/6/18: €342.7m), with a coverage ratio of 40.9% (47%), while performing loans qualifying as forborne amounted to €234.6m (€250m), with a coverage ratio of 0.1% (2%).

Overall the non-performing forborne positions represent 1.88% (1.83%) of the total customer loan book, and the performing forborne exposures 1.28% (1.34%).

A.1.9 Cash exposures to customers: trend in gross non-performing exposures

Description/Category	Bad loans	Unlikely to pay	Past due impaired exposures
A. Opening balance (gross amount)	3,825	656,148	738
- Sold but not derecognised	—	—	—
B. Increases	7,254	80,907	1,792
B.1 transfers from performing loans	—	53,386	1,764
B.2 entry from impaired financial assets acquired or originated	—	—	—
B.3 transfers from other impaired exposures	7,091	—	—
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	163	27,521	28
C. Decreases	1	105,141	2,355
C.1 transfers to perfomorming loans	—	—	521
C.2 write-offs	—	—	—
C.3 recoveries	1	98,050	1,834
C.4 sales proceeds	—	—	—
C.5 losses on disposals	—	—	—
C.6 transfers to other impaired exposures	—	7,091	—
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	—	—	—
D. Closing balance (gross amounts)	11,078	631,914	175
- Sold but not derecognised	—	—	—

A.1.9bis Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	**Forborne exposures impaired**	**Forborne exposures not impaired**
A. Opening balance (gross amount)	653,258	256,222
- Sold but not derecognised	—	—
B. Increases	27,560	3,181
B.1 Transfers from performing not forborne exposures	—	—
B.2 Transfers from performing forborne exposures	—	X
B.3 Transfers from impaired forborne exposures	X	—
B.4 Other increases	27,560	3,181
C. Decreases	97,814	24,481
C.1 Transfers to performing not forborne exposures	X	—
C.2 Transfers to performing forborne exposures	—	X
C.3 Transfers to impaired exposures not forborne	X	—
C.4 Write-offs	—	—
C.5 Recoveries	97,814	24,481
C.6 Sales proceeds	—	—
C.7 Losses on disposals	—	—
C.8 Oother decreases	—	—
D. Closing balance (gross amounts)	583,004	234,922
- Sold but not derecognised	—	—

A.1.11 Non-performing cash exposures to customers: trend in overall writedowns

Description/Category	**Bad loans**		**Unlikely to pay**		**Overdue exposures (NPLs)**	
	Total	***of which: forborne exposures***	**Total**	***of which: forborne exposures***	**Total**	***of which: forborne exposures***
A. Opening balance overall amount of writedowns	3,825	—	309,807	307,527	111	8
- Sold but not derecognised	—	—	—	—	—	—
B. Increases	6,990	4,041	17,599	6,430	159	—
B.1 impairment losses on acquired or originated assets	—	X	—	X	—	X
B.2 other value adjustments	1,556	888	6,742	6,430	159	—
B.3 losses on disposal	—	—	—	—	—	—
B.4 transfer from other impaired exposure	5,434	3,153	—	—	—	—
B.5 contractual changes without cancellations	—	X	—	X	—	X
B.6 other increases	—	—	10,857	—	—	—
C. Reductions	1	—	81,952	79,671	99	8
C.1 write-backs from assessments	—	—	45,396	45,396	15	—
C.2 write-backs from recoveries	1	—	31,122	31,122	58	—
C.3 gains on disposal	—	—	—	—	—	—
C.4 write-offs	—	—	—	—	—	—
C.5 transfers to other impaired exposures	—	—	5,434	3,153	—	—
C.6 contractual changes without cancellations	—	X	—	X	—	X
C.7 other decreases	—	—	—	—	26	8
D. Closing overall amount of writedowns	10,814	4,041	254,454	234,286	171	—
- Sold but not derecognised	—	—	—	—	—	—

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

A.2.1 Financial assets, commitments to disburse fund and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	834,692	5,014,912	22,978,549	1,318,673	140,557	143,225	16,115,761	46,546,369
- First stage	834,692	5,014,912	22,978,549	1,270,572	50,242	143,225	15,384,650	45,676,842
- Second stage	—	—	—	48,101	90,315	—	221,362	359,778
- Third stage	—	—	—	—	—	—	509,749	509,749
B. Financial assets valued at fair value with impact on overall profitability	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- First stage	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A+B)	2,280,030	5,271,412	24,608,187	1,521,024	140,557	212,595	16,262,567	50,296,372
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—	—
C. Commitments and financial guarantees given								
- First stage	168,365	440,437	11,032,878	1,231,709	408,632	66	5,241,302	18,523,389
- Second stage	—	—	—	—	18,274	—	60,931	79,205
- Third stage	—	—	—	—	—	—	14,868	14,868
Total (C)	168,365	440,437	11,032,878	1,231,709	426,906	66	5,317,101	18,617,462
Total (A+B+C)	2,448,395	5,711,849	35,641,065	2,752,733	567,463	212,661	21,579,668	68,913,834

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

A.2.2 Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	1,002,615	8,356,805	28,213,524	3,666,231	514,945	504,684	4,287,565	46,546,369
- First stage	1,002,615	8,356,805	28,213,524	3,505,049	366,511	1,933	4,230,405	45,676,842
- Second stage	—	—	—	161,182	148,434	—	50,162	359,778
- Third stage	—	—	—	—	—	502,751	6,998	509,749
B. Financial assets valued at fair value with impact on overall profitability	1,445,338	288,214	1,674,324	262,440	69,370	—	10,317	3,750,003
- First stage	1,445,338	288,214	1,674,324	262,440	69,370	—	10,317	3,750,003
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A+B)	2,447,953	8,645,019	29,887,848	3,928,671	584,315	504,684	4,297,882	50,296,372
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—	—
C. Commitments and financial guarantees given								
- First stage	244,273	515,506	12,513,911	4,173,534	507,396	—	568,769	18,523,389
- Second stage	—	—	—	—	78,633	—	572	79,205
- Third stage	—	—	—	—	—	14,821	47	14,868
Total (C)	244,273	515,506	12,513,911	4,173,534	586,029	14,821	569,388	18,617,462
Total (A+B+C)	2,692,226	9,160,525	42,401,759	8,102,205	1,170,344	519,505	4,867,270	68,913,834

The table is compliant with the classification provided by Bank of Italy circular 262/05 (fifth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between AAA and BBB-, and represent 93% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients.

A.3 Distribution of secured exposures by type of security

A.3.1 Cash and off-balance sheet secured exposures to banks

	Gross exposure	Net exposures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing - property	Securities	Other guarantees	CLN	Other derivatives				General go-vernements	Banks	Other financial companies	Other entities	
								Central counter-parties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	5,162,575	5,162,335	—	—	5,019,715	—	—	—	—	—	—	—	—	—	—	5,019,715
1.1 totally secured	2,832,697	2,832,457	—	—	2,832,457	—	—	—	—	—	—	—	—	—	—	2,832,457
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	2,329,878	2,329,878	—	—	2,187,258	—	—	—	—	—	—	—	—	—	—	2,187,258
- 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 Cash and off-balance sheet secured exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Guarantees (2)									Total
			Property, Mortgages	Financial leasing property	Securities	Other assets	Credit derivatives					Signature loans				
							CLN	Other derivatives				Public Administra-tions	Banks	Other financial companies	Other entities	(1)+(2)
								Central counter-parties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	6,759,067	6,519,912	480,736	—	3,746,262	384,642	—	—	—	—	—	6,831	—	107,343	870,607	5,596,421
1.1 totally secured	3,935,501	3,875,643	478,510	—	2,150,520	270,613	—	—	—	—	—	6,831	—	98,562	870,607	3,875,643
- of which: impaired	*89,123*	*40,722*	*40,722*	—	—	—	—	—	—	—	—	—	—	—	—	*40,722*
1.2 partially secured	2,823,566	2,644,269	2,226	—	1,595,742	114,029	—	—	—	—	—	—	—	8,781	—	1,720,778
- of which: impaired	*449,709*	*275,079*	—	—	*9,313*	*14,934*	—	—	—	—	—	—	—	—	—	*24,247*
2. Secured off-balance sheet credit exposures:	1,143,476	1,132,380	32,641	—	220,616	105,040	—	—	—	—	—	10,998	—	99,549	579,390	1,048,234
2.1 totally secured	998,776	987,770	32,641	—	204,809	93,319	—	—	—	—	—	10,998	—	99,549	546,454	987,770
- of which: impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2. partially guaranteed	144,700	144,610	—	—	15,807	11,721	—	—	—	—	—	—	—	—	32,936	60,464
- of which: impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Exposures distribution and concentration

B.1 Cash and off-balance sheet exposures to customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	264	(9,026)	—	—	—	(1,788)	—	—
- of wich: forborne exposures	—	—	*153*	*(4,041)*	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	2,032	(968)	—	—	384,428	(244,486)	—	—
- of wich: forborne exposures	—	—	—	—	—	—	*344,524*	*(234,286)*	—	—
A.3 Overdue exposures (NPLs)	—	—	—	(25)	—	—	2	(29)	2	(117)
- of wich: forborne exposures	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	7,816,798	(775)	14,839,231	(13,194)	1,045,566	(1,846)	7,652,929	(14,267)	746,683	(1,612)
- of wich: forborne exposures	—	—	*201,915*	—	—	—	*23,599*	*(236)*	*9,110*	*(62)*
Total (A)	7,816,798	(775)	14,841,527	(23,213)	1,045,566	(1,846)	8,037,359	(260,570)	746,685	(1,729)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	12,715	(2,153)	—	—
B.2 Performing exposures	4,076,413	—	6,405,932	(3,633)	596,106	(12)	11,168,106	(13,598)	291,465	(2)
Total (B)	4,076,413	—	6,405,932	(3,633)	596,106	(12)	11,180,821	(15,751)	291,465	(2)
Total (A+B) 30/6/19	11,893,211	(775)	21,247,459	(26,846)	1,641,672	(1,858)	19,218,180	(276,321)	1,038,150	(1,731)

B.2 Cash and off-balance sheet exposures to customers by geography

Exposures / Geographical	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	264	(10,814)	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	346,556	(235,254)	39,904	(10,200)	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	4	(171)	—	—	—	—	—	—	—	—
A.4 Performing exposures	24,288,753	(25,156)	6,158,875	(4,641)	606,942	(51)	4	—	1,067	—
Total (A)	24,635,577	(271,395)	6,198,779	(14,841)	606,942	(51)	4	—	1,067	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,715	(2,153)	—	—	—	—	—	—	—	—
B.2 Performing exposures	10,210,582	(3,114)	9,874,687	(9,651)	1,684,269	(4,177)	170,185	(290)	2,193	(1)
Total (B)	10,223,297	(5,267)	9,874,687	(9,651)	1,684,269	(4,177)	170,185	(290)	2,193	(1)
Total (A+B) 30/6/19	34,858,874	(276,662)	16,073,466	(24,492)	2,291,211	(4,228)	170,189	(290)	3,260	(1)

B.3 Cash and off-balance sheet exposures to banks by geography

Exposures / Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	13,538,248	(10,234)	9,648,785	(3,948)	41,775	(10)	5,045	(2)	1	—
Total (A)	13,538,248	(10,234)	9,648,785	(3,948)	41,775	(10)	5,045	(2)	1	—
B. Off-balance sheet credit exposures										
B.1 Deteriored exposures	—	—	—	—	—	—	—	—	—	—
B.2 Non-deteriored exposures	4,429,704	(13)	14,492,053	(2,555)	16	—	—	—	—	—
Total (B)	4,429,704	(13)	14,492,053	(2,555)	16	—	—	—	—	—
Total (A+B) 30/6/19	17,967,952	(10,247)	24,140,838	(6,503)	41,791	(10)	5,045	(2)	1	—

B.4 Large risks

	30/6/19	30/6/18
a) Book value	12,663,699	10,662,567
b) Weighted value	9,172,281	6,801,878
c) No. of exposures	11	8

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eleven groups of clients (three more than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €12.7bn (€9.2bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2018 (which were €10.7bn and €6.8bn respectively). In detail the eleven exposures are to three industrial groups, one insurance company and seven banking groups.

C. Securitization

QUALITATIVE INFORMATION

The bulk of the portfolio consists of the Group's senior securitizations, with €3,851.7m in Quarzo bonds with performing Compass receivables as the underlying instrument; the difference compared to last year involves the sale of Quarzo CQS (deal with Futuro salary-backed finance receivables as the underlying instrument), driving a €49m reduction.

Excluding securitizations of Group company consumer credit receivables (which amount to €3,851.7m as stated above), the Bank also holds a portfolio of securitizations by other issuers totalling €247.8m, €156.4m of which as part of the banking book (almost all HTC recognized at amortized cost) and €91.4m as part of the trading book.

The banking book consists of four senior deals with NPLs as the underlying instrument, as follows: in Italy, Unicredit-FINO, €55.4m (down from €75.6m last year), and Intesa/ICCREA, a deal originated during the year under review in which Mediobanca acted as sponsor (€65.6m); and elsewhere, one security issued against Spanish NPLs in an amount of €21.6m (down from €32.8m last year), and a new deal issued against Dutch NPLs for €9.6m, where again Mediobanca acted as sponsor. Another deal involving Italian NPLs deriving from Intesa worth €49m at 30 June 2018 was wound up during the year under review.

The banking book also includes mezzanine deals worth €3.3m and junior deals of €0.8m, which are the retention shares of transactions in which Mediobanca acted as sponsor.

The trading book increased in value from €21m to €91.4m, on trading of €68.2m and gains realized on disposal totalling €2m, with virtually the whole book renewed. Just under two-thirds of the trading book is accounted for by the senior tranche of the securitization of Italian NPLs originated by Intesa/ICCREA, whereas the remainder consists of CLOs, €23.1m of which in the form of mezzanine tranches.

In general terms the ABS segment performed well, helped by the strong asset quality (minor arrears and delinquencies among the underlying instruments led to an upgrade in the rating) and the expansionist monetary policies announced by the ECB which attracted new investors. Thus there was an increase in the number of ABS issues on the primary market, in 2Q 2019 especially, following clarifications on the new EU regulation on securitizations and renewal of the Italian state guarantee for securitization of non-performing loans (known as "GACS").

Mediobanca also has exposures to:

- 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 it manages, with an investment of €25.8m;
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28m.

QUANTITATIVE INFORMATION

C.2 Exposures 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	9,461	(45)	23,144	(5)	—	—
C. Other receivables held by Group's entities	3,851,752	—	—	—	—	—
D. NPLs Italy	179,806	148	2,001	—	643	—
E. NPLs Spain (residential motgages and real estates)	21,643	—	—	—	—	—
F. NPLs Netherland (residential motgages and real estates)	9,684	—	1,289	(1)	198	—
Total 30/6/19	4,072,346	103	26,434	(6)	841	—
Total 30/6/18	4,063,080	(52)	6,911	(73)	3,166	—

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 unconsolidated 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.

E. Asset disposal

A. Financial assets sold but not entirely derecognized

E.1 Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	***of which: subject to securitization transactions***	***of which: subject to sale contracts with repurchase agreement***	***of which deteriorated***	**Book value**	**of which: subject to securitization transactions**	**of which: subject to sale contracts with repurchase agreement**
A. Financial assets held for trading	3,147,167	—	3,147,167	X	3,162,166	—	3,162,166
1. Debt securities	2,312,251	—	2,312,251	X	2,306,214	—	2,306,214
2. Equities	834,916	—	834,916	X	855,952	—	855,952
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with an impact on overall	529,449	—	529,449	—	521,999	—	521,999
1. Debt securities	529,449	—	529,449	—	521,999	—	521,999
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets measured at amortized cost	330,334	—	330,334	—	238,295	—	238,295
1. Debt securities	158,760	—	158,760	—	160,243	—	160,243
2. Loans	171,574	—	171,574	—	78,052	—	78,052
Total 30/6/19	4,006,950	—	4,006,950	—	3,922,460	—	3,922,460

E.3 Disposals related to financial liabilities with repayment exclusively based on assets sold and not fully derecognized: fair value [1]

	Fully booked	Partially booked	Total
A. Financial assets held for trading	3,147,167	—	3,147,167
1. Debt securities	2,312,251	—	2,312,251
2. Equities	834,916	—	834,916
3. Loans	—	—	—
4. Derivatives	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—
1. Debt securities	—	—	—
2. Equities	—	—	—
3. Loans	—	—	—
C. Financial assets designated at fair value	—	—	—
1. Debt securities	—	—	—
2. Loans	—	—	—
D. Financial assets measured at fair value with an impact on overall profitability	529,449	—	529,449
1. Debt securities	529,449	—	529,449
2. Equities	—	—	—
3. Loans	—	—	—
E. Financial assets measured at amortized cost (fair value)	339,455	—	339,455
1. Debt securities	162,126	—	162,126
2. Loans	177,329	—	177,329
Total financial assets	4,016,071	—	4,016,071
Total associated financial liabilities	3,922,460	—	X
Net value 30/06/2019	93,611	—	4,016,071

[1] Includes collateralized liabilities operations: REPOs and other secured financing operations.

F. Credit risk measurement models

Mediobanca S.p.A. uses the AIRB model (PD and LGD parameters) for quantifying the capital requirement for the credit risk of the Corporate portfolio. Moreover, it has also been prepared a plan for the progressive passage to internal models for the various credit exposures (Roll-out plan). With regards to these exposures, which are still subject to the Standard methodology for assessing the regulatory capital requirements, Mediobanca has anyway equip itself, for internal management purposes, with internal models. Mediobanca has also equip itself with a portfolio model, with the aim to calculate the economic capital for the credit risk, which allows to monitor concentration and diversification effects, by geography and by activity sector. For further information, see "Section 1.1 Credit risk" of this Part of Individual Financial Statements.

SECTION 2

Market risks

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

- Sensitivity – mainly Delta and Vega – to small changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;
- Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) 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 changes in market variables.

Other complementary but more specific risk indicators are also used in order to capture other risks on trading positions not fully measured by VaR and sensitivity analysis. The weight of the products requiring use of these supplementary metrics is in any case extremely limited compared to the overall size of the Mediobanca trading book.

The aggregate value-at-risk on the trading book ranged from a low of €2.4m (end-July 2018) and a high of €9.1m in early June 2019. Overall, in the course of the year trading showed an increase in directional positions taken mainly by the proprietary trading desk through positions in derivatives of government securities issued by core Eurozone member countries plus the United Kingdom and through positions in exchange rates. The market scenario reflected especially low volatility levels in all asset classes, except for the temporary increases recorded in exchange rates and equities, driven by the commercial war between the United States and China and by the uncertainties caused by Brexit and the European elections. The average VaR value for FY 2018-19, €4.3m, was therefore much higher than last year (€2.3m). The point-in-time reading for VaR at 30 June 2019 was €6.3m (30/6/18: €2.8m).

The expected shortfall also showed a sharp rise in the average value, from €3m to €5.4m, due to the directional positions mentioned above.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) showed only two occasions on which the VaR value was departed from. The first occurred in early December 2018, chiefly in the equity segment, following the G20 summit in Buenos Aires at the same time as the extraordinary closure of Wall Street; while the second, at end-March 2019, was due to tensions on the forex and government securities markets in particular in the aftermath of the Federal Reserve’s fence-sitting comments and the advent of Brexit.

Tab.1: Value-at-risk and expected shortfall: trading book

(€'000)

Risk factors	12 mths to 30/6/19				12 mths to 30/6/18
	30/6	Min	Max	Avg.	Avg.
Interest rates	4,394	614	4,792	2,165	559
Credit	1,441	718	2,637	1,163	784
Share prices	1,747	796	2,384	1,632	1,986
Exchange rates	1,136	607	3,091	1,740	320
Inflation	212	17	531	170	161
Volatility	2,941	579	3,104	1,271	626
Diversification effect *	(5,578)	—	—	(3,824)	(2,105)
Total	6,292	2,401	9,132	4,317	2,330
Expected Shortfall	*8,279*	*2,960*	*10,225*	*5,376*	*3,080*

* Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of 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 equity volatility) which are monitored daily. Average exposures have generally increased during the year, with the exception of the equity component, which reflects pronounced swings between highs and lows consistent with the directional positions taken. The delta on interest rates also ranged from €5,000 and €823,000, with an average value of around €323,000, while the fluctuations in the equity delta were even more pronounced, ranging from a low of minus €427,000 to a high of €1.2m per percentage point. The fluctuation in the exchange rate delta was also pronounced, ranging from a low of minus €722,000 to a high of €1.9m per percentage point.

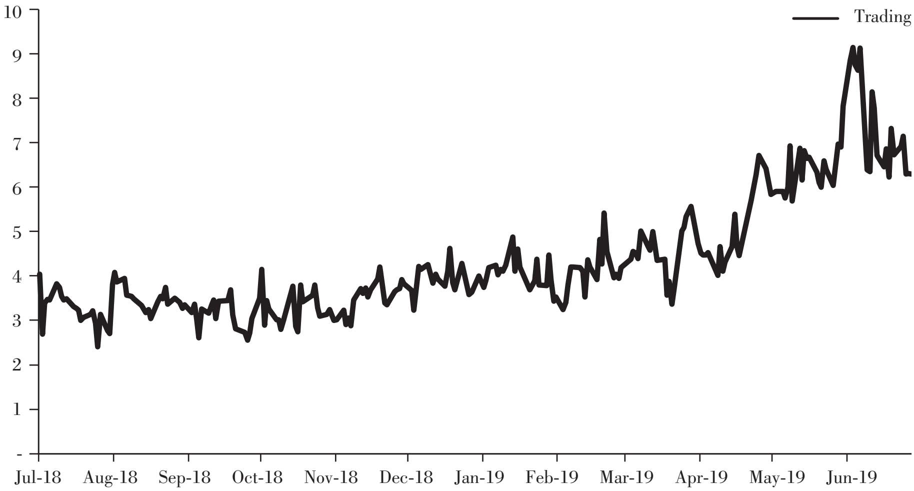
Tab. 2: Summary of trend in main sensitivities for trading book

(€'000)

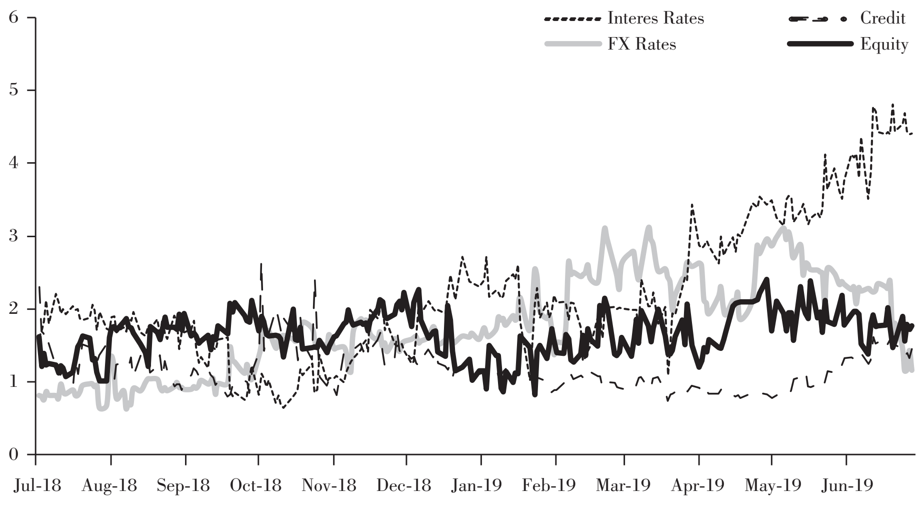
Risk factors	**12 mths to 30/6/19**				**12 mths to 30/6/18**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	270,869	(426,916)	1,236,233	664,340	1,166,546
Equity vega (+1%)	1,118,937	(179,215)	1,677,427	618,926	(131,505)
Interest rate delta(+1bp)	730,967	4,579	823,197	323,109	30,265
Inflation delta (+1 bp)	31,891	(9,264)	43,093	13,743	10,118
Exchange rate delta (+1%) *	485,849	(722,481)	1,906,315	703,114	295,358
Credit delta (+1bp)	1,002,754	398,520	1,272,147	750,825	253,825

* Refers to the Euro gaining versus other currencies.

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by residual maturity (repricing date) of financial cash assets and liabilities and financial derivatives

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	65,093	1,933,698	923,937	427,531	—	—	928,208	—
1.1 Debt securities	65,093	1,933,698	923,937	427,531	—	—	928,208	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	65,093	1,933,698	923,937	427,531	—	—	928,208	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	
3. Financial derivatives	1,644,200	234,617,474	51,015,162	10,610,236	57,457,918	20,367,594	12,434,550	—
3.1 With underlying securities	—	1,930,046	—	—	6,660,264	208,760	—	—
– Options	—	—	—	—	6,620,264	—	—	—
+ long positions	—	—	—	—	3,310,132	—	—	—
+ short positions	—	—	—	—	3,310,132	—	—	—
– Others	—	1,930,046	—	—	40,000	208,760	—	—
+ long positions	—	965,023	—	—	20,000	104,380	—	—
+ short positions	—	965,023	—	—	20,000	104,380	—	—
3.2 Without underlying securities	1,644,200	232,687,428	51,015,162	10,610,236	50,797,654	20,158,834	12,434,550	—
– Options	104,660	175,927,002	32,814,648	3,318,738	10,473,560	5,846,848	2,134,364	—
+ long positions	52,330	87,963,501	16,407,324	1,659,369	5,236,780	2,923,424	1,067,182	—
+ short positions	52,330	87,963,501	16,407,324	1,659,369	5,236,780	2,923,424	1,067,182	—
– Others	1,539,540	56,760,426	18,200,514	7,291,498	40,324,094	14,311,986	10,300,186	—
+ long positions	404,344	30,353,590	8,649,271	3,822,720	19,870,593	6,295,075	4,968,529	—
+ short positions	1,135,196	26,406,836	9,551,243	3,468,778	20,453,501	8,016,911	5,331,657	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	2,291,640	—	47,024
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	6,055
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	6,055
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	245,002	—	—
- harmonized	224,655	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	20,347	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	2,536,642	—	53,079

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 97% of the net exposure is to EU member states.

2.2 INTEREST RATE RISK 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 200 bps 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 BCBS guidelines.

All scenarios present a floor in accordance with the EBA Guidelines (EBA/GL/2018/02) of -1% on demand items with linear progression up to 0% at the 20-year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, except for those which involve other Group companies, used to transfer the interest rate risk on retail client current account deposits (which themselves are treated on the basis of behavioural models).

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 Bank's banking book positions at 30 June 2019, a 200 basis points down parallel shock would cause a reduction in net interest income of approx. €13m.

With reference to analysis of the discounted value of estimated cash flows on the banking book, a flattener shock generates a €54m reduction.

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) [12].

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.

[12] This target is maintained even in the presence of hedging contracts with netting counterparties and CSAs (Collateralized Standard Agreements) have been entered into; the valuation of which is made on the basis of EONIA interest rates.

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 deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future exposure. 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) for all the time steps up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the presence 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 exposure limits split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of financial 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	6,100,706	24,716,321	7,190,578	4,083,477	7,018,994	860,142	443,895	—
1.1 Debt securities	—	1,408,211	2,940,414	1,828,688	4,085,690	500,456	6,379	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	1,408,211	2,940,414	1,828,688	4,085,690	500,456	6,379	—
1.2 Loans to banks	2,032,546	14,194,614	935,084	1,803,657	1,527,965	189,595	403,208	—
1.3 Loans to customers	4,068,160	9,113,496	3,315,080	451,132	1,405,339	170,091	34,308	—
– current accounts	1,030,755	—	—	—	—	—	—	—
– other loans	3,037,405	9,113,496	3,315,080	451,132	1,405,339	170,091	34,308	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	3,037,405	9,113,496	3,315,080	451,132	1,405,339	170,091	34,308	—
2. Cash liabilities	21,045,275	9,998,653	2,250,739	6,239,684	7,930,249	2,512,502	1,113,277	—
2.1 Due to customers	4,611,493	721,048	405,781	112,969	288,599	—	—	—
– current accounts	4,244,821	—	—	—	—	—	—	—
– other amounts due	366,672	721,048	405,781	112,969	288,599	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	366,672	721,048	405,781	112,969	288,599	—	—	—
2.2 Due to banks	16,154,638	4,766,491	952,844	3,028,854	3,892,548	—	369,149	—
– current accounts	14,750,381	—	—	—	—	—	—	—
– other amounts due	1,404,257	4,766,491	952,844	3,028,854	3,892,548	—	369,149	—
2.3 Debt securities	279,144	4,511,114	892,114	3,097,861	3,749,102	2,512,502	744,128	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	279,144	4,511,114	892,114	3,097,861	3,749,102	2,512,502	744,128	—
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	1,497,097	23,100,005	3,397,672	4,057,744	12,532,684	4,890,976	792,500	—
– Options	—	—	—	200,000	260,000	—	—	—
+ long positions	—	—	—	100,000	130,000	—	—	—
+ short positions	—	—	—	100,000	130,000	—	—	—
– Others	1,497,097	23,100,005	3,397,672	3,857,744	12,272,684	4,890,976	792,500	—
+ long positions	651,198	6,384,819	2,037,672	1,962,744	9,535,930	3,566,976	765,000	—
+ short positions	845,899	16,715,186	1,360,000	1,895,000	2,736,754	1,324,000	27,500	—
4. Other OTC trades	6,818	431,560	1,101,238	114,212	10,243,338	49,762	—	—
+ long positions	6,818	384,179	555,783	50,000	4,962,703	13,981	—	—
+ short positions	—	47,381	545,455	64,212	5,280,635	35,781	—	—

2. Banking book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	112,168	—	24,120
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	31,203	—	131,167
- harmonized open	31,203	—	—
- non-harmonized open	—	—	—
- closed	—	—	123,078
- reserved	—	—	—
- speculative	—	—	8,089
B.2 Other EU states	176,763	—	207,036
- harmonized	—	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	176,763	—	207,036
B.3 Non-EU states	—	—	2,228
- open	—	—	—
- closed	—	—	2,228
Total	320,134	—	364,551

[1] which 43% Italian and 57% other EU member states.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurements techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 574 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

Items	Currencies					
	US Dollars	**GB Pounds**	**Yen**	**Swedish kronas**	**Swiss francs**	**Other currencies**
A. Financial assets	2,834,931	2,690,645	18,309	3,631	259,194	26,089
A.1 Debt securities	865,042	607,970	—	—	99,392	—
A.2 Equity securities	105,286	787,637	3,770	—	448	1,584
A.3 Due from banks	1,208,105	1,277,118	14,529	876	32,622	16,195
A.4 Due from customers	241,129	17,920	—	2,755	121,563	8,250
A.5 Other financial assets	415,369		10	—	5,169	60
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	(3,674,408)	(2,273,138)	(845)	(124)	(146,660)	(45,937)
C.1 Due to banks	(1,153,216)	(1,601,506)	(3)	(124)	(80,004)	(40,021)
C.2 Due to customers	(166,432)	(13)	(3)	—	(9)	(5,732)
C.3 Debt securities	(1,920,071)	(666,996)	—	—	—	—
C.4 Other financial liabilities	(434,689)	(4,623)	(839)	—	(66,647)	(184)
D. Other liabilities	—	—	—	—	—	—
E. Financial derivatives						
- Options	1,898	(19,173)	(7,197)	—	1,055	(32)
+ Long positions	123,465	28,337	20,691	—	13,651	5,301
+ Short positions	(121,567)	(47,510)	(27,888)	—	(12,596)	(5,333)
- Other derivatives	821,388	(403,189)	(194,729)	51,564	(160,394)	63,391
+ Long positions	3,798,429	534,113	175,026	126,875	403,102	362,944
+ Short positions	(2,977,041)	(937,302)	(212,255)	(75,311)	(563,496)	(299,553)
Total assets	6,756,825	3,253,095	214,026	130,506	675,947	394,334
Total liabilities	(6,773,016)	(3,257,950)	(240,988)	(75,435)	(722,752)	(350,823)
Difference (+/-)	(16,191)	(4,855)	(26,962)	55,071	(46,805)	43,511

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate level for the reflected a stable trend in the first half of the financial year, followed by a pronounced increase in absolute terms until early March, after which they gradually returned to just above the levels recorded in the first six months. Volatility remained at relatively low levels for all the main currencies, with temporary increases at year-end 2018 triggered primarily by commercial tensions. The VaR for the forex component at the aggregate level showed a stable trend until end-November, after which the increase in volatility for certain currencies, together with the increased exposure, drove an increase in VaR which subsequently reduced in line with the lower volatility, which preceded the gradual reduction in the exposure. The average VaR value was around €11.7m, largely unchanged from last year (€11.2m). The VaR figure recorded at 28 June 2019 was €9.2m (30/6/18: €13.2m).

SECTION 3

Derivative instruments and hedging policies

3.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	32,013,915	52,535,529	927,838	99,014,423
a) Options	—	12,115,937	280,000	96,703,913
b) Swap	32,013,915	32,309,212	647,838	—
c) Forward	—	124,380	—	—
d) Futures	—	—	—	2,310,510
e) Others	—	7,986,000	—	—
2. Equities and stock indexes	—	14,442,921	2,182,737	14,159,122
a) Options	—	12,289,056	2,182,737	13,822,601
b) Swap	—	2,002,462	—	—
c) Forward	—	151,403	—	—
d) Futures	—	—	—	336,521
e) Others	—	—	—	—
3. Currencies and gold	—	9,473,310	108,554	—
a) Options	—	1,534,191	—	—
b) Swap	—	3,137,018	105,448	—
c) Forward	—	4,802,101	3,106	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	32,013,915	76,451,760	3,219,129	113,173,545

A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Positive fair value				
a) Options	—	571,984	3,820	487,169
b) Interest rate swap	2,489	993,648	66,165	—
c) Cross currency swap	—	326,406	10,067	—
d) Equity swap	—	9,181	—	—
e) Forward	—	45,221	6,165	—
f) Futures	—	—	—	10,352
g) Others	—	—	—	—
Total	2,489	1,946,440	86,217	497,521
2. Negative fair value				
a) Options	—	677,781	60,315	629,169
b) Interest rate swap	228,968	655,970	7,544	—
c) Cross currency swap	—	99,056	—	—
d) Equity swap	—	20,436	—	—
e) Forward	—	166,527	885	—
f) Futures	—	—	—	20,479
g) Others	—	—	—	—
Total	228,968	1,619,770	68,744	649,648

A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	180,000	172,467	575,371
- positive fair value	X	59,000	—	7,341
- negative fair value	X	1,047	6,536	467
2) Equities and stock indexes				
- notional value	X	1,519,396	663,318	22
- positive fair value	X	3,461	488	5,859
- negative fair value	X	60,323	15	356
3) Currencies and gold				
- notional value	X	3,106	—	105,448
- positive fair value	X	—	—	10,067
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	32,013,915	35,554,158	9,327,400	7,653,971
- positive fair value	2,489	518,283	188,233	309,790
- negative fair value	228,968	575,725	274,526	41,916
2) Equities and stock indexes				
- notional value	—	8,692,295	4,097,407	1,653,219
- positive fair value	—	297,342	135,791	93,995
- negative fair value	—	365,647	169,121	26,363
3) Currencies and gold				
- notional value	—	5,305,053	2,376,849	1,791,408
- positive fair value	—	263,651	55,720	83,634
- negative fair value	—	99,963	15,927	50,581
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC financial derivatives: notional amounts

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	16,510,269	44,906,338	24,060,675	85,477,282
A.2 Financial derivative contracts on equity securities and stock indexes	7,762,972	8,760,686	102,000	16,625,658
A.3 Financial derivatives on currencies and gold	5,724,043	2,859,480	998,341	9,581,864
A.4 Financial derivatives on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	29,997,284	56,526,504	25,161,016	111,684,804

B. Credit derivatives

B.1 Trading credit derivatives: average and reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	4,491,875	17,549,942
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	873,520	—
Total 30/06/2019	5,365,395	17,549,942
2. Security sales		
a) Credit default products	3,380,660	17,549,944
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 30/06/2019	3,380,660	17,549,944

[1] Of which certificates totalling €873,520,000.

The column headed “Several names” shows the positions on credit indexes matched by positions on single names which go to make up the index in skew issues. The derivative embedded in the issues, for the hedge buys, is represented by individual constituents, with notional value equal to the nominal value of the issues.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/19
1. Positive fair value	
a) Credit default products	490,191
b) Credit spread products	—
c) Total rate of return swap	—
d) Other	—
Total	490,191
2. Negative fair value	
a) Credit default products	551,263
b) Credit spread products	—
c) Total rate of return swap	—
d) Other [1]	864,440
Total	1,415,702

[1] Of which certificates totalling €864,440,000.

B.3 Trading book OTC credit derivatives: notional values and gross positive/negative fair value, by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value [1]	X	1,759,371	300,000	—
– positive fair value	X	20,607	7,158	—
– negative fair value [1]	X	864,440	—	—
2) protection sale				
– notional value	X	14,526	—	—
– positive fair value	X	—	—	—
– negative fair value	X	54,018	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
– notional value	4,093,799	9,904,712	6,857,456	—
– positive fair value	—	65,586	10,162	—
– negative fair value	13,943	220,401	188,337	—
2) protection sale				
– notional value	4,045,557	10,351,698	6,518,822	—
– positive fair value	—	219,471	167,207	—
– negative fair value	—	70,502	4,062	—

[1] Of which certificates with a notional value of €873,520,000 and a fair value of €864,440,000.

B.4 Outstanding life of OTC trading credit derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1. Sale protection	676,808	18,714,116	1,539,679	20,930,603
2. Buy protection	877,958	20,240,750	1,796,630	22,915,338
Total 30/06/2019	1,554,766	38,954,866	3,336,309	43,845,941

3.2 Hedging policies

A. Financial hedging derivatives

A.1 Financial hedging derivatives: reporting-date notional value

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	18,787,256	6,038,647	—	—
a) Options	—	130,000	—	—
b) Swap	18,787,256	5,808,647	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	100,000	—	—
2. Equities and stock indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Currencies and gold	—	308,436	—	—
a) Options	—	—	—	—
b) Swap	—	308,436	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	18,787,256	6,347,083	—	—

A.2 Financial hedging derivatives: positive and negative fair values by product

Types of derivatives	Positive and negative fair values				Changes in value used to evaluate the ineffectiveness of the hedge
	30/6/19				30/6/19
	Over the counter			Organized markets	
	Central Counterparts	without central counterparties			
		With clearing arrangements	Without clearing arrangements		
1. Positive fair value					
a) Options	—	6,505	—	—	—
b) Interest rate swap	305,510	96,710	—	—	356,659
c) Cross currency swap	—	1,138	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	305,510	104,353	—	—	356,659
2. Negative fair value					
a) Options	—	14,209	—	—	—
b) Interest rate swap	50,302	120,038	—	—	85,399
c) Cross currency swap	—	101	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	50,302	134,348	—	—	85,399

A.3 OTC financial hedging derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	18,787,256	5,391,377	297,270	350,000
- positive fair value	305,510	102,560	655	—
- negative fair value	50,302	118,517	2,647	13,083
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	293,497	14,938	—
- positive fair value	—	1,138	—	—
- negative fair value	—	—	101	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC financial hedging derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	6,216,016	13,341,702	5,268,185	24,825,903
A.2 Financial derivative contracts on equity securities and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	308,436	—	308,436
A.3 Financial derivative on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	6,216,016	13,650,138	5,268,185	25,134,339

C. Non derivatives hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

	Book Value			Change in the value used to calculate the ineffectiveness of the hedge		
	Fair value hedge	**Cash flow hedge**	**Foreign investments hedge**	***Fair value hedge***	**Cash flow hedge**	**Foreign investments hedge**
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading activities	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/19	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	—	—	5,417	—
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	—	—	5,417	—
Total 30/6/19	—	—	—	—	5,417	—

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with an impact on total profitability - hedges of:	1,417,736	—	12,219	—	19,199	—
1.1 Debt securities and interest rate	1,417,736	—	12,219	—	19,199	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	3,229,570	—	12,338	—	10,901	—
2.1 Debt securities and interest rate	3,229,570	—	12,338	—	10,901	X
2.2 Equity securities and stock price indices	—	—	—	—	—	X
2.3 Currencies and gold	—	—	—	—	—	X
2.4 Crediti	—	—	—	—	—	X
2.5 Other	—	—	—	—	—	X
Total 30/6/19	4,647,306	—	24,557	—	30,100	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	14,731,229	—	304,272	—	270,791	—
1.1 Debt securities and interest rate	14,731,229	—	304,272	—	270,791	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/19	14,731,229	—	304,272	—	270,791	—

D.2 Cash flow and foreign ivestments hedges

	Change in value used to calculate hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Cash flow hedges			
1. Assets	—	—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indices	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits	—	—	—
1.5 Other	—	—	—
2. Liabilities	(5,768)	(3,432)	—
1.1 Debt securities and interest rate	—	—	—
1.2 Currencies and gold	(5,768)	(3,432)	—
1.3 Other	—	—	—
Total (A) 30/6/19	(5,768)	(3,432)	—
B. Foreign Investments hedges	X	—	—
Total (A+B) 30/6/19	(5,768)	(3,432)	—

E. Effects of hedging operations to net equity

E.1 Reconciliation of net equity constituents

	Cash flow hedges reserve					Foreign investment hedges reserve				
	Debt securities and interest rate	Equity securities and stock price indices	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock price indices	Currencies and gold	Credits	Others
Initial balance	—	—	641	—	—	—	—	—	—	—
Changes in fair value (effective share)	—	—	(4,073)	—	—	—	—	—	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction not expected	—	—	—	—	—	*X*	*X*	*X*	*X*	*X*
Other variations	—	—	—	—	—	—	—	—	—	—
of wich: transfer to initial book value	—	—	—	—	—	*X*	*X*	*X*	*X*	*X*
Final balance	—	—	(3,432)	—	—	—	—	—	—	—

3.3 Other information on derivative instruments (trading and hedging instruments)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparty	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	50,801,172	41,125,536	9,797,136	8,579,341
- positive fair value	307,999	679,844	188,889	317,131
- negative fair value	279,269	695,289	283,709	55,467
2) Equity instrument and stock index				
- notional amount	—	10,211,691	4,760,725	1,653,241
- positive fair value	—	300,802	136,279	99,854
- negative fair value	—	425,970	169,136	26,719
3) Currency and gold				
- notional amount	—	5,601,655	2,391,787	1,896,856
- positive fair value	—	264,789	55,720	93,701
- negative fair value	—	99,963	16,028	50,581
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchase				
- notional amount	4,093,799	11,664,082	7,157,456	—
- positive fair value	—	86,193	17,320	—
- negative fair value	13,943	1,084,841	188,337	—
2) Hedge sale				
- notional amount	4,045,557	10,366,225	6,518,822	—
- positive fair value	—	219,471	167,207	—
- negative fair value	—	124,520	4,062	—

SECTION 4

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 defined as 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 defined as 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.

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Mediobanca Group and the financial system in general, given that a single bank's difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

To meet this objective, the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. stipulates that an adequate level of highly liquid assets must be maintained to cover the cash flows anticipated in the short and medium/long term.

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 level.

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's Risk Appetite Framework.

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;
- Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;

– Risk Management which, in accordance 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 Consolidated Notes to the Accounts.

In accordance with the Regulations, Mediobanca S.p.A assesses the regulatory indicators - LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) – at individual level. Throughout the period under review, the LCR indicator remained well above the limits set under the regulation in force at all time.

In addition to the risk measurement system described above, an event governance model has also been devised 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 and/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.

QUANTITATIVE INFORMATION

1. *Financial assets and liabilities by contractual 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	5,960,586	253,549	1,000,913	1,436,116	2,811,433	4,724,318	6,187,368	24,103,112	7,993,403	211,382
A.1 Government securities	438	788	32,785	58,608	33,806	130,195	1,957,144	4,277,934	593,120	—
A.2 Other debt securities	1	713	30,745	27,218	91,119	2,703,820	581,886	3,660,900	819,922	—
A.3 UCITS units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	5,960,147	252,048	937,383	1,350,290	2,686,508	1,890,303	3,648,338	16,164,278	6,580,361	211,382
– to banks	2,032,548	31,621	688,591	647,067	1,167,552	1,079,089	2,438,263	7,050,667	5,637,167	211,382
– to customers	3,927,599	220,427	248,792	703,223	1,518,956	811,214	1,210,075	9,113,611	943,194	—
Cash liabilities	21,045,282	112,305	911,712	451,663	5,727,557	1,952,708	5,378,473	14,513,071	5,237,651	—
B.1 Deposits and current accounts	18,995,202	—	—	—	—	—	—	—	—	—
– to banks	14,750,381	—	—	—	—	—	—	—	—	—
– to customers	4,244,821	—	—	—	—	—	—	—	—	—
B.2 Debt securities	279,150	121	17,493	15,069	137,990	913,172	2,091,822	8,277,870	4,267,784	—
B.3 Other liabilities	1,770,930	112,184	894,219	436,594	5,589,567	1,039,536	3,286,651	6,235,201	969,867	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
– long positions	365,724	232,821	372,692	570,471	801,895	811,237	255,839	2,218,742	563,268	—
– short positions	10,505	71,547	155,955	310,370	322,405	246,539	321,665	4,794,152	435,072	—
C.2 Financial derivatives without principal exchange of										
– long positions	3,218,445	6,324	10,695	5,032	24,898	46,702	84,404	—	—	—
– short positions	3,155,929	2,213	5,267	9,567	21,036	60,516	71,436	—	—	—
C.3 Deposits and loans for collection										
– long positions	2,423,145	235,827	164,565	199,402	—	183,622	1,409,360	166,173	47,965	—
– short positions	—	—	—	130,027	—	473,961	2,049,741	1,508,770	667,558	—
C.4 Irrevocable commitments to disburse funds										
– long positions	—	—	—	22,056	—	68,998	1,446,448	870,372	238,754	—
– short positions	291,865	32,140	148,782	226,084	14,661	186,646	1,372,897	294,595	78,958	—
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	825,000	36,344	160,972	1,488,716	87,089	—
– short positions	—	—	—	—	43,681	59,585	28,787	2,344,583	121,484	—
C.8 Credit derivatives without exchange of principal										
– long positions	612,669	—	—	—	—	—	—	—	—	—
– short positions	673,747	—	—	—	—	—	—	—	—	—

SECTION 5

Operational risk

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 requirement for operational risks

The Bank 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 as at 30 June 2019 was €117.33m (30/6/18: €112.2m).

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 operating losses recorded in the course of the financial year have been very low and account for only a minor percentage of total income.

As the table below shows, the losses concerned are chiefly legal expenses in litigation cases that have been ongoing for several years and which fall primarily into the following categories: "Clients, products and business practices", and residual process risks in trading and settlement activities ("Execution, delivery and process management").

Event Type	% on Total Loss
Clients, products and business practices	67%
Execution, delivery and process management	11%
Employment practices and workplace safety	20%
Other	2%

Potential operational risks (based on estimates), operational risks are higher than they have been in the past because of launch of the Wealth Management business. The potential risk of low frequency/high severity events remains highg inherent in businesses which feature non-standard and large-sized transactions, such as CIB and in part Wealth Management. Operational risks have been mitigated and continue to be mitigated on an ongoing basis through an increase in the risk assessment and monitoring framework and enhancement of the governance and first-level controls.

With reference to IT risk in particular, an IT Governance unit has been set up 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 at Group level.

Litigation risk: risks deriving from cases outstanding

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 510-513.

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

Items/Values	30/6/19
1. Share capital	443,608
2. Share premium reserve	2,195,606
3. Reserves	2,217,665
- earnings	2,076,320
a) legal	88,704
b) statutory	1,157,437
c) treasury shares	141,989
d) others	688,190
- others	141,345
4. Equity instruments	—
5. (Treasury shares)	(141,989)
6. Valuation reserves:	85,744
- Equity instruments valued at fair value with impact taken to comprehensive income	59,562
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	24,161
- Tangible assets	—
- Intangible assets	—
- Hedging of foreign investments	—
- Hedging of cash flows	(3,432)
- Hedging instruments (not designated instruments)	—
- Exchange differences	—
- Non-current assets and group of assets being sold	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	—
- Actuarial gains (losses) on defined benefits pension schemes	(4,179)
- Valuation reserves share of equity-accounted interests	—
- Extraordinary revaluation laws	9,632
7. Net profit (loss) for the period	386,245
Total	5,186,879

For further information, please see Section 12 “Capital of the company – Headings 130, 150, 160, 170, 180, 190 and 200”.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

B.1 Net equity: composition

Net equity constituents	30/6/18
1. Share capital	443,275
2. Share premium	2,191,743
3. Reserves	2,292,839
- of gains	2,064,659
a) legal	88,124
b) statutory	1,284,471
c) treasury shares	109,338
d) others	582,726
- others	228,180
4. Equity instruments	—
5. (Treasury shares)	(109,338)
6. Valuation reserves:	129,954
- AFS securities	126,665
- Property, plant and equipment	—
- Intangible assets	—
- Foreign investment hedges	—
- Cash flow hedges	(2,579)
- Exchange rate difference	—
- Non-current assets being sold	—
- Actuarial gains (losses) on defined-benefit pension schemes	(3,764)
- Share of valuation reserves represented by equity-accounted companies	—
- Special valuation laws	9,632
7. Gain (loss) for the period	337,034
Total	5,285,507

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	30/6/19	
	Positive reserve	Negative reserve
1. Debt securities	30,585	(6,424)
2. Equity securities	60,278	(716)
3. Loans	—	—
Total	90,863	(7,140)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

B.2 AFS valuation reserves: composition

Assets/amounts	30/6/19	
	Positive reserve	Negative reserve
1. Debt securities	63,468	(15,260)
2. Equity securities	59,555	(5,506)
3. UCITS units	28,132	(3,726)
4. Loans and advances	—	—
Total	151,155	(24,492)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	47,340	52,682	—
2. Increases	33,604	14,279	—
2.1 Increases in fair value	28,661	8,815	—
2.2 Credit risk writedowns	574	X	—
2.3 P&L recycling of negative reserves due to realization	4,369	X	—
2.4 Transfers to other net equity components (equity instruments)	—	5,464	—
2.5 Other variations	—	—	—
3. Decreases	56,783	7,399	—
3.1 Reductions in fair value	13,383	5,365	—
3.2 Credit risk writebacks	29	—	—
3.3 P&L recycling of positive reserves:	43,371	X	—
- due to realization	—	—	—
3.4 Transfers to other net equity components (equity instruments)	—	2,034	—
3.5 Other variations	—	—	—
4. Closing balance	24,161	59,562	—

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception one of the distinguishing features of Mediobanca has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines. The capital surplus is justified by the type of operations 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 Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR/CRR2 [13]) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285, Mediobanca has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024 [14].

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473-bis "Introduction of IFRS 9", offers banks the possibility of spreading the impact of introducing IFRS 9 on own funds over a transitional period of five years, by including a decreasing amount of loan loss provisions in CET1 over that time. The Mediobanca Group has applied the static approach to neutralize the effect of the increase in loan loss provisions starting from the financial statements for the year ended 30 June 2018 (IFRS 9 FTA) and for the next five years thereafter [15].

[13] The new Regulation was approved by the European Parliament on 16 April 2019 and it entered into force on 28 June, after being published in the Official Journal of the European Union.

[14] Application of Article 471 is limited to the book value as at December 2012 and to compliance with the concentration limit versus the insurer, i.e. 20% of the limit versus related parties.

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

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of capital paid up, reserves (including €83.7m of the positive FVOCI financial assets reserves, €6.6m of which in government securities) and the profit for the period (€386.2m) net of the dividend for the year (€409.7m) which represents a €0.47 dividend per share. The deductions regard: treasury shares (€234m), including €136m already owned as at 30 June 2019 and commitments to buy back shares totalling €98m to reach 3% of the share capital, intangible assets (€23.1m), goodwill of €12.5m, and other prudential adjustments of €47.5m (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €144.9m were deducted.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes subordinated liabilities issued (down from €1,819.4m to €1,522.7m due to prudential amortization) and the buffer of €2.6m (€9.7m last year) which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models.

Issue	30/6/19		
	ISIN	Gross nominal value	Book value *
MB Subordinato Mar 29	XS1579416741	50,000	48,498
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	165,392
MB OPERA 3.75 2026	IT0005188351	299,820	291,228
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	151,501
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,881
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	375,223
Total subordinated debt securities		2,351,944	1,522,724

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Subordinated debt securities were down from €1,819.4m to €1,522.7m due to movements during the year and to the amortization (€562.3m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUANTITATIVE INFORMATION

	30/6/19	30/6/18
A. Common equity tier 1 (CET1) prior to application of prudential filters	4,678,052	4,874,074
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(44,088)	(37,858)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	4,633,964	4,836,216
D. Items to be deducted from CET1	(959,383)	(928,616)
E. Phase-in regime - impact on CET1 (+/-)*	781,643	865,084
F. Total common equity Tier 1 (CET1) (C-D+/-E)	4,456,224	4,772,684
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) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,525,335	1,829,094
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(313,084)	(278,715)
O. Phase-in regime - Impact on T2 (+/-)	—	—
P. Total T2 (M-N+/-O)	1,212,251	1,550,379
Q. Total own funds (F+L+P)	5,668,475	6,323,063

* The adjustments include application of the transitional arrangements for the introduction of IFRS 9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2019, Mediobanca's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.37%, lower than at 30 June 2018 (16.24%) due chiefly to the treasury share buyback scheme launched and lower valuation reserve which reduce buffers while increasing the incidence of financial investments deduction (from €300.4m to €457.9m). A prudential filter has been applied to the reduction in net equity which emerged on first-time adoption of IFRS 9 (€18.2m net of the tax effect), in an amount of €2.8m (equal to 95% of the higher loan loss provisions booked on third parties' loans – writebacks on intercompany exposures have not been considered since they benefit from the exemption on RWAs calculation), in line with the phase-in regime.

The increase in RWAs (up from €29.4m to €31m) is mainly due to the higher number of exposures towards the associate Mediobanca International which, being based on a foreign country, cannot benefit from the exemption. Conversely, Total Capital Ratio fell from 21.51% to 18.28%.

B. QUANTITATIVE INFORMATION

Categories/Values	Unweighted amounts *		Weighted amounts/requirements	
	30/6/19	30/6/18	30/6/19	30/6/18
A. RISK ASSETS				
A.1 Credit and counterpart risk	62,062,073	60,220,201	26,417,930	25,055,650
1. Standard methodology	46,695,828	45,590,591	17,714,112	16,734,818
2. Internal rating methodology	15,209,628	14,467,969	8,583,698	8,192,795
2.1 Basic	15,209,628	14,467,969	8,583,698	8,192,795
2.2 Advanced	—	—	—	—
3. Securitization	156,617	161,641	120,120	128,037
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			2,113,434	2,004,452
B.2 Credit valuation risk			49,712	51,090
B.3 Settlement risk			—	—
B.4 Market risk			199,990	183,914
1. Standard methodology			199,990	183,914
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risk			117,328	112,157
1. Basic Indicator Approach (BIA)			117,328	112,157
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			2,480,464	2,351,614
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			31,005,802	29,395,171
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.37%	16.24%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.37%	16.24%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.28%	21.51%

* For the standardized methodology, the "unweighted amounts", as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the "unweighted amounts" correspond to the "exposure at default" (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G – Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

On 10 April 2019, Mediobanca S.p.A. completed the acquisition of a 66.4% stake in Messier Maris & Associés. The consideration of €107.9m was paid entirely in Mediobanca shares from the buyback scheme currently in progress.

For further details, please see Part B of the Notes to the Individual Accounts, Section 7 (Equity Investments).

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 in connection with previous business combinations for the period under review.

Part H - Related party disclosure

1. Board member and senior management remuneration

Remuneration paid to directors, statutory auditors and management with strategic responsibilities (pursuant to Consob resolution no. 18049 of 23 December 2011)

	Compensation			
	Emoluments payable in connection to post	Non-cash benefits *	Bonuses and other incentives	Other compensations
BOARD OF DIRECTORS [1]	2,335.2	1,174.2	1,482.4	5,100.0
of which: management	*300.0*	*1,174.2*	*1,482.4*	*5,100.0*
MANAGEMENT with strategic responsibilities [2]	—	324.3	1,725.4	3,628.3
STATUTORY AUDIT COMMITTEE [3]	460.0	—	—	—

* 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 €3m
[1] Includes fifteen directors in office at 30 June 2019.
[2] Includes eight strategic managers at 30 June 2019.
[3] Includes three statutory auditors in office at 30 June 2019.

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 June 2019. 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) increased during the year under review, from €1bn to €1.4bn and now represents approx. 2.1% of total assets (30/6/18: 1.6%). Similarly, interest income from such items grew from 2.8% to 3.4%.

Situation as at 30 june 2019

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related party	Total
Assets	23,337.8	—	355.1	1,007.7	24,700.6
of which: other assets	*6,880.5*	—	*138.8*	*771.7*	*7,791.0*
loans and advances	*16,457.3*	—	*216.3*	*236.0*	*16,909.6*
Liabilities	18,557.9	—	0.1	389.9	18,947.9
Guarantees and commitments	8,656.9	—	10.0	—	8,666.9
Interest income	335.2	—	8.9	15.2	359.3
Interest expense	(223.2)	—	—	—	(223.2)
Net fee income	14.0	—	0.5	7.0	21.5
Other income (cost)	241.8	(21.2) [1]	0.3	(21.2)	199.7

[1] Of which: short-term benefits amounting to €18.1m and performance shares worth €3m. The figure refers to the eight staff members included in the definition of management with strategic responsibilities.

Situation as at 30 june 2018

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related party	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 (cost)	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.

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	No. of shares approved	Awards expire on	Deadline for exercising option	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 shares 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 a 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 allocated 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 15,445,795 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 2018 financial year, a total of 1,639,456 performance shares were awarded; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches FY 2020/21 (up to 763,905), FY 2021/22 (up to 451,496), FY 2022/23 (up to 327,600) and FY 2023/24 (up to 96,455).

Beneficiaries were also awarded a total of 1,757,556 shares, all treasury shares.

After the reporting date, as part of staff variable remuneration for the 2019 financial year, a total of 1,460,454 performance shares were awarded, at 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, four and five-year time horizon, will be made available in tranches in November 2021 (up to 698,539), November 2022 (up to 401,034), November 2023 (up to 283,556) and November 2024 (up to 77,325).

QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/19			30/6/18		
	No. of option	**Avg. price**	**Avg. maturity**	**No. of option**	**Avg. price**	**Avg. maturity**
A. Balance at start of period	642,500	6.51	October 18	4,412,500	6.53	August 18
B. Additions			X			X
B.1 New issues	—	—		—	—	
B.2 Other additions	—	—	X	—	—	X
C. Reductions			X			X
C.1 Performance shares canceled	—	—	X	—	—	X
C.2 Performance shares made available	642,500	6.51	X	3,770,000	6.54	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
E. Performance shares exercisable as at reporting date	—	—	X	642,500	6.51	X

2. Changes to performance share scheme during the period

	30/6/19		30/6/18	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Balance at start of period	4,777,174	6.67	4,834,282	6.38
B. Additions				
B.1 New issues	1,639,456	6.73	1,687,656	7.92
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares canceled	—	—	—	—
C.2 Performance shares made available	1,757,556	6.36	1,500,283	7.08
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	—	—	244,481	6.99
D. Balance at end of period	4,659,074	6.80	4,777,174	6.67

ANNEXES

Consolidated financial statements
Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth update

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

– The heading "Treasury financial assets" includes "Cash and cash equivalents" (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively), plus certain items booked as "Other assets" (heading 130);

– The heading "Banking book securities" includes the debt securities booked as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);

– The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";

– The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (heading 60) for loans and receivables;

– The heading "Other assets" includes the amounts booked under headings 130 "Other assets", 110 "Tax assets" and 50 "Hedging derivatives", and the sundry debtor items booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b);

As for Liabilities:

– The heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
– The heading “Treasury financial liabilities” includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
– The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

Balance sheet as at 30 June 2019 - Assets

(€m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	738.4	—	—	—	—	—	738.4
20. Financial assets at fair value with impact taken to profit and loss	9,765.7	—	55.6	219.8	581.9	—	—	10,623.0
a) Financial assets held for trading	*9,765.7*	—	—	—	—	—	—	*9,765.7*
b) Financial assets designated at fair value	—	—	*52.0*	—	—	—	—	*52.0*
c) Other financial assets mandatorily at fair value	—	—	*3.6*	*219.8*	*581.9*	—	—	*805.3*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,748.1	—	138.6	—	—	3,886.7
40. Financial assets at amortized cost	—	9,420.8	2,892.2	44,173.9	—	—	113.0	56,599.9
50. Hedging derivatives	—	—	—	—	—	—	412.2	412.2
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,259.8	—	—	3,259.8
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	285.8	—	285.8
100. Intangible assets	—	—	—	—	—	901.8	—	901.8
110. Tax assets	—	—	—	—	—	—	806.0	806.0
120. Assets classified as held for sale	—	—	—	—	—	—	22.2	22.2
130. Other assets	—	11.0	—	—	—	—	697.9	708.9
Total assets	**9,765.7**	**10,170.2**	**6,695.9**	**44,393.7**	**3,980.3**	**1,187.6**	**2,051.3**	**78,244.7**

Balance sheet as at 30 June 2019 - Liabilities

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	51,337.3	6,561.1	—	38.5	—	—	57,936.9
a) Due to banks	*8,501.7*	*5,364.8*	—	*4.3*	—	—	*13,870.8*
b) Due to customers	*22,757.6*	*1,196.3*	—	*34.0*	—	—	*23,987.9*
c) Debt securities in issue	*20,078.0*	—	—	*0.1*	—	—	*20,078.1*
20. Trading financial liabilities	—	—	8,027.8	—	—	—	8,027.8
30. Financial liabilities designated at fair value	55.9	—	—	—	—	—	55.9
40. Hedging derivatives	—	—	—	414.2	—	—	414.2
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	600.9	—	—	600.9
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	4.5	—	944.5	—	—	949.0
90. Staff severance indemnity provision	—	—	—	—	27.8	—	27.8
100. Provisions	—	—	—	—	162.5	—	162.5
110. Insurance reserves	—	—	—	170.8	—	—	170.8
120. Revaluation reserves	—	—	—	—	—	597.5	597.5
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—	—	—	—
150. Reserves	—	—	—	—	—	5,891.5	5,891.5
160. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
170. Share capital	—	—	—	—	—	443.6	443.6
180. Treasury share (-)	—	—	—	—	—	(142.0)	(142.0)
190. Minority interests (+/-)	—	—	—	—	—	89.7	89.7
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	823.0	823.0
Total liabilities and net equity	**51,393.2**	**6,565.6**	**8,027.8**	**2,168.9**	**190.3**	**9,898.9**	**78,244.7**

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, fifth update

The profit and loss account shown on p. 28 reflects the following restatements:

– "Net interest income" includes the items stated under headings 10 "Interest and similar income", 20 "Interest and similar expense", the margins on derivatives trading stated under heading 80 "Net trading income", and the net profit or loss on hedges of customer loans and funding stated under heading 90 "Net hedging income";
– "Net treasury income" contains the amounts stated under heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for amounts booked as Net interest income and considering that the heading includes €18.1m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 "Net gains (losses) on disposals/repurchases", the share of securities lending transactions stated under headings 40 "Fee and commission income" and 50 "Fee and commission expense", and the share of heading 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" not related to lending funds;
– The heading "Net fee and commission income" contains the amounts stated under heading 60 "Net fee and commission income", the operating income stated under heading 230 "Other operating income (expense)", and the writebacks due to collections on NPLs acquired stated under heading 130 "Net writeoffs (writebacks) for credit risk" and the "Net profit from insurance activities" of headings 160 and 170;
– The heading "Loan loss provisions" contains the amounts relating to loans stated under headings 130 "Net value adjustments for credit risk" (net of the writebacks to NPLs), 100 "Net gains (losses) on disposals/repurchases", 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" and 140 "Gain (losses) from contractual modifications without derecognition" and the share of heading 200 "Net transfers to provisions – a) commitments and guarantees issued" related to leasing;
– The heading "Gains (losses) on disposal of equity holdings" contains the earnings effects of the Group's holdings in equity investments stated under headings 250 "Gains (losses) on equity investments" while the effects of

securities and funds stated under heading 110 "Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value" are reclassified under heading "Provisions for other financial assets";

- The heading "Operating costs" includes amounts booked under heading 190 "Administrative expenses", net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading "Other income (losses)" contains the non-recurring costs stated under heading 190 "Administrative expenses", in particular contributions to the Single Resolution Fund and Deposit Guarantee scheme, amounts set aside in respect of refurbishments, and depreciation/amortization of tangible and/or intangible assets.

Profit and loss account as at 30 June 2019

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	1,886.0	—	—	—	—	—	—	—	—	—	—	1,886.0
20. Interest expense and similar charges	(481.8)	—	—	—	—	—	—	—	—	—	—	(481.8)
30. Net interest income	**1,404.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,404.2**
40. Fee and commission income	(0.2)	10.5	574.4	—	—	—	—	—	—	—	—	584.7
50. Fee and commission expense	—	(8.0)	(136.3)	—	—	—	—	—	—	—	—	(144.3)
60. Net fee and commission income	**(0.2)**	**2.5**	**438.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**440.4**
70. Dividends and similar income	—	105.8	—	—	—	—	—	—	—	—	—	105.8
80. Net trading income	(13.8)	1.7	—	—	—	—	—	—	—	—	—	(12.1)
90. Net hedging income (expense)	5.4	—	—	—	—	—	—	—	—	—	—	5.4
100. Gain (loss) on disposal/repurchase	—	86.5	—	—	—	—	(7.2)	—	—	—	—	79.3
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	0.2	—	—	—	—	17.0	(0.8)	—	—	—	16.4
120. Total income	**1,395.6**	**196.7**	**438.1**	**—**	**—**	**—**	**9.8**	**(0.8)**	**—**	**—**	**—**	**2,039.4**
130. Net writeoffs (writebacks) for credit risk	—	—	26.9	—	—	—	(235.9)	(1.3)	—	—	—	(210.3)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	(0.2)		—	—	—	(0.2)
150. Net income from financial operations	**1,395.6**	**196.7**	**465.0**	**—**	**—**	**—**	**(226.3)**	**(2.1)**	**—**	**—**	**—**	**1,828.9**
160. Premiums earned (net)	—	—	59.1	—	—	—	—	—	—	—	—	59.1
170. Other income (net) from insurance activities	—	—	(12.7)	—	—	—	—	—	—	—	—	(12.7)
180. Net profit from financial and insurance activities	**1,395.6**	**196.7**	**511.4**	**—**	**—**	**—**	**(226.3)**	**(2.1)**	**—**	**—**	**—**	**1,875.3**
190. Administrative expenses	—	—	(0.3)	—	(1,179.9)	—	—	—	(53.5)	—	—	(1,233.7)
200. Net transfers to provisions	—	—	—	—	(4.2)	—	3.7	—	0.5	—	—	—
210. Net adjustments to tangible assets	—	—	—	—	(13.9)	—	—	—	—	—	—	(13.9)
220. Net adjustments to intangible assets	—	—	—	—	(29.1)	—	—	—	(1.2)	—	—	(30.3)
230. Other operating income (expense)	—	—	100.1	—	65.2	—	—	—	—	—	(1.4)	163.9
240. Operating costs	**—**	**—**	**99.8**	**—**	**(1,161.9)**	**—**	**3.7**	**—**	**(54.2)**	**—**	**(1.4)**	**(1,114.0)**
250. Gain (loss) on equity investments	—	—	—	321.2	—	—	—	—	—	—	—	321.2
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill writeoffs	—	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	0.2	—	—	0.2
290. Profit (loss) on ordinary activity before tax	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**—**	**(1.4)**	**1,082.7**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(256.5)	—	(256.5)
310. Profit (loss) on ordinary activities after tax	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(1.4)**	**826.2**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(1.4)**	**826.2**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	—	(3.2)	(3.2)
350. Net profit (loss) for the period attributable to Mediobanca	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(4.6)**	**823.0**

Mediobanca S.p.A.: reconciliation of Financial Statements

Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth update

Balance sheet as at 30 June 2019 (€m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	632.6	—	—	—	—	—	632.6
20. Financial assets at fair value with impact taken to profit and loss	10,047.3	—	55.6	223.7	548.4	—	—	10,875.0
a) Financial assets held for trading	*10,047.3*	—	—	—	—	—	—	*10,047.3*
b) Financial assets designated at fair value	—	—	*52.0*	—	—	—	—	*52.0*
c) Other financial assets mandatorily at fair value	—	—	*3.6*	*223.7*	*548.4*	—	—	*775.7*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,748.2	—	136.3	—	—	3,884.5
40. Financial assets at amortized cost	—	10,884.8	6,975.5	28,447.3	—	—	55.7	46,363.4
50. Hedging derivatives	—	—	—	—	—	—	409.9	409.9
60. Adjustment of hedging financial assets (+ /-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,191.8	—	—	3,191.8
80. Property, plant and equipments	—	—	—	—	—	115.2	—	115.2
90. Intangible assets	—	—	—	—	—	32.5	—	32.5
100. Tax assets	—	—	—	—	—	—	182.1	182.1
110. Assets classified as held for sale	—	—	—	—	—	—	—	—
120. Other assets	—	—	—	—	—	—	221.1	221.1
Total assets	**10,047.3**	**11,517.4**	**10,779.3**	**28,671.0**	**3,876.5**	**147.7**	**868.8**	**65,908.1**

Balance Sheet as at 30 June 2019

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	42,697.8	8,636.2	—	5.3	—	—	51,339.3
a) Due to banks	*21,752.8*	*7,439.8*	—	*4.9*	—	—	*29,197.5*
b) Due to customers	*4,943.4*	*1,196.4*	—	*0.2*	—	—	*6,140.0*
c) Debt securities in issue	*16,001.5*	—	—	*0.2*	—	—	*16,001.7*
20. Trading financial liabilities	—	—	8,280.3	—	—	—	8,280.3
30. Financial liabilities designated at fair value	55.9	—	—	—	—	—	55.9
40. Hedging derivatives	—	—	—	184.7	—	—	184.7
50. Adjustment of hedging financial liabilities (+ /-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	424.7	—	—	424.7
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	—	—	310.4	—	—	310.4
90. Staff severance indemnity provision	—	—	—	—	7.9	—	7.9
100. Provisions	—	—	—	—	118.1	—	118.1
110. Revaluation reserves	—	—	—	—	—	85.7	85.7
120. Redeemable shares repayable on demand	—	—	—	—	—	—	—
130. Equity instruments repayable on demand	—	—	—	—	—	—	—
140. Reserves	—	—	—	—	—	2,217.7	2,217.7
150. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
160. Share capital	—	—	—	—	—	443.6	443.6
170. Treasury share (-)	—	—	—	—	—	(142.0)	(142.0)
180. Profit/(loss) for the period (+ /-)	—	—	—	—	—	386.2	386.2
Total liabilities and net equity	**42,753.7**	**8,636.2**	**8,280.3**	**925.1**	**126.0**	**5,186.8**	**65,908.1**

Reconciliation between reclassified Profit and loss Account and mandatory Profit and Loss ex Bank of Italy circular 262/2005

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions forother financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	706.8	—	—	—	—	—	—	—	—	—	—	706.8
20. Interest expense and similar charges	(619.9)	—	—	—	—	—	—	—	—	—	—	(619.9)
30. Net interest income	**86.9**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**86.9**
40. Fee and commission income	3.8	10.6	238.8	—	—	—	—	—	—	—	—	253.2
50. Fee and commission expense	(0.4)	(10.2)	(23.8)	—	—	—	—	—	—	—	—	(34.4)
60. Net fee and commission income	**3.4**	**0.4**	**215.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**218.8**
70. Dividends and similar income	—	105.6	—	332.4	—	—	—	—	—	—	—	438.0
80. Net trading income	(4.0)	(4.3)	—	—	—	—	—	—	—	—	—	(8.3)
90. Net hedging income (expense)	5.5	—	—	—	—	—	—	—	—	—	—	5.5
100. Gain (loss) on disposal/repurchase	—	83.2	—	—	—	—	—	—	—	—	—	83.2
110. Net result from other financial assets and liabilities measured at fair value with impact	—	—	—	—	—	—	17.0	(1.2)	—	—	—	15.8
120. taken to profit and loss:	**91.8**	**184.9**	**215.0**	**332.4**	**—**	**—**	**17.0**	**(1.2)**	**—**	**—**	**—**	**839.9**
130. Total income	—	—	—	—	—	—	40.3	(3.6)	—	—	—	36.7
140. Net write-offs (write-backs) for credit risk	—	—	—	—	—	—	—			—	—	—
150. Gains (losses) from contractual modifications without derecognition	**91.8**	**184.9**	**215.0**	**332.4**	**—**	**—**	**57.3**	**(4.8)**	**—**	**—**	**—**	**876.6**
160. Net income fromfinancial operations	—	—	(0.3)	—	(407.5)	—	—	—	—	(29.0)	—	(436.8)
170. Administrative expenses	—	—	—	—	(0.3)	—	1.3	—	—	—	—	1.0
180. Net transfers to provisions	—	—	—	—	(3.1)	—	—	—	—	—	—	(3.1)
190. Net adjustments to tangible assets	—	—	—	—	(6.9)	—	—	—	—	—	—	(6.9)
200. Net adjustments to intangible assets	—	—	16.4	—	(1.8)	—	—	—	—	—	—	14.6
210. Other operating income (expense)	**—**	**—**	**16.1**	**—**	**(419.6)**	**—**	**1.3**	**—**	**—**	**(29.0)**	**—**	**(431.2)**
220. Operating costs	—	—	—	—	—	—	—	—	(4.2)	—	—	(4.2)
230. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	—	—	—	—
240. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
250. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—	—
260. Gain (loss) on disposal of investments	**91.8**	**184.9**	**231.1**	**332.4**	**(419.6)**	**—**	**58.6**	**(4.8)**	**(4.2)**	**(29.0)**	**—**	**441.2**
270. Profit (loss) on ordinary activity before tax	—	—	—	—	—	—	—	—	—	—	(55.0)	(55.0)
280. Income tax for the year on ordinary activities	**91.8**	**184.9**	**231.1**	**332.4**	**(419.6)**	**—**	**58.6**	**(4.8)**	**(4.2)**	**(29.0)**	**(55.0)**	**386.2**
290. Profit (loss) on ordinary activities after tax	—	—	—	—	—	—	—	—	—	—	—	—
300. Gain (loss) of ceded operating assets, net of tax	**91.8**	**184.9**	**231.1**	**332.4**	**(419.6)**	**—**	**58.6**	**(4.8)**	**(4.2)**	**(29.0)**	**(55.0)**	**386.2**
Net profit (loss) forthe period												

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 SHEET

		COMPAGNIE MONEGASQUE DE BANQUE * (€/000)	CHEBANCA! (€/000)	COMPASS BANCA (€/000)
	ASSETS			
10.	Cash and cash equivalents	3,217	98,948	3,568
20.	Financial assets at fair value with impact taken to profit and loss	51,547	20,220	—
	a) Financial assets held for trading	*40,372*	—	—
	b) Financial assets designated at fair value	—	—	—
	c) Other financial assets mandatorily at fair value	*11,175*	*20,220*	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	2,319
40.	Financial assets at amortized cost	4,199,286	21,105,140	12,506,024
	a) Due from banks	*2,815,476*	*11,684,537*	*624,893*
	b) Due from customers	*1,383,810*	*9,420,603*	*11,881,131*
50.	Hedging derivatives	812	—	378
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	648	69	103,681
80.	Property, plant and equipments	16,969	6,654	16,450
90.	Intangible assets	10,012	12,639	354,315
	of which:			
	goodwill	—	—	*354,033*
100.	Tax assets	—	42,730	498,550
	a) current	—	*436*	*25,239*
	b) deferred	—	*42,294*	*473,311*
110.	Assets classified as held for sale	—	22,168	—
120.	Other assets	14,564	234,209	165,384
	TOTAL ASSETS	**4,297,055**	**21,542,777**	**13,650,669**

* 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 2019, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

BALANCE SHEET

	COMPAGNIE MONEGASQUE DE BANQUE * (€/000)	CHEBANCA! (€/000)	COMPASS BANCA (€/000)
LIABILITIES			
10. Financial liabilities at amortized cost	3,456,896	20,748,619	11,398,142
a) Due to banks	*25,953*	*5,716,558*	*10,780,603*
b) Due to customers	*3,430,943*	*15,032,061*	*617,539*
c) Debt securities in issue	—	—	—
20. Trading financial liabilities	3,457	—	—
30. Financial liabilities designated at fair value	—	—	—
40. Hedging derivatives	—	174,864	49,216
50. Adjustment of hedging financial liabilities (+/-)	—	—	—
60. Tax liabilities	—	6,810	46,579
a) current	—	*3,150*	*43,689*
b) deferred	—	*3,660*	*2,890*
70. Liabilities included in disposal groups classified as held for sale	—	—	—
80. Oher liabilities	25,940	231,911	232,106
90. Staff severance indemnity provision	—	2,146	8,263
100. Provisions	4,520	33,020	6,481
a) commitments and financial guarantees	—	*156*	*4,145*
b) post-employment and similar benefits	—	—	—
c) other provisions	*4,520*	*32,864*	*2,336*
110. Revaluation reserves	—	(461)	(33,961)
120. Redeemable shares	—	—	—
130. Equity instruments	—	—	—
140. Reserves	661,621	(131,362)	1,081,996
150. Share premium reserves	4,573	233,750	-
160. Share capital	111,110	226,250	587,500
170. Treasury shares	—	—	—
180. Profit (loss) for the period (+/-)	28,938	17,230	274,347
TOTAL LIABILITIES AND NET EQUITY	**4,297,055**	**21,542,777**	**13,650,669**

* 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 2019, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

		COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
		(€/000)	**(€/000)**	**(€/000)**
10.	Interest and similar income	57,944	343,566	1,010,957
	of which: interest income calculated according to the effective interest method	—	*164,131*	*1,009,865*
20.	Interest expense and similar charges	(17,169)	(132,671)	(169,876)
30.	**Net interest income**	**40,775**	**210,895**	**841,081**
40.	Fee and commission income	48,100	117,059	54,770
50.	Fee and commission expense	(6,657)	(32,524)	(54,414)
60.	**Net fee and commission income**	**41,443**	**84,535**	**356**
70.	Dividends and similar income	1,814	13	15
80.	Net trading income	4,805	779	—
90.	Net hedging income (expense)	—	(322)	—
100.	Gain (loss) on disposal/repurchase:	—	1,588	(8,751)
	a) financial assets measured at amortized cost	—	*1,588*	*(8,751)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
	c) financial liabilities	—	—	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	235	(6,155)	—
	a) financial assets and liabilities designated at fair value	*235*	—	—
	b) other financial assets mandatorily valued at fair value	—	*(6,155)*	—
120.	**Total income**	**89,072**	**291,333**	**832,701**
130.	Net write-offs (write-backs) for credit risk:	424	(18,235)	(225,352)
	a) financial assets measured at amortized cost	*424*	*(18,235)*	*(225,352)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140.	Gains (losses) from contractual modifications without derecognition	—	(241)	—
150.	**Net income from financial operations**	**89,496**	**272,857**	**607,349**
160.	Administrative expenses:	(55,588)	(281,708)	(304,959)
	a) personnel coss	***(35,275)***	***(105,834)***	***(93,995)***
	b) other administrative expenses	***(20,313)***	***(175,874)***	***(210,964)***
170.	Net transfers to provisions:	47	20	(1,231)
	a) commitments and financial guarantees	—	*244*	*(827)*
	b) other sums set aside (net)	*47*	*(224)*	*(404)*
180.	Net adjustments to tangible assets	(1,546)	(1,224)	(2,269)
190.	Net adjustments to intangible assets	(2,086)	(6,234)	(146)
200.	Other operating income (expense)	3,901	42,438	111,962
210.	**Operating costs**	**(55,272)**	**(246,708)**	**(196,643)**
220.	Gain (loss) on equity investments	—	—	—
230.	Net result from fair value valuation of tangible and intangible assets	—	—	—
240.	Goodwill write-offs	—	—	—
250.	Gain (loss) on disposal of investments	—	—	—
260.	**Profit (loss) on ordinary activity before tax**	**34,224**	**26,149**	**410,706**
270.	Income tax for the year on ordinary activities	(5,286)	(8,919)	(136,359)
280.	**Profit (loss) on ordinary activities after tax**	**28,938**	**17,230**	**274,347**
290.	Gain (loss) of ceded operating assets, net of tax	—	—	—
300.	**Net profit (loss) for the period**	**28,938**	**17,230**	**274,347**

* 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 2019, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
	ASSETS	
10.	Cash and cash equivalents	1
20.	Financial assets at fair value with impact taken to profit and loss	58,541
	a) Financial assets held for trading	*58,541*
	b) Financial assets designated at fair value	—
	c) Other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	7,793,213
	a) Due from banks	*3,287,070*
	b) Due from customers	*4,506,143*
50.	Hedging derivatives	15,564
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	4,150
80.	Property, plant and equipments	10
90.	Intangible assets	—
	of which:	
	goodwill	—
100.	Tax assets	12,580
	a) current	*12,580*
	b) deferred	—
110.	Assets classified as held for sale	—
120.	Other assets	4,544
	TOTAL ASSETS	**7,888,603**
	LIABILITIES	
10.	Financial liabilities at amortized cost	7,480,288
	a) Due to banks	*3,242,845*
	b) Due to customers	*110,028*
	c) Debt securities in issue	*4,127,415*
20.	Trading financial liabilities	55,634
30.	Financial liabilities designated at fair value	—
40.	Hedging derivatives	91
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	7,406
	a) current	*7,406*
	b) deferred	—
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	2,974
90.	Staff severance indemnity provision	—
100.	Provisions	739
110.	Revaluation reserves	—
120.	Redeemable shares	—
130.	Equity instruments	—
140.	Reserves	328,248
150.	Share premium reserves	—
160.	Share capital	10,000
170.	Treasury shares	—
180.	Profit (loss) for the period (+/-)	3,223
	TOTAL LIABILITIES AND NET EQUITY	**7,888,603**

PROFIT AND LOSS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
10.	Interest and similar income	110,325
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	(98,107)
30.	**Net interest income**	**12,218**
40.	Fee and commission income	14,580
50.	Fee and commission expense	(9,560)
60.	**Net fee and commission income**	**5,020**
70.	Dividends and similar income	—
80.	Net trading income	733
90.	Net hedging income (expense)	7
100.	Gain (loss) on disposal/repurchase:	(87)
	a) financial assets measured at amortized cost	*102*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
	c) financial liabilities	*(189)*
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets and liabilities designated at fair value	—
	b) other financial assets mandatorily valued at fair value	—
120.	**Total income**	**17,891**
130.	Net write-offs (write-backs) for credit risk:	(3,455)
	a) financial assets measured at amortized cost	*(3,455)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**14,436**
160.	Administrative expenses:	(10,066)
	a) personnel coss	*(1,961)*
	b) other administrative expenses	*(8,105)*
170.	Net transfers to provisions:	6
180.	Net adjustments to tangible assets	(4)
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	(51)
210.	**Operating costs**	**(10,115)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill write-offs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**4,321**
270.	Income tax for the year on ordinary activities	(1,098)
280.	**Profit (loss) on ordinary activities after tax**	**3,223**
290.	Gain (loss) of ceded operating assets, net of tax	—
300.	**Net profit (loss) for the period**	**3,223**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
	ASSETS		
10.	Cash and cash equivalents	—	2
20.	Financial assets at fair value with impact taken to profit and loss	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—
40.	Financial assets at amortized cost	1,698,406	385,230
	a) Due from banks	*191*	*15,604*
	b) Due from financial companies	—	*334*
	c) Due from customers	*1,698,215*	*369,292*
50.	Hedging derivatives	85	—
60.	Adjustment of hedging financial assets (+/-)	—	—
70.	Equity investments	9	—
80.	Property, plant and equipments	22	138
90.	Intangible assets	43	632
100.	Tax assets	9,976	15,826
	a) current	*3,183*	*2,365*
	b) deferred	*6,793*	*13,461*
110.	Assets classified as held for sale	—	—
120.	Other assets	8,784	14,948
	TOTAL ASSETS	**1,717,325**	**416,776**
	LIABILITIES		
10.	Financial liabilities at amortized cost	1,537,447	243,209
	a) Due to	*1,537,447*	*243,209*
20.	Trading financial liabilities	—	—
30.	Financial liabilities designated at fair value	—	—
40.	Hedging derivatives	11,808	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—
60.	Tax liabilities	3,464	2,880
	a) current	*3,464*	*2,880*
	b) deferred	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—
80.	Oher liabilities	19,441	12,740
90.	Staff severance indemnity provision	141	4,555
100.	Provisions	1,416	1,794
	a) commitments and financial guarantees	*156*	—
	b) post-employment and similar benefits	—	—
	c) other provisions	*1,260*	*1,794*
110.	Share capital	14,800	32,500
120.	Treasury shares (-)	—	—
130.	Equity instruments	—	—
140.	Share premium reserve	—	—
150.	Reserves	115,410	100,272
160.	Valuation reserves	(7,549)	(731)
180.	Profit (loss) for the period	20,947	19,557
	TOTAL LIABILITIES AND NET EQUITY	**1,717,325**	**416,776**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	FUTURO	MBCREDIT SOLUTIONS
	(€/000)	**(€/000)**
10. Interest and similar income	80,956	38,200
of which: interest income calculated according to the effective interest method	*(80,906)*	—
20. Interest expense and similar charges	(26,407)	(2,803)
30. Net interest income	**54,549**	**35,397**
40. Fee and commission income	1,512	25,229
50. Fee and commission expense	(4,950)	(6,921)
60. Net fee and commission income	**(3,438)**	**18,308**
70. Dividends and similar income	—	—
80. Net trading income	—	2
90. Net hedging income (expense)	—	—
100. Gain (loss) on disposal/repurchase:	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—
120. Total income	**51,111**	**53,707**
130. Net write-offs (write-backs) for credit risk:	(3,402)	15,609
a) Financial assets valued at amortized cost	*(3,402)*	*15,609*
140. Gains (losses) from contractual modifications without derecognition	—	—
150. Net income from financial operations	**47,709**	**69,316**
160. Administrative expenses:	(15,093)	(40,937)
a) personnel coss	*(5,121)*	*(13,940)*
b) other administrative expenses	*(9,972)*	*(26,997)*
170. Net transfers to provisions:	(255)	(138)
a) commitments and financial guarantees	*(3)*	—
b) other sums set aside (net)	*(252)*	*(138)*
180. Net adjustments to tangible assets	(14)	(55)
190. Net adjustments to intangible assets	(55)	(619)
200. Other operating income (expense)	(1,273)	1,304
210. Operating costs	**(16,690)**	**(40,445)**
220. Gain (loss) on equity investments	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—
240. Goodwill write-offs	—	—
250. Gain (loss) on disposal of investments	—	—
260. Profit (loss) on ordinary activity before tax	**31,019**	**28,871**
270. Income tax for the year on ordinary activities	(10,072)	(9,314)
280. Profit (loss) on ordinary activities after tax	**20,947**	**19,557**
290. Gain (loss) of ceded operating assets, net of tax	—	—
300. Net profit (loss) for the period	**20,947**	**19,557**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		SELMABIPIEMME LEASING (€/000)
	ASSETS	
10.	Cash and cash equivalents	5
20.	Financial assets at fair value with impact taken to profit and loss	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	1,997,295
	a) Due from banks	*14,793*
	b) Due from financial companies	*10,979*
	c) Due from customers	*1,971,523*
50.	Hedging derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	55,433
90.	Intangible assets	689
100.	Tax assets	40,881
	a) current	*1,016*
	b) deferred	*39,865*
110.	Assets classified as held for sale	—
120.	Other assets	15,690
	TOTAL ASSETS	**2,109,993**
	LIABILITIES	
10.	Financial liabilities at amortized cost	1,850,362
	a) Due to	*1,850,362*
20.	Trading financial liabilities	392
30.	Financial liabilities designated at fair value	—
40.	Hedging derivatives	11,123
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	10,360
	a) current	*1,976*
	b) deferred	*8,384*
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	16,083
90.	Staff severance indemnity provision	1,812
100.	Provisions	10,351
	a) commitments and financial guarantees	*44*
	b) post-employment and similar benefits	—
	c) other provisions	*10,307*
110.	Share capital	41,305
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	4,620
150.	Reserves	165,410
160.	Valuation reserves	(7,151)
180.	Profit (loss) for the period	5,326
	TOTAL LIABILITIES AND NET EQUITY	**2,109,993**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

		SELMABIPIEMME LEASING (€/000)
10.	Interest and similar income	51,721
	of which: interest income calculated according to the effective interest method	*51,721*
20.	Interest expense and similar charges	(11,760)
30.	**Net interest income**	**39,961**
40.	Fee and commission income	2,069
50.	Fee and commission expense	(1,161)
60.	**Net fee and commission income**	**908**
70.	Dividends and similar income	—
80.	Net trading income	40
90.	Net hedging income (expense)	41
100.	Gain (loss) on disposal/repurchase:	—
	a) financial assets at amortized cost	—
	b) financial assets measured at fair value with impact taken to other comprehensive income	—
	c) financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	financial assets and liabilities designated at fair value	—
	b) other financial assets mandatorily measured at fair value	—
120.	**Total income**	**40,950**
130.	Net write-offs (write-backs) for credit risk:	(8,702)
	a) financial assets valued at amortized cost	*(8,702)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	42
150.	**Net income from financial operations**	**32,290**
160.	Administrative expenses:	(22,738)
	a) personnel coss	*(12,739)*
	b) other administrative expenses	*(9,999)*
170.	Net transfers to provisions:	(2,787)
	a) commitments and financial guarantees	*16*
	b) other sums set aside (net)	*(2,803)*
180.	Net adjustments to tangible assets	(2,053)
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	1,983
210.	**Operating costs**	**(25,595)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill write-offs	—
250.	Gain (loss) on disposal of investments	(73)
260.	**Profit (loss) on ordinary activity before tax**	**6,622**
270.	Income tax for the year on ordinary activities	(1,296)
280.	**Profit (loss) on ordinary activities after tax**	**5,326**
290.	Gain (loss) of ceded operating assets, net of tax	—
300.	**Net profit (loss) for the period**	**5,326**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		PROMINVEST (under liquidation and arrangement with customers)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD (under liquidation) **
		(€/000)	(€/000)	(€/000)	(£/000)	(£/000)
	ASSETS					
10.	Cash and cash equivalents	—	—	236	—	—
20.	Financial assets at fair value with impact taken to profit and loss	—	—	—	1,910	—
	a) Financial assets held for trading	—	—	—	—	—
	b) Financial assets designated at fair value	—	—	—	—	—
	c) Other financial assets mandatorily at fair value	—	—	—	*1,910*	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	—
40.	Financial assets at amortized cost	390	92	860,000	1,595	122
	a) Due from banks	*197*	*92*	*860,000*	*1,595*	*122*
	b) Due from financial companies	—	—	—	—	—
	c) Due from customers	*193*	—	—	—	—
50.	Hedging derivatives	—	—	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—	—	—
70.	Equity investments	—	—	—	—	—
80.	Property, plant and equipments	—	1,698	—	254	—
90.	Intangible assets	—	—	—	—	—
	of which:					
	goodwill	—	—	—	—	—
100.	Tax assets	2	6	—	—	—
	a) current	*2*	*6*	—	—	—
	b) deferred	—	—	—	—	—
110.	Assets classified as held for sale	—	—	—	—	—
120.	Other assets	29	10	1,071	8,440	—
	TOTAL ASSETS	**421**	**1,806**	**861,307**	**12,199**	**122**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

** The company has not published any individual financial statement, dut to the on-going liquidation process.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	PROMINVEST (under liquidation and arrangement with customers)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD (under liquidation) **
	(€/000)	(€/000)	(€/000)	(£/000)	(£/000)
LIABILITIES					
10. Financial liabilities at amortized cost	—	—	860,203	5,500	—
a) Due to	—	—	—	*5,500*	—
b) Securities in issue	—	—	*860,203*	—	—
20. Trading financial liabilities	—	—	—	92	—
30. Financial liabilities designated at fair value	—	—	—	—	—
40. Hedging derivatives	—	—	—	—	—
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—
60. Tax liabilities	—	3	21	904	—
a) current	—	*3*	*21*	*904*	—
b) deferred	—	—	—	—	—
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—
80. Oher liabilities	1,020	4	192	1,115	5
90. Staff severance indemnity provision	—	—	—	—	—
100. Provisions	—	—	—	—	—
a) commitments and financial guarantees	—	—	—	—	—
b) post-employment and similar benefits	—	—	—	—	—
c) other provisions	—	—	—	—	—
110. Share capital	743	40	831	—	1800
120. Treasury shares (-)	—	—	—	—	—
130. Equity instruments	—	—	—	—	—
140. Share premium reserve	—	—	—	5,000	—
150. Reserves	(1,191)	1,706	—	3,816	(1,762)
160. Valuation reserves	—	—	—	—	—
180. Profit (loss) for the period	(151)	53	60	(4,228)	79
TOTAL LIABILITIES AND NET EQUITY	**421**	**1,806**	**861,307**	**12,199**	**122**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

** The company has not published any individual financial statement, dut to the on-going liquidation process.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	PROMINVEST (under liquidation and arrangement with customers)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD (under liquidation) **
	(€/000)	**(€/000)**	**(€/000)**	**(£/000)**	**(£/000)**
10. Interest and similar income	—	—	6,383	5	—
of which: interest income calculated according to the effective interest method	—	—	—	—	—
20. Interest expense and similar charges	(8)	(5)	(6,384)	(147)	—
30. Net interest income	**(8)**	**(5)**	**(1)**	**(142)**	**—**
40. Fee and commission income	—	1	—	14,397	—
50. Fee and commission expense	(1)	—	—	—	—
60. Net fee and commission income	**(1)**	**1**	**—**	**14,397**	**—**
70. Dividends and similar income	—	—	—	172	—
80. Net trading income	—	—	—	(150)	—
90. Net hedging income (expense)	—	—	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—	—	—
a) Financial assets valued at amortized cost	—	—	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—
c) Financial liabilities	—	—	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—	250	—
a) financial assets designated at fair value	—	—	—	—	—
b) Other financial assets mandatorily valued at fair value	—	—	—	*250*	—
120. Total income	**(9)**	**(4)**	**(1)**	**14,527**	**—**
130. Net write-offs (write-backs) for credit risk:	—	—	—	—	—
a) Financial assets valued at amortized cost	—	—	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—
150. Net income from financial operations	**(9)**	**(4)**	**(1)**	**14,527**	**—**
160. Administrative expenses:	(179)	(32)	(434)	(19,512)	(37)
a) personnel coss	*(12)*	—	—	*(12,480)*	—
b) other administrative expenses	*(167)*	*(32)*	*(434)*	*(7,032)*	*(37)*
170. Net transfers to provisions:	—	—	—	—	—
a) commitments and financial guarantees	—	—	—	—	—
b) other sums set aside (net)	—	—	—	—	—
180. Net adjustments to tangible assets	—	(77)	—	(124)	—
190. Net adjustments to intangible assets	—	—	—	—	—
200. Other operating income (expense)	37	168	511	116	116
210. Operating costs	**(142)**	**59**	**77**	**(19,520)**	**79**
220. Gain (loss) on equity investments	—	—	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—
240. Goodwill write-offs	—	—	—	—	—
250. Gain (loss) on disposal of investments	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	**(151)**	**55**	**76**	**(4,993)**	**79**
270. Income tax for the year on ordinary activities	—	(2)	(16)	765	—
280. Profit (loss) on ordinary activities after tax	**(151)**	**53**	**60**	**(4,228)**	**79**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—
300. Net profit (loss) for the period	**(151)**	**53**	**60**	**(4,228)**	**79**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

** The company has not published any individual financial statement, dut to the on-going liquidation process.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	COMPAGNIE MONEGASQUE DE GESTION * (€/000)	RAM ACTIVE INVESTMENTS S.A. * (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. * (CHF/000)
ASSETS			
10. Cash and cash equivalents	—	—	—
20. Financial assets at fair value with impact taken to profit and loss	—	303	—
a) Financial assets held for trading	—	*303*	—
b) Financial assets designated at fair value	—	—	—
c) Other financial assets mandatorily at fair value	—	—	—
30. Financial assets at fair value with impact taken to comprehensive income	—	—	—
40. Financial assets at amortized cost	1,914	10,559	8,825
a) Due from banks	*1,514*	*9,731*	*8,825*
b) Due from financial companies	—	—	—
c) Due from customers	*400*	*828*	—
50. Hedging derivatives	—	—	—
60. Adjustment of hedging financial assets (+/-)	—	—	—
70. Equity investments	—	793	—
80. Property, plant and equipments	—	1,079	91
90. Intangible assets	—	100	7
of which:			
goodwill	—	—	—
100. Tax assets	—	310	—
a) current	—	*289*	—
b) deferred	—	*21*	—
110. Assets classified as held for sale	—	—	—
120. Other assets	3,555	15,228	3,752
TOTAL ASSETS	**5,469**	**28,372**	**12,675**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		COMPAGNIE MONEGASQUE DE GESTION * (€/000)	RAM ACTIVE INVESTMENTS S.A. * (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. * (CHF/000)
	LIABILITIES			
10.	Financial liabilities at amortized cost	—	—	—
	a) Due to	—	—	—
	b) Securities in issue	—	—	—
20.	Trading financial liabilities	—	—	—
30.	Financial liabilities designated at fair value	—	—	
40.	Hedging derivatives	—	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	—	531	915
	a) current	—	*531*	*915*
	b) deferred	—	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	3,748	3,641	8,182
90.	Staff severance indemnity provision	—	—	—
100.	Provisions	—	—	—
	a) commitments and financial guarantees	—	—	—
	b) post-employment and similar benefits	—	—	—
	c) other provisions	—	—	—
110.	Share capital	600	1,000	782
120.	Treasury shares (-)	—	(4,198)	—
130.	Equity instruments	—	500	—
140.	Share premium reserve	—	—	—
150.	Reserves	(574)	16,177	1,580
160.	Valuation reserves	—	—	(34)
180.	Profit (loss) for the period	1,695	10,721	1,250
	TOTAL LIABILITIES AND NET EQUITY	**5,469**	**28,372**	**12,675**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

PROFIT AND LOSS

	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	4	4	2
of which: interest income calculated according to the effective interest method	—	—	—
20. Interest expense and similar charges	—	(86)	(39)
30. Net interest income	**4**	**(82)**	**(37)**
40. Fee and commission income	12,035	39,424	13,182
50. Fee and commission expense	(6,814)	(3,263)	(8,828)
60. Net fee and commission income	**5,221**	**36,161**	**4,354**
70. Dividends and similar income	—	—	—
80. Net trading income	—	27	13
90. Net hedging income (expense)	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
a) financial assets designated at fair value	—	—	—
b) other financial assets mandatorily valued at fair value	—	—	—
120. Total income	**5,225**	**36,106**	**4,330**
130. Net write-offs (write-backs) for credit risk:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—
150. Net income from financial operations	**5,225**	**36,106**	**4,330**
160. Administrative expenses:	(2,732)	(21,887)	(2,590)
a) personnel coss	*(1,932)*	*(16,148)*	*(1,768)*
b) other administrative expenses	*(800)*	*(5,739)*	*(822)*
170. Net transfers to provisions:	—	—	—
a) commitments and financial guarantees	—	—	—
b) other sums set aside (net)	—	—	—
180. Net adjustments to tangible assets	—	(100)	(12)
190. Net adjustments to intangible assets	—	—	—
200. Other operating income (expense)	—	218	—
210. Operating costs	**(2,732)**	**(21,769)**	**(2,602)**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill write-offs	—	—	—
250. Gain (loss) on disposal of investments	—	—	—
260. Profit (loss) on ordinary activity before tax	**2,493**	**14,337**	**1,728**
270. Income tax for the year on ordinary activities	(798)	(3,616)	(478)
280. Profit (loss) on ordinary activities after tax	**1,695**	**10,721**	**1,250**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—
300. Net profit (loss) for the period	**1,695**	**10,721**	**1,250**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		Messier Maris et Associés S.C.A. * (€/000)	Messier Maris et Associés L.L.C. * (USD/000)
	ASSETS		
10.	Cash and cash equivalents	—	—
20.	Financial assets at fair value with impact taken to profit and loss	—	—
	a) financial assets held for trading	—	—
	b) financial assets designated at fair value	—	—
	c) other financial assets mandatorily at fair value	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—
40.	Financial assets at amortized cost	8,035	231
	a) due from banks	—	*231*
	b) due from financial companies	—	—
	c) due from customers	*8,035*	—
50.	Hedging derivatives	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—
70.	Equity investments	751	—
80.	Property, plant and equipments	363	—
90.	Intangible assets	17,000	—
	of which:		
	goodwill	—	—
100.	Tax assets	3,146	—
	a) current	*3,146*	—
	b) deferred	—	—
110.	Assets classified as held for sale	—	—
120.	Other assets	520	—
	TOTAL ASSETS	**29,815**	**231**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

BALANCE SHEET

		Messier Maris et Associés S.C.A. * (€/000)	Messier Maris et Associés L.L.C. * (USD/000)
	LIABILITIES		
10.	Financial liabilities at amortized cost	4,296	1,423
	a) due to	*4,296*	*1,423*
	b) securities in issue	—	—
20.	Trading financial liabilities	—	—
30.	Financial liabilities designated at fair value	—	—
40.	Hedging derivatives	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—
60.	Tax liabilities	—	—
	a) current	—	—
	b) deferred	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—
80.	Oher liabilities	10,284	—
90.	Staff severance indemnity provision	—	—
100.	Provisions	—	—
	a) commitments and financial guarantees	—	—
	b) post-employment and similar benefits	—	—
	c) other provisions	—	—
110.	Share capital	50	211
120.	Treasury shares (-)	—	—
130.	Equity instruments	—	—
140.	Share premium reserve	17,732	—
150.	Reserves	(2,843)	(963)
160.	Valuation reserves	—	—
180.	Profit (loss) for the period	296	(440)
	TOTAL LIABILITIES AND NET EQUITY	**29,815**	**231**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	Messier Maris et Associés S.C.A. * (€/000)	Messier Maris et Associés L.L.C. * (USD/000)
10. Interest and similar income	—	—
of which: interest income calculated according to the effective interest method	—	—
20. Interest expense and similar charges	—	—
30. Net interest income	**—**	**—**
40. Fee and commission income	5,307	—
50. Fee and commission expense	—	—
60. Net fee and commission income	**5,307**	**—**
70. Dividends and similar income	—	—
80. Net trading income	4	—
90. Net hedging income (expense)	—	—
100. Gain (loss) on disposal/repurchase:	—	—
a) financial assets valued at amortized cost	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—
c) financial liabilities	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—
a) financial assets designated at fair value	—	—
b) other financial assets mandatorily valued at fair value	—	—
120. Total income	**5,311**	**—**
130. Net write-offs (write-backs) for credit risk:	—	—
a) financial assets valued at amortized cost	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—
150. Net income from financial operations	**5,311**	**—**
160. Administrative expenses:	(4,992)	(440)
a) personnel coss	*(3,546)*	*(242)*
b) other administrative expenses	*(1,446)*	*(198)*
170. Net transfers to provisions:	—	—
a) commitments and financial guarantees	—	—
b) other sums set aside (net)	—	—
180. Net adjustments to tangible assets	(23)	—
190. Net adjustments to intangible assets	—	—
200. Other operating income (expense)	—	—
210. Operating costs	**(5,015)**	**(440)**
220. Gain (loss) on equity investments	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—
240. Goodwill write-offs	—	—
250. Gain (loss) on disposal of investments	—	—
260. Profit (loss) on ordinary activity before tax	**296**	**(440)**
270. Income tax for the year on ordinary activities	—	—
280. Profit (loss) on ordinary activities after tax	**296**	**(440)**
290. Gain (loss) of ceded operating assets, net of tax	—	—
300. Net profit (loss) for the period	**296**	**(440)**

* Pro-forma scheme as at 30 June 2019, used for the Consolidated Financial Statements preparation.

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	—	2	1
20.	Financial assets at fair value with impact taken to profit and loss	—	—	—
	a) financial assets held for trading	—	—	—
	b) financial assets designated at fair value	—	—	—
	c) other financial assets mandatorily at fair value	—	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	—
40.	Financial assets at amortized cost	1,997,155	38,160	1,153
	a) due from banks	*59,810*	*31,408*	*468*
	b) due from financial companies	*221,540*	*137*	—
	c) due from customers	*1,715,805*	*6,615*	*685*
50.	Hedging derivatives	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	—	2,350	—
80.	Property, plant and equipments	13	26	—
90.	Intangible assets	—	7,525	55
	of which:			
	goodwill	—	—	—
100.	Tax assets	5,682	1,546	26
	a) current	*4,200*	*399*	—
	b) deferred	*1,482*	*1,147*	*26*
110.	Assets classified as held for sale	—	—	—
120.	Other assets	345	7,187	88
	TOTAL ASSETS	**2,003,195**	**56,796**	**1,323**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MBFACTA (€/000)	SPAFID (€/000)	SPAFID FAMILY OFFICE SIM (€/000)
	LIABILITIES			
10.	Financial liabilities at amortized cost	1,833,616	—	—
	a) due to	*1,833,616*	—	—
	b) securities in issue	—	—	—
20.	Trading financial liabilities	—	—	—
30.	Financial liabilities designated at fair value	—	—	—
40.	Hedging derivatives	—	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	9,086	—	12
	a) current	*9,066*	—	*12*
	b) deferred	*20*	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	8,475	6,493	334
90.	Staff severance indemnity provision	205	972	69
100.	Provisions	65	—	—
	a) commitments and financial guarantees	*15*	—	—
	b) post-employment and similar benefits	—	—	—
	c) other provisions	*50*	—	—
110.	Share capital	120,000	6,100	1,000
120.	Treasury shares (-)	—	—	—
130.	Equity instruments	—	—	—
140.	Share premium reserve	—	3,500	—
150.	Reserves	12,866	39,821	(330)
160.	Valuation reserves	(26)	(117)	30
170.	Profit (loss) for the period	18,908	27	208
	TOTAL LIABILITIES AND NET EQUITY	**2,003,195**	**56,796**	**1,323**

Other financial companies (IAS/IFRS)

PROFIT AND LOSS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
10.	Interest and similar income	55,634	2	—
	of which: interest income calculated according to the effective interest method	*55,634*	—	—
20.	Interest expense and similar charges	(7,888)	—	—
30.	**Net interest income**	**47,746**	**2**	**—**
40.	Fee and commission income	6,382	10,255	1,852
50.	Fee and commission expense	(2,153)	(903)	(120)
60.	**Net fee and commission income**	**4,229**	**9,352**	**1,732**
70.	Dividends and similar income	—	—	—
80.	Net trading income	122	—	—
90.	Net hedging income (expense)	—	—	—
100.	Gain (loss) on disposal/repurchase:	—	—	—
	a) financial assets valued at amortized cost	—	—	—
	b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
	c) financial liabilities	—	—	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
	a) financial assets designated at fair value	—	—	—
	b) other financial assets mandatorily valued at fair value	—	—	—
120.	**Total income**	**52,097**	**9,354**	**1,732**
130.	Net write-offs (write-backs) for credit risk:	(14,890)	(300)	—
	a) financial assets valued at amortized cost	*(14,890)*	*(300)*	—
	b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140.	Gains (losses) from contractual modifications without derecognition	—	—	—
150.	**Net income from financial operations**	**37,207**	**9,054**	1,732
160.	Administrative expenses:	(9,435)	(8,952)	(1,382)
	a) personnel coss	*(2,709)*	*(5,645)*	*(796)*
	b) other administrative expenses	*(6,726)*	*(3,307)*	*(586)*
170.	Net transfers to provisions:	1	—	—
	a) commitments and financial guarantees	*1*	—	—
	b) other sums set aside (net)	—	—	—
180.	Net adjustments to tangible assets	(7)	(9)	—
190.	Net adjustments to intangible assets	—	(379)	(18)
200.	Other operating income (expense)	344	320	—
210.	**Operating costs**	**(9,097)**	**(9,020)**	**(1,400)**
220.	Gain (loss) on equity investments	—	—	—
230.	Net result from fair value valuation of tangible and intangible assets	—	—	—
240.	Goodwill write-offs	—	—	—
250.	Gain (loss) on disposal of investments	—	—	—
260.	**Profit (loss) on ordinary activity before tax**	**28,110**	**34**	**332**
270.	Income tax for the year on ordinary activities	(9,202)	(7)	(124)
280.	**Profit (loss) on ordinary activities after tax**	**18,908**	**27**	**208**
290.	Gain (loss) of ceded operating assets, net of tax	—	—	—
300.	**Net profit (loss) for the period**	**18,908**	**27**	**208**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MEDIOBANCA SGR S.p.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	2
20.	Financial assets at fair value with impact taken to profit and loss	—
	a) financial assets held for trading	—
	b) financial assets designated at fair value	—
	c) other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	29,251
	a) due from banks	—
	b) due from financial companies	—
	c) due from customers	*29,251*
50.	Hedging derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	37
90.	Intangible assets	—
	of which:	
	goodwill	—
100.	Tax assets	64
	a) current	—
	b) deferred	*64*
110.	Assets classified as held for sale	—
120.	Other assets	8,498
	TOTAL ASSETS	**37,852**
	LIABILITIES	
10.	Financial liabilities at amortized cost	1,753
	a) due to	*1,753*
	b) securities in issue	—
20.	Trading financial liabilities	—
30.	*Financial liabilities designated at fair value*	—
40.	Hedging derivatives	—
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	329
	a) current	*293*
	b) deferred	*36*
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	6,395
90.	Staff severance indemnity provision	389
100.	Provisions	245
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	*245*
110.	Share capital	10,330
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	—
150.	Reserves	13,903
160.	Valuation reserves	27
170.	Profit (loss) for the period	4,481
	TOTAL LIABILITIES AND NET EQUITY	**37,852**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

		MEDIOBANCA SGR S.p.A.
		(€/000)
10.	Commission income	23,631
20.	Commission expenses	(3,225)
30.	**Net fee and commission**	**20,406**
40.	Dividends and similar income	—
50.	Interest and similar income	—
	of which: interest income calculated according to the effective interest method	—
60.	Interest and similar charges	—
70.	Net trading income	—
80.	Net hedging income (expense)	—
90.	Gain (loss) on disposal/repurchase:	—
	a) financial assets valued at amortized cost	—
	b) financial assets valued at fair value with impact taken to comprehensive income	—
	c) financial liabilities	—
100.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) other financial assets mandatorily valued at fair value	—
110.	**Total income**	**20,406**
120.	Net write-offs (write-backs) for credit risk:	—
	a) *financial* assets valued at amortized cost	—
	b) *financial* assets valued at fair value with impact taken to comprehensive income	—
130.	**Net income from financial operations**	**20,406**
140.	Administrative expenses:	(13,933)
	a) personnel coss	*(8,378)*
	b) other administrative expenses	*(5,555)*
150.	Net transfers to provisions:	—
160.	Net adjustments to tangible assets	(5)
170.	Net adjustments to intangible assets	—
180.	Other operating income (expense)	134
190.	**Operating costs**	**(13,804)**
200.	Gain (loss) on equity investments	—
210.	Net result from fair value valuation of tangible and intangible assets	—
220.	Goodwill write-offs	—
230.	Gain (loss) on disposal of investments	—
240.	**Profit (loss) on ordinary activity before tax**	**6,602**
250.	Income tax for the year on ordinary activities	(2,121)
260.	**Profit (loss) on ordinary activities after tax**	**4,481**
270.	Gain (loss) of ceded operating assets, net of tax	—
280.	**Net profit (loss) for the period**	**4,481**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	MEDIOBANCA COVERED BOND (€/000)	QUARZO S.r.l. (€/000)	QUARZO CQS (€/000)
ASSETS			
10. Cash and cash equivalents	—	—	—
20. Financial assets at fair value with impact taken to profit and loss	—	—	—
a) financial assets held for trading	—	—	—
b) financial assets designated at fair value	—	—	—
c) other financial assets mandatorily at fair value	—	—	—
30. Financial assets at fair value with impact taken to comprehensive income	—	—	—
40. Financial assets at amortized cost	100	10	10
a) due from banks	*100*	*10*	*10*
b) due from financial companies	—	—	—
c) due from customers	—	—	—
50. Hedging derivatives	—	—	—
60. Adjustment of hedging financial assets (+/-)	—	—	—
70. Equity investments	—	—	—
80. Property, plant and equipments	—	—	—
90. Intangible assets	—	—	—
of which:			
goodwill	—	—	—
100. Tax assets	—	—	—
a) current	—	—	—
b) deferred	—	—	—
110. Assets classified as held for sale	—	—	—
120. Other assets	456	377	444
TOTAL ASSETS	**556**	**387**	**454**
LIABILITIES			
10. Financial liabilities at amortized cost	—	—	—
a) due to	—	—	—
b) securities in issue	—	—	—
20. Trading financial liabilities	—	—	—
30. Financial liabilities designated at fair value	—	—	—
40. Hedging derivatives	—	—	—
50. Adjustment of hedging financial liabilities (+/-)	—	—	—
60. Tax liabilities	—	1	3
a) current	—	*1*	*3*
b) deferred	—	—	—
70. Liabilities included in disposal groups classified as held for sale	—	—	—
80. Oher liabilities	480	374	441
90. Staff severance indemnity provision	—	—	—
100. Provisions	—	—	—
a) commitments and financial guarantees	—	—	—
b) post-employment and similar benefits	—	—	—
c) other provisions	—	—	—
110. Share capital	100	10	10
120. Treasury shares (-)	—	—	—
130. Equity instruments	—	—	—
140. Share premium reserve	—	—	—
150. Reserves	(24)	2	—
160. Valuation reserves	—	—	—
170. Profit (loss) for the period	—	—	—
TOTAL LIABILITIES AND NET EQUITY	**556**	**387**	**454**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	MEDIOBANCA COVERED BOND (€/000)	QUARZO S.r.l. (€/000)	QUARZO CQS (€/000)
10. Interest and similar income	—	—	—
of which: interest income calculated according to the effective interest method	—	—	—
20. Interest expense and similar charges	—	—	—
30. Net interest income	**—**	**—**	**—**
40. Fee and commission income	—	—	—
50. Fee and commission expense	—	—	—
60. Net fee and commission income	**—**	**—**	**—**
70. Dividends and similar income	—	—	—
80. Net trading income	—	—	—
90. Net hedging income (expense)	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
a) financial assets designated at fair value	—	—	—
b) other financial assets mandatorily valued at fair value	—	—	—
120. Total income	**—**	**—**	**—**
130. Net write-offs (write-backs) for credit risk:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—
150. Net income from financial operations	**—**	**—**	—
160. Administrative expenses:	(81)	(165)	(114)
a) personnel coss	—	*(13)*	*(13)*
b) other administrative expenses	*(81)*	*(152)*	*(101)*
170. Net transfers to provisions:	—	—	—
a) commitments and financial guarantees	—	—	—
b) other sums set aside (net)	—	—	—
180. Net adjustments to tangible assets	—	—	—
190. Net adjustments to intangible assets	—	—	—
200. Other operating income (expense)	81	165	116
210. Operating costs	**—**	**—**	**2**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill write-offs	—	—	—
250. Gain (loss) on disposal of investments	—	—	—
260. Profit (loss) on ordinary activity before tax	**—**	**—**	**2**
270. Income tax for the year on ordinary activities	—	—	(2)
280. Profit (loss) on ordinary activities after tax	**—**	—	—
290. Gain (loss) of ceded operating assets, net of tax	**—**	**—**	**—**
300. Net profit (loss) for the period	**—**	**—**	**—**

BALANCE SHEET

		COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2018 (€/000)
	ASSETS	
10.	Cash and cash equivalents	31,691
20.	Financial assets at fair value with impact taken to profit and loss	32,642
	a) financial assets held for trading	—
	b) financial assets designated at fair value	—
	c) other financial assets mandatorily at fair value	*32,642*
30.	Financial assets at fair value with impact taken to comprehensive income	449,198
40.	Financial assets at amortized cost	3,557,664
	a) due from banks	*2,307,417*
	b) due from customers	*1,250,247*
70.	Equity investments	12,945
80.	Property, plant and equipments	203,713
90.	Intangible assets	9,464
100.	Tax assets	—
	a) current	—
	b) deferred	—
110.	Assets classified as held for sale	—
120.	Other assets	36,535
	TOTAL ASSETS	**4,333,852**
	LIABILITIES	
10.	Financial liabilities at amortized cost	3,314,855
	a) due to banks	*45,612*
	b) due to customers	*3,269,243*
	c) securities in issue	—
20.	Trading financial liabilities	—
30.	Financial liabilities designated at fair value	—
40.	Hedging derivatives	—
60.	Tax liabilities	—
	a) current	—
	b) deferred	—
80.	Oher liabilities	39,615
90.	Staff severance indemnity provision	—
100.	Provisions	23,616
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	*23,616*
110.	Valuation reserves	—
120.	Redeemable shares	—
130.	Equity instruments	—
140.	Reserves	825,156
150.	Share premium reserve	4,573
160.	Shares capital	111,110
170.	Treasury shares (-)	—
180.	Profit (loss) for the year	14,927
	TOTAL LIABILITIES AND NET EQUITY	**4,333,852**

PROFIT AND LOSS

		COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2018 (€/000)
10.	Interest and similar income	49,857
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	(12,124)
30.	**Net interest income**	**37,733**
40.	Fee and commission income	52,927
50.	Fee and commission expense	(3,621)
60.	**Net fee and commission income**	**49,306**
70.	Dividends and similar income	4,014
80.	Net trading income	4,492
90.	Net hedging income (expense)	—
100.	Gain (loss) on disposal/repurchase:	(879)
	a) financial assets valued at amortized cost	*(879)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
	c) financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) other financial assets mandatorily valued at fair value	—
120.	**Total income**	**94,666**
130.	Net write-offs (write-backs) for credit risk:	286
	a) financial assets valued at amortized cost	*286*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**94,952**
160.	Administrative expenses:	(50,227)
	a) personnel coss	*(29,811)*
	b) other administrative expenses	*(20,416)*
170.	Net transfers to provisions:	2,250
	a) commitments and financial guarantees	—
	b) other sums set aside (net)	*2,250*
180.	Net adjustments to tangible assets	(4,239)
190.	Net adjustments to intangible assets	(18,850)
200.	Other operating income (expense)	(3,350)
210.	**Operating costs**	**(74,416)**
220.	Gain (loss) on equity investments	(212)
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill write-offs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**20,324**
270.	Income tax for the year on ordinary activities	(5,397)
280.	**Profit (loss) on ordinary activities after tax**	**14,927**
290.	Gain (loss) of ceded operating assets, net of tax	—
350.	**Net profit (loss) for the period**	**14,927**

Financial companies

continued **Table B**

BALANCE SHEET

		MEDIOBANCA SECURITIES LLC ($/000)
	ASSETS	
10.	Cash and cash equivalents	—
20.	Financial assets at fair value with impact taken to profit and loss	—
	a) financial assets held for trading	—
	b) financial assets designated at fair value	—
	c) other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	6,648
	a) due from banks	*6,648*
	b) due from financial companies	—
	c) due from customers	—
50.	Hedging derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	7
90.	Intangible assets	—
	of which:	
	goodwill	—
100.	Tax assets	250
	a) current	—
	b) deferred	*250*
110.	Assets classified as held for sale	—
120.	Other assets	48
	TOTAL ASSETS	**6,953**
	LIABILITIES	
10.	Financial liabilities at amortized cost	32
	a) due to	*32*
	b) securities in issue	—
20.	Trading financial liabilities	—
30.	Financial liabilities designated at fair value	—
40.	Hedging derivatives	—
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	—
	a) current	—
	b) deferred	—
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	1,187
90.	Staff severance indemnity provision	—
100.	Provisions	—
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	—
110.	Share capital	2,250
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	—
150.	Reserves	3,254
160.	Valuation reserves	—
180.	Profit (loss) for the period	230
	TOTAL LIABILITIES AND NET EQUITY	**6,953**

Financial companies

PROFIT AND LOSS

		MEDIOBANCA SECURITIES LLC ($/000)
10.	Interest and similar income	—
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	—
30.	**Net interest income**	**—**
40.	Fee and commission income	1,903
50.	Fee and commission expense	—
60.	**Net fee and commission income**	**1,903**
70.	Dividends and similar income	—
80.	Net trading income	—
90.	Net hedging income (expense)	—
100.	Gain (loss) on disposal/repurchase:	—
	a) financial assets valued at amortized cost	—
	b) financial assets valued at fair value with impact taken to comprehensive income	—
	c) financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) other financial assets mandatorily valued at fair value	—
120.	**Total income**	**1,903**
130.	Net write-offs (write-backs) for credit risk:	—
	a) financial assets valued at amortized cost	—
	b) financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**1,903**
160.	Administrative expenses:	(2,437)
	a) personnel coss	*(1,655)*
	b) other administrative expenses	*(782)*
170.	Net transfers to provisions:	—
	a) commitments and financial guarantees	—
	b) other sums set aside (net)	—
180.	Net adjustments to tangible assets	—
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	885
210.	**Operating costs**	**(1,552)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill write-offs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**351**
270.	Income tax for the year on ordinary activities	(121)
280.	**Profit (loss) on ordinary activities after tax**	**230**
290.	Gain (loss) of ceded operating assets, net of tax	—
350.	**Net profit (loss) for the period**	**230**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2018	CMB ASSET MANAGEMENT S.A.M. 31.12.2018	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2018
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	550	821	11,425
20.	Financial assets at fair value with impact taken to profit and loss	—	—	—
	a) financial assets held for trading	—	—	—
	b) financial assets designated at fair value	—	—	—
	c) other financial assets mandatorily at fair value	—	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	400
40.	Financial assets at amortized cost	—	—	—
	a) due from banks	—	—	—
	b) due from financial companies	—	—	—
	c) due from customers	—	—	—
50.	Hedging derivatives	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	—	—	—
80.	Property, plant and equipments	—	—	—
90.	Intangible assets	—	—	—
	of which:			
	goodwill	—	—	—
100.	Tax assets	—	239	855
	a) current	—	*239*	*855*
	b) deferred	—	—	—
110.	Assets classified as held for sale	—	—	—
120.	Other assets	—	79	2,910
	TOTAL ASSETS	**550**	**1,139**	**15,590**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2018 (€/000)	CMB ASSET MANAGEMENT S.A.M. 31.12.2018 (€/000)	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2018 (€/000)
	LIABILITIES			
10.	Financial liabilities at amortized cost	—	—	—
	a) due to	—	—	—
	b) securities in issue	—	—	—
20.	Trading financial liabilities	—	—	—
30.	Financial liabilities designated at fair value	—	—	—
40.	Hedging derivatives	—	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	—	65	—
	a) current	—	*65*	—
	b) deferred	—	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	—	846	13,081
90.	Staff severance indemnity provision	—	—	—
100.	Provisions	—	—	—
	a) commitments and financial guarantees	—	—	—
	b) post-employment and similar benefits	—	—	—
	c) other provisions	—	—	—
110.	Share capital	775	150	600
120.	Treasury shares (-)	—	—	—
130.	Equity instruments	—	—	—
140.	Share premium reserve	—	—	—
150.	Reserves	128	74	359
160.	Valuation reserves	—	—	—
180.	Profit (loss) for the period	(353)	4	1,550
	TOTAL LIABILITIES AND NET EQUITY	**550**	**1,139**	**15,590**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2018	CMB ASSET MANAGEMENT S.A.M. 31.12.2018	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2018
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	1
of which: interest income calculated according to the effective interest method	—	—	—
20. Interest expense and similar charges	—	—	—
30. Net interest income	**—**	**—**	**1**
40. Fee and commission income	—	2,117	12,382
50. Fee and commission expense	—	—	—
60. Net fee and commission income	**—**	**2,117**	**12,382**
70. Dividends and similar income	—	—	—
80. Net trading income	—	—	—
90. Net hedging income (expense)	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
a) financial assets designated at fair value	—	—	—
b) other financial assets mandatorily valued at fair value	—	—	—
120. Total income	**—**	**2,117**	**12,383**
130. Net write-offs (write-backs) for credit risk:	—	—	—
a) financial assets valued at amortized cost	—	—	—
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—
150. Net income from financial operations	**—**	**2,117**	**12,383**
160. Administrative expenses:	(409)	(2,110)	(10,046)
a) personnel coss	—	*(988)*	*(1,735)*
b) other administrative expenses	*(409)*	*(1,122)*	*(8,311)*
170. Net transfers to provisions:	—	—	—
a) commitments and financial guarantees	—	—	—
b) other sums set aside (net)	—	—	—
180. Net adjustments to tangible assets	—	—	—
190. Net adjustments to intangible assets	—	—	—
200. Other operating income (expense)	56	(1)	(12)
210. Operating costs	**(353)**	**(2,111)**	**(10,058)**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill write-offs	—	—	—
250. Gain (loss) on disposal of investments	—	—	—
260. Profit (loss) on ordinary activity before tax	**(353)**	**6**	**2,325**
270. Income tax for the year on ordinary activities	—	—	—
280. Profit (loss) on ordinary activities after tax	**(353)**	**4**	**1,550**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—
350. Net profit (loss) for the period	**(353)**	**4**	**1,550**

BALANCE SHEET

	CAIRN CAPITAL GROUP LTD 31.12.2018	CAIRN CAPITAL LTD 31.12.2018
	(£/000)	**(£/000)**
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	263	—
Equity investments	4,075	—
Total non-current assets	**4,338**	**—**
Current assets		
Trade receivables	5,921	5,715
Cash and liquid assets	324	1,711
Other assets	—	—
Total current assets	**6,245**	**7,426**
TOTAL ASSETS	**10,583**	**7,426**
LIABILITIES		
Share capital	—	1,200
Share premium reserve	5,000	—
Legal reserve	—	—
Other reserves	—	—
Gains (losses) carried forward	152	3,936
Gain (loss) for the period	388	(2,163)
Total net equity	**5,540**	**2,973**
Trade payable	4,839	3,453
Financial liabilities	—	1,000
Provisions	204	—
Total current liabilities	**5,043**	**4,453**
TOTAL LIABILITIES AND NET EQUITY	**10,583**	**7,426**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	CAIRN CAPITAL GROUP LTD 31.12.2018 (£/000)	CAIRN CAPITAL LTD 31.12.2018 (£/000)
Commission income	3,149	11,803
Dividends and similar income	142	—
Revenues	**3,291**	**11,803**
Administrative expenses	(3,134)	(14,299)
a) personnel costs	*(2,397)*	—
b) other administrative expenses	*(737)*	*(14,299)*
Other income and costs	207	63
Net writedowns/writebacks on tangible assets	(1)	—
Operating result	**363**	**(2,433)**
Interest and similar income	116	6
Interest expense and similar charges	—	(100)
Gain (loss) for the period before tax	**479**	**(2,527)**
Income tax	(91)	364
Gain (loss) for the period after tax	**388**	**(2,163)**

Financial companies

continued **Table B**

BALANCE SHEET

	RAM ACTIVE INVESTMENTS S.A. 31/12/2018 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31/12/2018 (CHF/000)
ASSETS		
Non-current assets		
Intangible assets	40	6
Tangible assets	794	46
Equity investments	1,092	—
Total non-current assets	**1,926**	**52**
Current assets		
Trade receivables	11,852	3,523
Cash and liquid assets	14,546	6,240
Other assets	1,310	609
Total current assets	**27,708**	**10,372**
TOTAL ASSETS	**29,634**	**10,424**
LIABILITIES		
Share capital	1,000	782
Statutory retained earnings	500	—
Treasury shares	(4,198)	—
Revaluation reserve	—	(34)
Legal reserve	—	120
Other reserves	1,022	421
Equity instruments	500	—
Gains (losses) carried forward	5,480	1
Gain (loss) for the period	15,244	1,803
Total net equity	**19,548**	**3,093**
Trade payable	2,873	1,359
Due to Group societies	—	4,693
Provisions	711	—
Other liabilities	6,502	1,279
Total current liabilities	**10,086**	**7,331**
TOTAL LIABILITIES AND NET EQUITY	**29,634**	**10,424**

Financial companies

continued **Table B**

PROFIT AND LOSS

	RAM ACTIVE INVESTMENTS S.A. 31/12/2018 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31/12/2018 (CHF/000)
Revenues	42,929	14,546
Personnel costs	(18,260)	(1,520)
Other administrative expenses	(7,025)	(10,389)
Operating result	**17,644**	**2,637**
Net adjustments to tangible assets	(56)	(7)
Interest and similar income	2,141	3
Interest expense and similar charges	(148)	(131)
Non-operational income	70	50
Extraordinary costs	—	(57)
Gain (loss) for the period before tax	**19,651**	**2,495**
Income tax	(4,407)	(692)
Gain (loss) for the period after tax	**15,244**	**1,803**

Financial companies

BALANCE SHEET

	Messier Maris et Associés S.C.A. 31/12/2018 (€/000)	Messier Maris et Associés L.L.C. 31/12/2018 (USD/000)
ASSETS		
Non-current assets		
Intangible assets	51	—
Tangible assets	255	—
Equity investments	90	—
Total non-current assets	**396**	**—**
Current assets		
Trade receivables	36,601	—
Cash and liquid assets	1,787	850
Other assets	13	—
Total current assets	**38,401**	**850**
TOTAL ASSETS	**38,797**	**850**
LIABILITIES		
Share capital	41	199
Treasury shares	—	—
Revaluation reserve	—	—
Legal reserve	4	—
Other reserves	—	—
Equity instruments	—	—
Gains (losses) carried forward	750	—
Gain (loss) for the period	9,177	9
Total net equity	**9,972**	**208**
Provisions	13	—
Trade receivables (current accounts)	8,774	642
Due to Group societies	—	—
Tax liabilities	15,182	—
Other liabilities	4,856	—
Total current liabilities	**28,825**	**642**
TOTAL LIABILITIES AND NET EQUITY	**38,797**	**850**

Financial companies

continued **Table B**

PROFIT AND LOSS

	Messier Maris et Associés S.C.A. 31/12/2018 (€/000)	Messier Maris et Associés L.L.C. 31/12/2018 (USD/000)
Revenues	47,516	3,134
Personnel costs	(13,113)	(1,145)
Other administrative expenses	(20,497)	(2,038)
Operating result	**13,906**	**(49)**
Adjustments to tangible assets and other writedowns	(73)	—
Interest and similar income	—	—
Interest expense and similar charges	(12)	—
Foreign exchange gains (losses)	63	—
Contributions to provisions	(14)	—
Other gains (losses)	(15)	63
Gain (loss) for the period before tax	**13,855**	**14**
Income tax	(4,678)	(5)
Gain (loss) for the period after tax	**9,177**	**9**

Non-financial undertakings

continued **Table B**

BALANCE SHEET

	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	—	21,684	2,413	—	3
Tangible assets	—	31,903	11	—	4
Other non-current financial assets	—	18,624	—	—	—
Advance tax assets	—	255	914	—	—
Total non-current assets	**—**	**72,466**	**3,338**	**—**	**7**
Current assets					
Trade receivables	22	—	—	—	—
Other receivables	1	7,899	3,725	437	5,592
Sundry receivables and other current assets	361	19,437	168	8	45
Curret tax assets	25	357	870	57	—
Other current financial assets	5	—	—	—	—
Cash and liquid assets	687	83	8,825	1,120	7,035
Total current assets	**1,101**	**27,776**	**13,588**	**1,622**	**12,672**
TOTAL ASSETS	**1,101**	**100,242**	**16,926**	**1,622**	**12,679**
LIABILITIES					
A) Shareholders' equity					
Share capital	100	35,000	14,500	500	500
Reserves	—	—	—	—	1,072
Share premium reserve	—	—	4,495	—	—
Gains (losses) carried forward	—	2,515	(1,921)	760	4,223
Legal reserve	3	—	33	66	50
Gain (loss) for the period	—	1	(3,937)	90	916
Total shareholders' equity	**103**	**37,516**	**13,170**	**1,416**	**6,761**
Non-current liabilities					
Provisions	—	450	—	—	—
Staff severance	188	836	251	47	—
Deferred tax liabilities	—	556	—	—	1,199
Other non-current liabilities	—	473	—	—	—
Total non-current liabilities	**188**	**2,315**	**251**	**47**	**1,199**
Current liabilities					
Due to banks	—	—	—	—	—
Trade payables	241	9,506	3,007	14	1,109
Due to associates	—	—	—	55	
Current tax liabilities	52	—	157	43	—
Current financial liabilities	—	47,921	—	—	—
Other current liabilities	517	2,984	341	47	3,610
Total current liabilities	**810**	**60,411**	**3,505**	**159**	**4,719**
TOTAL LIABILITIES AND NET EQUITY	**1,101**	**100,242**	**16,926**	**1,622**	**12,679**

Non-financial undertakings

continued **Table B**

PROFIT AND LOSS

	RICERCHE E STUDI S.p.A. (€/000)	MEDIOBANCA INNOVATION SERVICES S.C.p.A. (€/000)	SPAFID CONNECT (€/000)	SPAFID TRUST S.r.l. (€/000)	MEDIOBANCA MANAGEMENT COMPANY S.A. (€/000)
Revenues	2,239	98,693	10,307	794	19,218
Production costs	(829)	(66,593)	(9,528)	(442)	(14,924)
Employees' costs	(1,389)	(11,310)	(2,142)	(235)	(977)
Other operating costs	—	(8,681)	—	—	(3)
Sundry costs	(16)	—	—	—	(1,801)
Adjustments to tangible assets	—	(9,976)	(2,338)	—	—
Adjustments to intangible assets	—	(1,990)	(13)	—	—
Other writedowns	—	—	(867)	—	—
Writedowns of current receivables	—	—	(72)	—	—
Operating result	**5**	**143**	**(4,653)**	**117**	**1,513**
Financial gains	—	—	—	3	—
Financial expenses	—	(1)	—	—	—
Other gains	—	31	—	—	36
Other expenses	—	(5)	(12)	(1)	—
Profit (loss) before taxes	**5**	**168**	**(4,665)**	**119**	**1,549**
Fiscal gain (expense)	(5)	(167)	728	(29)	(633)
Taxes for the period	(5)	(167)	—	(27)	(633)
Deffered and advance taxes	—	—	728	(2)	—
Net profit (loss) for the period	**—**	**1**	**(3,937)**	**90**	**916**

BALANCE SHEET

	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	**358,709**
I) Lands and PPEs	—
II) Investments in affiliated undertakings and partecipating interests	
3) Loans to enterprises	315,009
a) parent company	*100,000*
e) others	*215,009*
III) Other financial investments	43,700
6) Banks deposits	*43,700*
D) Investments for the benefit of insured parties (life)	**—**
E) Receivables	**10,798**
II) Receivables arising out of reinsurance operations	10,769
III) Other receivables	29
F) Other assets	**6,893**
II) Cash at bank and in hand	6,893
G) Accrued income and deferred expenses	**18,073**
1. Due to interests	3,207
3. Others	14,866
TOTAL ASSETS	**394,473**

LIABILITIES	
A) Shareholders' equity	**78,222**
I) Share capital	15,000
IV) Legal reserve	1,500
VIII) Gains (losses) carried forward	30,865
IX) Net gain (loss) for the period	30,857
B) Subordinated liabilities	
C) Technical reserves	**299,919**
I) Non-life business	
1. Premiums reserve	*162,203*
2. Claims reserve	*8,635*
3. Equalization reserve	*129,081*
D) Tchnical reserves where risk is borne by insured party	**—**
E) Provisions	**34**
2) Taxation-related provisions	34
F) Deposits received from reinsurers	
G) Payables and other liabilities	**15,847**
VII) Other payables	
3. Due to social agencies	*15,847*
H) Accrued income and deferred expenses	**451**
3. Others accruals and deferrals	451
TOTAL LIABILITIES AND NET EQUITY	**394,473**

Insurance companies

PROFIT AND LOSS

	COMPASS RE S.A. (€/000)
I) TECHNICAL ACCOUNT	
Gross premiums written	55,625
Change in the gross provision for unearned premiums	3,549
Total net premiums written	**59,174**
Gains arising from non-technical accounts investments	—
1) TOTAL REVENUES	**59,174**
Claims incurred, net of reinsurance (Gross amount)	(8,523)
Change in the provision for claims (Gross amount)	1,467
Acquisition costs	(5,686)
Change in deferred acquisition costs	27
Administrative expenses	(782)
2) TOTAL COSTS	**(13,497)**
Change in deferred acquisition costs	(10,600)
Technical-account profit (loss)	**35,077**
II) NON-TECHNICAL ACCOUNT	
Income form other investments	5,472
Gains on the realisation of investments	1,707
Investment management charges, including interest	(180)
Value adjustments on investments	—
Losses on the realisation of investments	(741)
Underwriting profit (loss)	**6,258**
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX	**41,335**
Income taxes for the period	(10,211)
Other taxes not shown under the preceding items	(267)
NET PROFIT (LOSS) FOR THE PERIOD	**30,857**

Associate companies

Table C

BALANCE SHEET

	ASSICURAZIONI GENERALI S.P.A. 31.12.2018 (€/000)
ASSETS	
A) Subscribed capital unpaid	**—**
B) Total intangible assets	**39,193**
C) Investments	
I) Land and buildings (total)	99,866
II) Investments in Group and other undertakings (total)	32,665,377
III) Other financial investments	
1) Shares and stock units	35,266
2) Mutual fund units	890,425
3) Bonds and other fixed-income securities	1,824,461
4) Loans	743
6) Deposits with banks	142,060
7) Other financial investments	9,337
Total other financial investments	2,902,292
IV) Deposits with reinsurers	5,342,732
Total investments (C)	**41,010,267**
D) Investments for the benefit of life policyholders who carry the risk and deriving from pension fund management (total)	**228,850**
Dbis) Reinsurers' share of technical reserves	
I) General business (total)	539,845
II) Life business (total)	551,801
Total reinsurers' share of technical reserves (Dbis)	**1,091,646**
E) Accounts receivable	
I) Amounts due in respect of primary insurances (total)	158,687
II) Amount due in respect of reinsurances (total)	603,240
III) Other accounts receivable	1,075,749
Total accounts receivable (E)	**1,837,676**
F) Other assets	
I) Tangible assets and inventories (total)	3,729
II) Cash (total)	757,353
IV) Other assets (total)	204,942
Total other assets (F)	**966,024**
G) Accruals and prepayments (total)	**180,815**
TOTAL ASSETS (A+B+C+D+Dbis+E+F+G)	**45,354,471**

Associate companies

continued **Table C**

BALANCE SHEET

	ASSICURAZIONI GENERALI S.P.A. 31.12.2018 (€/000)
LIABILITIES AND SHAREHOLDERS' EQUITY	
A) Shareholders' equity	
I) Share capital or equivalent fund	1,565,165
II-VII) Reserves (total)	11,941,412
IX) Profit (loss) for year	1,473,283
X) Negative reserve for treasury shares in portfolio	(3,040)
Total shareholders' equity (A)	**14,976,820**
B) Subordinated liabilities	8,290,802
C) Technical reserves	
I) General business (total)	2,166,273
II) Life business (total)	6,753,491
Total technical reserves (C)	**8,919,764**
D) Technical reserves where investment risk is carried by policyholders and reserves arising from pension fund management (total)	225,895
E) Provisions for risks and charges (total)	132,149
F) Deposits received from reinsurers	518,396
G) Accounts payable and other liabilities	
I) Amounts payable in respect of primary insurances	29,532
II) Amounts payable in respect of reinsurance	243,555
III) Bond issues	3,127,770
IV) Amounts payable to banks and financial institutions	989,806
VI) Loans and other debt	4,780,159
VII) Staff termination indemnity provision	2,394
VIII) Other accounts payable	2,339,540
IX) Other liabilities	460,550
Total accounts payable and other liabilities (G)	**11,973,306**
H) Accruals and deferrals (total)	317,339
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G+H)	**45,354,471**

Associate companies

continued **Table C**

PROFIT AND LOSS (non-technical account)

	ASSICURAZIONI GENERALI S.P.A. 31.12.2018 (€/000)
1) Underwriting profit (loss) from general business	206,581
2) Underwriting profit (loss) from life business	346,586
3) Investment income in general business	
a) Dividends	1,143,261
b) Other investment income (total)	89,386
c) Writebacks in book value of investments	1,989
d) Gain on disposal of investments	14,262
Total investment income in general business (3)	1,248,898
4) (+) Portion of investment income transferred from technical accounts of life business	759,761
5) Operating and financial expenses in general business	
a) Investment management expenses and interest paid	16,737
b) Writedowns to investments	38,277
c) Loss on disposal of investments	4,501
Total operating and financial expenses in general business (5)	59,515
6) (-) Portion of investment income transferred from technical accounts of general business	138,861
7) Other income	281,097
8) Other expenditure	1,508,703
9) Profit (loss) on ordinary operations	1,135,844
10) Extraordinary income	238,794
11) Extraordinary expenditure	48,153
12) Net extraordinary income (expenditure) (10-11)	190,641
13) Earnings before tax	1,326,485
14) Taxation for the year	(146,798)
15) Profit (loss) for the year (13-14)	**1,473,283**

Associate companies

continued **Table C**

BALANCE SHEET

	BURGO GROUP S.P.A. 31.12.2018 (€/000)
ASSETS	
Non-current assets	**982,819**
Tangible assets	**478,735**
Property, plant and equipment	478,345
Real-estate investments	390
Intangible assets	**12,758**
Goodwill and other long-term intangible assets	10,837
Other intangible assets with defined life	1,921
Investments in subsidiaries, associates and other non-current	**422,104**
Investments in subsidiaries	412,443
Investments in associates	—
Other investments	9,661
Other non-current financial assets	**6,192**
Financial receivables from subsidiaries	2,800
Non-current financial receivables	3,392
Anticipated-taxes assets	**63,030**
Current assets	**438,551**
Inventories	134,413
Trade receivables	187,562
Sundry receivables and other current assets	25,807
Available-for-sale financial assets	775
Other current financial assets	39,641
Cash and liquid assets	50,353
TOTAL ASSETS	**1,421,370**
LIABILITIES	
Shareholders' equity	**396,915**
Share capital	20,000
Reserves	350,915
Gains (losses) carried forward	18,264
Gain (loss) for the period	7,736
Non-current liabilities	**604,455**
Non-current financial liabilities	539,872
Severance provision and other employees-related provisions	27,013
Provisions	35,037
Non-current trade payable	2,533
Current liabilities	**420,000**
Financial current liabilities	37,217
Trade payables	348,824
Current-taxes liabilities	4,797
Other payables and other current liabilities	29,162
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,421,370**

PROFIT AND LOSS

	BURGO GROUP S.P.A. 31.12.2018 (€/000)
Revenues	1,211,963
Other gains	43,662
Total revenues and operating gains	**1,255,625**
Raw-materials and services-related costs	1,090,097
Employees costs	97,715
Other operating costs	20,113
Variation in inventories (±)	30,313
Costs for improvements, capitalized	517
Total operating costs	**1,177,095**
Earnings before depreciations, amortizations and non-recurring restructuring expenses	**78,530**
Depreciations	56,314
Write-offs (write-backs) on tangible assets	22,603
Proceeds from sale of plants and equipments	1,941
Net non-recurring income/(expenses)	(427)
Restructuring expenses	—
Operating result before financial items	**1,127**
Financial expenses	24,738
Proceeds from investments	29,137
Gain (loss) before taxes	**5,526**
Taxes	2,210
Gain (loss) for the period	**7,736**

Associate companies

continued **Table C**

BALANCE SHEET

	GB HOLDING S.R.L. 31.12.2018 (€/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	—
Due over 12 months	2
Total receivables	2
IV) Cash and liquid assets	1
Total C	**3**
TOTAL ASSETS	**6,272**
LIABILITIES	
A) Shareholders' equity:	
I) Share capital	97
II) Share-premium reserve	6,154
IV) Legal reserve	19
VII) Other reserves	—
IX) Gain (loss) for the period	(8)
Total A	**6,262**
D) Payables:	
Due w/i 12 months	—
Due over 12 months	10
Total payables	10
Total D	**10**
TOTAL LIABILITIES AND NET EQUITY	**6,272**

Associate companies

continued **Table C**

PROFIT AND LOSS

	GB HOLDING S.R.L. 31.12.2018 (€/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	—
Total financial gains (expenses) (C)	**—**
D) Writedowns on financial assets	
19) Writedowns	
a) on investments	—
Total writedowns on financial assets (D)	**—**
Gain (loss) before taxes (A - B ± C ± D)	**(8)**
Gain (loss) for the period	**(8)**

Associate companies

continued **Table C**

BALANCE SHEET

	ISTITUTO EUROPEO DI ONCOLOGIA S.R.L. 31.12.2018 (€/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	1,585
6) Work-in-progress investments and advances	2,004
7) Others	484
TOTAL INTANGIBLE ASSETS	**4,073**
II - TANGIBLE ASSETS	
1) Lands and buildings	19,614
2) Plants and equipments	6,222
3) Industrial and commercial machineries	22,179
4) Other goods	4,449
5) Work-in-progress investments and advances	3,935
TOTAL TANGIBLE ASSETS	**56,399**
III - FINANCIAL ASSETS	
1) Investments in:	
a) Subsidiaries	52,310
d-bis) Others	345
Total investments	52,655
2) Receivables	
d-bis) Others	998
Total receivables	998
3) Other securities	
Total other securities	500
TOTAL FINANCIAL ASSETS	**54,153**
TOTAL INVESTMENTS (B)	**114,625**
C) CURRENT ASSETS	
I - INVENTORIES	
1) Raw-materials and consumable goods	9,278
TOTAL INVENTORIES	**9,278**
II - RECEIVABLES	
1) From customers	52,546
2) From subsidiaries	139
3) From associates	215
5-bis) Tax-related receivables	1,811
5-quater) From others	4,596
TOTAL RECEIVABLES	**59,307**
III - NON-FIXED FINANCIAL ASSETS	
6) Other securities	5,517
TOTAL NON-FIXED FINANCIAL ASSETS	**5,517**
IV - CASH AND LIQUID ASSETS	
1) Bank and postal deposits	32,978
3) Cash in hands	104
TOTAL CASH AND LIQUID ASSETS	**33,082**
TOTAL CURRENT ASSETS (C)	**107,184**
D) Prepaid income and deferred expenses	
Prepaid income	2,659
Deferred expenses	1,626
TOTAL PREPAID INCOME AND DEFERRED EXPENSES (D)	**4,285**
TOTAL ASSETS (A + B + C + D)	**226,094**

Associate companies

BALANCE SHEET

	ISTITUTO EUROPEO DI ONCOLOGIA S.R.L. 31.12.2018
	(€/000)
LIABILITIES	
A) SHAREHOLDERS' EQUITY	
I - Share capital	80,579
IV - Legal reserve	5,721
V - Statutory reserve	
- Research and development allowance	30,300
IX - Gain (loss) for the period	8,519
TOTAL SHAREHOLDERS' EQUITY (A)	**125,119**
B) PROVISIONS	
- Insurance-risks provision	4,324
- SSN-receivable provision	4,071
- Provision for other risks	95
TOTAL PROVISIONS (B)	**8,490**
EMPLOYEES SEVERANCE PROVISION (C)	**5,789**
D) PAYABLES	
7) To suppliers	47,846
9) To subsidiaries	34
10) To associates	52
12) Fiscal liabilities	3,612
13) To social-securities entities and other social entities	4,852
14) Other payables	17,000
TOTAL PAYABLES (D)	**73,396**
E) DEFERRED INCOME AND ACCRUED EXPENSES	
Deferred income	67
Accrued expenses	13,233
TOTAL DEFERRED INCOME AND ACCRUED EXPENSES (E)	**13,300**
TOTAL LIABILITIES AND NET EQUITY (A + B + C + D + E)	**226,094**

Associate companies

continued **Table C**

PROFIT AND LOSS

	ISTITUTO EUROPEO DI ONCOLOGIA S.R.L. 31.12.2018 (€/000)
A) REVENUES	
1) Revenues from sales and services	205,916
5) Other gains:	
- Sums received for research programmes	21,991
- Other proceeds	13,844
TOTAL REVENUES (A)	**241,751**
B) PRODUCTION COSTS	
6) Raw-materials and other goods	56,991
7) Services-related	55,929
8) Third-parties goods and services	8,028
9) Employees costs:	
a) Remunerations	67,374
b) Social costs	14,563
c) Staff-severance	3,463
e) Other costs	123
10) Depreciations, amortizations and writedowns:	
a) Amortizations	883
b) Depreciations	9,332
d) Writedowns of current financial assets and other liquid assets	1,070
11) Variations of inventory for raw-materials, consumables and other goods (±)	(2,057)
12) Contributions to provisions	4,288
14) Other operating expenses	16,561
TOTAL OPERATING COSTS (B)	**236,548**
OPERATING RESULT (A - B)	**5,203**
C) FINANCIAL GAINS (EXPENSES)	
15) Gains on equity investments	
- dividends and other income from other entity	430
16) Other financial gains	
d) gains other than preceding	
- interests on current accounts and other deposits	93
17) Interests and other financial expenses	
- others	127
17-bis) Gains and expenses on foreign exchange rates (±)	(21)
TOTAL FINANCIAL GAINS (EXPENSES) (C)	**375**
D) WRITEDOWNS ON FINANCIAL ASSETS	
18) Writebacks:	
a) on investments	4,159
19) Writedowns:	
a) on investments	169
TOTAL WRITEDOWNS (D)	**3,990**
GAIN (LOSS) BEFORE TAXES (A - B +/- C +/- D +/- E)	**9,568**
22) Taxes for the period (current, deferred and advance)	
- Current taxes	1,049
GAIN (LOSS) FOR THE PERIOD	**8,519**

Table D

FEES PAID AUDITING AND SUNDRY OTHER SERVICES
(pursuant to Article 149-*duodecies* of Consob resolution 11971/99

(€/000)

Type of service	Mediobanca S.p.A.		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	685	—	580	424
Statements	178	—	41	189
Other services	—	26	—	26
– *Observation and analysis of the administrative/accounting internal control system*	—	—	—	—
– *Other*	—	*26*	—	*26*
Total	863	26	621	639

* Group companies and other companies consolidated line-by-line.

Figures shown above do not include VAT, expenses and the supervisory contribution paid to Consob.

REPORT ON REMUNERATION SUBMITTED TO APPROVAL OF SHAREHOLDERS IN ANNUAL GENERAL MEETING ON 28 OCTOBER 2019

CONTENTS

REPORT ON REMUNERATION

Dear Shareholders,

We have called you together in general meeting to:

A) Submit the Mediobanca Group's new remuneration and incentivization policies, approved by the Board of Directors on 19 September 2019, to your approval; and

B) Report on the remuneration policies adopted for the twelve months ended 30 June 2019.

During the twelve months under review, the governing bodies of Mediobanca have continued to pay close attention to its staff remuneration and incentivization policies, taking into account *inter alia* the new documents published by the supervisory authorities on this issue. The following documents in particular are of importance in this area:

– The Bank of Italy's Supervisory Instructions on "Remuneration and Incentivization Policies and Practices" issued on 23 October 2018, which bring the Italian regulations into line with the EBA Guidelines on Sound Remuneration Policies in force since 2017, and with other recent guidance issued by international organizations on the same issue;

– The regulations on "Transparency in Banking and Financial Operations and Services. Proper Conduct in Relations between Intermediaries and Clients" issued by the Bank of Italy on 19 March 2019;

– Italian Legislative Decree 49/19 enacting Directive (EU) 2017/828 (the "Shareholders' Rights Directive"), which requires remuneration and incentivization policies to pursue a corporate strategy aimed at delivering sustainable profitability in the long term through clear presentation of the objectives set.

This document incorporates all the changes to the regulations and meets the disclosure requirements set forth in the Bank of Italy and Consob regulations.

SECTION 1

Mediobanca Group staff remuneration and incentivization policy

1 Introduction

The main changes regard:

- A specific policy to identify "Material Risk-Takers" (or "Identified Staff") has been adopted;
- A more detailed description of the activities performed by the control units in the area of monitoring the types of transaction and financial investments made by Identified Staff which could compromise the remuneration mechanisms' risk alignment;
- Provision for exception, duly justified, to the 2:1 cap on variable to fixed remuneration in force for all staff including those defined as Material Risk-Takers, exclusively for personnel operating in asset management;
- Revision to the company units to which the 33% cap on variable to fixed remuneration is applicable;
- Revision of the variable remuneration deferral mechanisms for Identified Staff (time horizon for distribution, percentages payable in the form of financial instruments, remuneration limits applicable);
- Definition of a mechanism for calculating the maximum amounts payable in the event of the working relationship ending early (including provision for managing any non-competition clauses);
- Reference to those parts of this policy which are most closely related to Corporate Social Responsibility principles (CSR).

2 Governance

The governance process for the Group remuneration and incentivization policy is structured across two levels.

a) Governing bodies

Under the current Articles of Association:

- Shareholders in general meeting set 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 receive refunds for 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, including the limits on annual fixed salary and the maximum amounts payable as a result of the policies' application.

– At the Board of Directors' proposal, shareholders in general meeting may, if the requisite quorum is achieved, establish the variable remuneration of Group staff and collaborators up to a maximum 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 provided for 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 Board of Directors compiles the staff remuneration and incentivization policy, submits it to the approval of shareholders in general meeting, reviews it at least once a year, and is responsible for ensuring it is applied correctly in practice. The Board also approves the results of the Material Risk-Takers identification process, including any exclusions; defines the remuneration and incentivization systems for senior figures; ensures that these systems are consistent with the Bank's overall choices in terms of risk-taking, strategies, long-term objectives, corporate governance structure and internal controls system; and ensures, among other things, that the remuneration and incentivization systems are able to guarantee compliance with the legal, regulatory and statutory provisions and any codes of ethics or conduct in force, encouraging recipients to adopt conduct in accordance with such provisions or codes.

– 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; and 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 connection. It also prepares the documentation to be submitted to the Board of Directors for the relevant decisions to be taken; works together with the other internal committees, in particular the Risks Committee; and ensures that all relevant company units are involved in compiling and checking the remuneration and incentivization policies and practices. It gives its opinion on the results of the Material Risk-Takers identification process, including any exclusions, and on whether the performance objectives to which the incentivization schemes are linked have been reached; it establishes whether the other conditions precedent to payment of compensation have been met, on the basis *inter alia* of information received from the other company units; and 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 for such purposes, 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 which fall within its remit. 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 due account of the Group's risks and comply with the minimum capital and liquidity requisites at consolidated level, liaising with the Remunerations Committee to this end.
- 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 units

- 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' annual and long-term performances based on the results achieved.
– The Group Risk Management unit helps in defining the metrics used in order to calculate the risk-adjusted company performance, validating the results and the gateways, and 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, the Bank's Articles of Association, and any applicable codes of ethics or standards of conduct. It is also responsible, after consulting with the other control units, for checking whether or not any compliance breaches have been committed which may be relevant 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 checks that the staff remuneration and incentivization practices correspond to the policies approved and the regulations in force on at least an annual basis. 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.

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.

c) Application to Banking Group

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, ascertaining 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.

3) Policy for identification of Material Risk-Takers

Material Risk-Takers, i.e. staff members whose professional activity may impact substantially on the Mediobanca Group's risk profile, are identified annually at the end of a formalized process involving Mediobanca S.p.A. and the other Group companies.

a) Criteria adopted

In order to identify Material Risk-Takers, Mediobanca adopts the criteria set down in Commission Regulation (EU) 604/2014 which also establishes who should be excluded from such definition. The criteria are:

- Qualitative: linked to role (including for non-executive directors) and decision-making powers assigned and responsibilities taken within the Group structure, consistent with the nature, range and complexity of the activities performed. Factors considered include organizational position within the Group, materiality of the business unit (not just in terms of the capital allocated to them, but also of volumes and complexity [1]), risk profile assigned, including with reference to reputation, participation in internal Group committees, independence in terms of decision-making and operations, geographical location of the office at which they work (in view of the pay differences between different countries), and specific characteristics of the sectors concerned (e.g. asset management).
- Quantitative: based on the total overall remuneration received in the previous financial year.[2]

[1] The regulatory criterion for inclusion as a material business unit is that the capital allocated to it must represent at least 2% of the Banking Group's overall capital. Additional criteria include: whether or not the individual entities/business units form part of higher-level divisions in accordance with management reporting and the strategic plan; business volumes; organizational complexity and size; type of activity performed if the primary risk profile involved is not credit, market or liquidity risk. For the asset management area, in addition to the above, the main criteria considered is the amount of AUM above the limit which would qualify it as a material company under the regulations normally applicable in the respective national legislations on UCITS/AIFM.

[2] Mediobanca may also decide that individual staff members, including Financial Advisors, do not impact on the Group's risk profile despite receiving total remuneration ≥ €500,000, as permitted by the regulations in force.

The definition of Material Risk-Taker also includes financial and insurance brokers and financial advisors authorized to offer products door-to-door.[3]

b) Process

- Group HR is responsible for the process, and ensures that a unified approach is adopted at Group level;
- Compliance validates the process, ascertaining that the applicable regulations have been properly applied;
- Planning, Accounting and Financial Reporting collects the earnings data to be analysed and the criteria to be applied;
- Group Risk Management takes part in the analysis, to identify the impact of the same resources on the risk profile of material and non-material business units;
- Group Audit checks that the criteria have been correctly applied and the assessment made has been properly formalized. The unit participates in the process, providing support to Group HR in checking that the regulations have been properly applied.

All the Group companies take part in the annual definition of Identified Staff. The mapping is carried out on an individual basis by all the banks in the Group (CheBanca!, Compagnie Monégasque de Banque CMB, Compass and MB International) and the asset management companies, based in Italy (MB SGR) and elsewhere (Cairn Capital, RAM and MB Management Company), subject to the sector regulations. The information collected is then sent to Mediobanca S.p.A. to be consolidated, whereas for the other, non-banking subsidiaries, the parent company carries out its own assessment.

Group HR monitors organizational changes which could lead to differences in the scope of definition on an ongoing basis.

A record of the whole process is kept in the form of minutes of the meetings held by the parent company units involved. When the process is complete, a list with the names of the Identified Staff for the financial year concerned is drawn up, specifying those who have been included for the first time and any others who have been excluded, with an indication of their roles, responsibilities and the divisions of which they form part, and a comparison with the previous

[3] For the CheBanca! financial advisors, all Network Managers and Area Managers with a percentage of AUM managed by the FAs under them equal to more than 10% of the total AUM managed by the network are included in the definition of Group Identified Staff according to the qualitative criterion. All FAs linked to the Group who individually manage assets equal to more than the 10% threshold of the AUM for their own network qualify as identified in any case according to the qualitative criterion.

financial year. Any exclusions are highlighted and duly justified. A primary external consultancy company certifies the entire process.

The results are approved by the Board of Directors, at the Remuneration Committee's proposal.

Once the process is complete, individual notice is provided in writing to staff included in the scope of Material Risk-Takers.

If, at the end of the identification process, there are staff identified by quantitative criteria for whom the notification and/or exclusion procedure must be launched, Group HR does so in accordance with the Bank of Italy Supervisory Instructions.

c) Identified staff as at 30 June 2019 (approved by BoD on 26 June 2019)

As at 30 June 2019 the Group's "identified staff" (including the non-executive directors) broke down as follows:

Cluster	Definition		EBA regulations	PPR # 2019	PPR # 2018
1) Non-executive directors	Non-executive members of BoD, including Chairman		Article 3. 2	1 (+12)	1 (+11)
2) Directors with executive duties	Management who are members of Executive Committee		Article 3. 1	2	2
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	• Co-Head, CIB • Co-Head, CIB/Head, Inv. Banking Division • CEO, Compass/CB! • Head, Principal Investing • Head, MB Private Banking	• Head, CIB Markets Division • Head, CIB Debt Division • Head, London office • Head, Governance & Treasury • Head, Finance division • CEO, CMB	Article 3.3 Article 3.5 Article 3.6	11	15
4) Heads and senior staff of internal control units	• Compliance & Group AML • Group Risk Management • Group Audit		Article 3. 4 Article 3.7 Article 3.15	20	16
5) Staff with managerial responsibilities in relevant business units	• Heads of trading desks, liquidity, origination, trading, and brokerage/sales • Staff with significant responsibility in business and product areas • General and commercial managers, Compass and CB!; CEO, SelmaBipiemme, MB SGR, MB • Facta • Financial Advisors with managerial responsibilities and/or 10% of the network AUM		Article 3.8 Article 3.15	32	23
6) Heads and senior staff in Staff and support units	• Dirigente Preposto • Controllo di gestione e budgeting • Chief Operating Officer • Chief Information Officer	• Group Head of HR • Group Head of Reward • Legal counsel • Macroeconomic Strategist	Article 3. 9 Article 3.15	8	8
7) Quantitative criteria	Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above		Article 4	34	23
Material Risk-Takers excluded based on notification/exclusion process [4]				2	4
	TOTAL as at 30/6/19 [5]			108 (120)	88 (99)
	As % of total Mediobanca Group staff			2.24%	1.87%

[4] For the twelve months ended 30 June 2019, a total of two such staff members (employed in Asset Management – Cairn Capital – in the United Kingdom), with overall remuneration in the previous year in excess of €500,000, for whom the notification of exclusion from the definition of MRTs made for the first time in 2018 has been confirmed.

[5] The Mediobanca Group headcount as at 30 June 2019 consists of 4,805 staff, split as follows: 621 Corporate & Investment Banking (41 Identified Staff), 1,936 Wealth Management (16 Identified Staff, two of whom in the control units of the companies that form part of the division), 1,427 Consumer Banking (5 Identified Staff, two of whom in the control units of the companies that form part of the division), 810 Holding Functions (33 Identified Staff employed by Mediobanca S.p.A., 16 of whom in the control units and 17 in other units), 11 Principal Investing (1 Identified Staff). The definition of Identified Staff also includes 12 Financial Advisors, six of whom qualify by the qualitative criterion and six by the quantitative criterion (out of a total of approx. 340 FSs linked to the Mediobanca Group).

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.

4 Remuneration structure

a) General principles and objectives

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.

Responsible, ethical and transparent compensation mechanisms grow and protect the Bank's reputation, credibility and consensus over time, laying the foundation for sustainable development of the business which is able to create and defend value for all stakeholders.

b) Pay mix constituents

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.

To ensure that the remuneration package on offer is competitive and retain the best talent in terms of performance and potential, Mediobanca carries out annual benchmarking activity to assess the Group staff's positioning in terms of compensation relative to the market. The benchmarking is performed with the support of leading specialists in this area, and takes account of the divisions and geographical locations in which staff are employed.[6]

I. 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 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.

II. 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 and Wealth Management divisions in particular) forms 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.

Variable remuneration is paid on the basis of pre-set performance indicators. The time horizon for evaluation may be short-term (i.e. linked to the annual budget, as is typical of short-term incentive systems) or long-term (as in cases where long-term incentive schemes are run).

The variable remuneration is paid in cash and equity instruments, in part upfront and in part deferred to subsequent years, subject to additional performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes.

[6] The benchmarking activity is based on a significant and coherent sample of peers diversified according to the Group's individual divisions: for the Consumer (Compass) and WM Affluent/Premier (CheBanca!) divisions, the sample is based on the leading commercial players operating on the Italian market; for the Corporate and Investment Banking division, it is based on the bulge-bracket investment banks, independent advisory boutiques and the CIB divisions of the leading European commercial banks; for the WM HNWI division (MB Private Banking), the sample is based on the market of Italian operators and non-Italian players operating in Italy; for the Group's asset managers, the sample is constructed from independent companies and others forming part of banking groups or insurers operating in the relevant geographical areas. For the Chief Executive Officer and General Manager, the sample comprises a mixture of midcap firms which are comparable to Mediobanca in terms of either business model taken as a whole or individual segment of activity represented within the Group (i.e. advisory, asset management, innovative retail, etc.): these include Close Brothers, Lazard, Julius Baer Group, Macquarie, Natixis, Schroder's, CYBG, Fineco Bank and Banca Generali.

III. Limits on variable remuneration

Subject to approval by shareholders in annual general meeting, in accordance with the national and international regulations in force on this subject, the upper limit on variable remuneration for all staff belonging to the Mediobanca Group [7] and hence the entire scope of Identified Staff has been set, as in the previous Remuneration Policies, at 200% of fixed remuneration (without prejudice to the provisions in force for staff employed in the control units).

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.

As permitted by the Bank of Italy's Supervisory Instructions currently in force, Mediobanca has taken up the option to make an exception to the 2:1 cap on variable remuneration relative to fixed salary for all staff, including those qualifying as Identified Staff at Group level, belonging to the Mediobanca Group

[7] With the exception of Financial Advisors linked to the Group under agency contracts, and for staff employed at the Group's non-Italian companies which are not banks which perform pure advisory services, despite not being included in the definition of Group Identified Staff.

companies which operate in asset management in Italy (MB SGR) and elsewhere (Cairn, RAM, MB Management Company, CMG) [8]. This exception is based on the following points:

– These companies are individually subject to UCITS/AIFM sector regulations which do not set limits on variable remuneration and operate in markets where other players are: a) independent; b) owned by international banking groups that can apply exceptions to the salary cap under the regulations in force in the countries where they are headquartered; and c) owned by insurance companies;

– The need to safeguard the appeal and competitiveness of the remuneration package for staff employed in asset management, as per sector practice, by aligning ourselves with the policies operated by our leading Italian and non-Italian competitors;

– Strengthening in the Wealth Management sector is one of the Group's main pillars of growth;

– The asset management companies have a different risk profile to the dominant one in the Banking Group's activity, and are not subject to direct financial risks (market, credit or liquidity) for investment products where the assets at risk belong to the client subscribing to them. For asset management products, the risk profile for the client is an integral part of the mandate regulations, and as such is governed and expressly represented in the documentation which the customer receives when they subscribe to the product;

– The incentivization system designed for the fund manager is based on the same mechanisms provided for clients, meaning their interests are aligned within the system of controls that can be implemented for the asset management sector;

– With reference to operational and reputational risks linked to realization of the product investment process and potential related complaints from customers, including complaints related to conduct issues by staff, cannot directly result in any conflict of interest or incentive for staff to increase the direct exposure to the assets' financial risks to beyond the company's own risk appetite, in order to reach their remuneration targets.

[8] As at 30 June 2019, the Group's Identified Staff working for the asset management companies consisted of one person working for MB SGR, identified on the basis of qualitative criteria (cluster 5), and five working for RAM, identified on the basis of quantitative criteria. MB SGR has set a cap on the percentage of variable to fixed remuneration of 5:1 for the fund manager's Identified Staff.) RAM and Cairn, the MB Group companies recently acquired in Switzerland and the United Kingdom, have an extremely limited impact on the Group's overall figures. As at 30 June 2019 they employed a total of 44 and 54 staff, posting revenues of €35.7m and €16.3m, and costs of €21.5m and €22.3m respectively. Considered jointly, their impact on the same Group indicators was limited, at 2% of the total Group headcount (consisting of 4,805 staff), 2% of Group revenues (which totalled €2,525m) and 3.7% of Group costs (which totalled €1,162m).

Applying this exemption does not impact on the earnings/financial sustainability of the companies involved, as their staff remuneration and incentivization mechanisms guarantee close correlation to results, consistent with the companies' characteristics and size, internal organization, nature, and the range and complexity of their activities. The mechanisms are implemented over a period of time which is appropriate to the life and/or investment cycle of the UCITS or AIFs managed, or to the holding period for the instruments recommended to the investors, to ensure that the valuation process is based on longer-term results and that actual payment of the results-based remuneration components is distributed over a period that takes due account of the investment risks and repayment policy (if any).

IV. Other remuneration components

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 at 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.

V. Benefits and welfare

Based on an awareness that corporate welfare makes a significant contribution to the implementation of CSR, the Group has adopted instruments which produce positive effects outside the company, benefiting not only staff members but also their family and the local community in general. Corporate welfare creates value that is shared with a broad range of stakeholders, and so helping to produce collective benefits that endure over time.

From this viewpoint and in line with the market, the remuneration package is complemented by a series of benefits that reflect the attention devoted by Mediobanca to the personal needs and welfare of its staff, including those already in retirement. The benefits are for the Group's entire population, and may be distinguished by families of professionals and geographical areas but do not make provision for individual discretionary systems.

– Complementary pension scheme: employees are entitled to participate in complementary corporate pension schemes, with contribution rates distinguished by category and length of time employed by the company.
– Healthcare scheme: this scheme covers healthcare, dental and preventative medicine expenses for staff members and their family. An extensive network of doctors and dentists who are part of the scheme enables beneficiaries to have direct access to services without having to pay in advance and providing significant financial benefits.
– Accident insurance policy, Life insurance policy, and Long-term care insurance policy: the first of these policies guarantees coverage to staff in the event of their having an accidents either work- or non-work-related, is in operation 24 hours a day and has no restriction in terms of geographical application; the second entitles claimants to a guaranteed capital sum in the event of an employee's death; and the third pays out an annuity in the event of permanent incapacitation.
– Company welfare/flexible benefit systems: these have been instituted for all staff or like-for-like categories of staff, as provided by the applicable tax legislation and regulations in force.[9] Such systems involve the provision of non-cash services and instruments (e.g. training activities, study and education courses, welfare services, etc.), which Group companies make available to their staff and families, with the possibility of paying any amounts unused to the complementary pension scheme. Production and/or result bonuses provided for under complementary company contracts may be used to this end, or other amounts earmarked for the welfare of similar categories of employee and according to marginality criteria relative to the capacity to pay principle. The objective is to: expand the range of welfare initiatives offered contractually, in order to provide increased benefit to staff members and their families by

[9] In Italy the applicable regulations are laid down by Article 51, paragraphs 2 and 3 of the Italian Income Tax Act, as amended by the 2016 budget law as amended. These have introduced certain changes to how income from paid employment is taxed, increasing the range of possibilities and examples of sums and benefits not included in the calculation of income from paid employment, and which for this reason were previously considered to be instances requiring protection from the legislator. The changes have made it easier to introduce corporate welfare schemes, which make available a basket of options to staff members from which they can choose the benefits that are most appropriate to their own needs and family situations.

enabling them to access specific products and services which can be tailored to their specific requirements; offer increased protection for public welfare provision; and obtain improved purchasing power for overall remuneration, through relief on tax and social security contributions permitted by law.

– Company cars: these are assigned only to the highest professional figures or those with commercial roles. The range of cars available is notable for the number of hybrid and/or electric vehicles on offer, in accordance with environmental sustainability criteria..

5 Incentivization system

Variable remuneration and the correlation between risks and performance is determined via a process which aims to reward staff based on the Bank's and the Group's risk-adjusted performances, in line with the risk profile defined in the Risk Appetite Framework (RAF), with a view to achieving business continuity and sustainable results over the long term.

The incentivization system is consistent with a strategy that combines growth and sustainability, distinctive features of the Mediobanca Group based on the conviction that ethics and profit do not have to be in conflict with each other.

a) Gateways and risk-performance correlation

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 included in the Risk Appetite Framework[10] approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP. These are: CET 1 ratio, Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio, Net Stable Funding Ratio.

b) Positive operating profit delivered at Group level.[11]

[10] 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.

[11] Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

b) Annual variable remuneration (short-term incentives)

I. Budget phase

In the process for defining the annual incentivization system and subsequently determining the divisional variable remuneration, the budget approved by the Board of Directors includes the estimated cost of labour 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.

II. Determination and allocation of annual divisional variable remuneration

Once the final results have been closed, the annual 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.

– Wholesale Banking division:[12] 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 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 long-term business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and share, retention of key staff, need to recruit new professional talent). 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. These scorecards use Economic Profit or other risk-adjusted metrics depending on the nature of the business and activity, and other secondary metrics, both quantitative (such as reference to budget objectives and historical results trends) and qualitative, with a cap instituted.

[12] 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.

- For Mediobanca Private Banking: 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 (adequate transparency in banking and financial transactions and services provided to clients; management of resources, compliance with regulations) are also used. Variable remuneration is allocated on the basis of an evaluation of the individual's contribution to area results (indicators used include Net New Money, AUM, revenues, cost/income ratio attributable to each individual banker) and their internal organizational unit.
- Principal Investing division: the variable remuneration is determined on the basis of specific qualitative and quantitative performance indicators for the area.
- Holding Functions/control, staff and support units: the aggregate variable remuneration is established by the Chief Executive Officer of Mediobanca on the basis of general earnings sustainability. The variable component, which is usually small, is not related to earnings performance or the Group's results, but to individual qualitative performance (value of staff, quality of performance, retention strategies) and to the role's positioning relative to the reference market.
- Group Treasury, Strategic and Trading Portfolio: aggregate variable remuneration is determined on the basis of scorecards which use quantitative metrics, linked to both risk and earnings indicators according to the nature of the business and activity (e.g. Liquidity Coverage Ratio, Net Stable Funding Ratio, cost of funding, HQLA and P&L thresholds). Secondary qualitative metrics are also provided for.
- For the other divisions and business lines (Consumer Banking, Wealth Management Affluent/Premier, CMB and the entities performing asset management activities, Speciality 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 Group HR based at Mediobanca.

III. Individual performance evaluation

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 employee [13] 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 principle of equal opportunities and in line with the Bank's own strategic, organizational and business choices. Difference of gender and thought is treated as a value to be leveraged, providing a source of enrichment in cultural and professional terms. 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. The Group also encourages its staff to take part actively in its company volunteering programme, to foster talent, passion and commitment on the part of staff by including them in the various environmental and social initiatives which the Group supports.

All these instruments together provide an opportunity for the Group's staff to feel valued. Our people represent a fundamental part of our capital and are indispensable to making us competitive and so helping the Bank deliver performances that are sustainable over the long term.

[13] The other contractual forms provided for by the regulations apart from full employment contracts (e.g. collaboration or employment agency contracts) are considered equivalent.

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. Increasing consideration is being devoted as part of the evaluation process to the achievement of environmental, social and governance (ESG) objectives within the individual and business areas of responsibility.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Mid-term 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 evaluation criteria.

For staff belonging to the business units, the evaluation 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 the evaluation 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 evaluation process, staff may also be promoted to a new contractual level or being assigned a new corporate title, as part of the career advancement process linked to covering new organizational roles based on 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.

IV. 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 in order to safeguard the most critical professional capabilities, 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.

c) Long-term variable remuneration (long-term incentive)

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.

Such a plan directs activities towards creating long-term value for shareholders; correlates a part of the variable remuneration to achieving objectives over the medium and long term; is constructed in such a way as to ensure that achieving the plan's results does not encourage taking more risk than the governing bodies have decided is sustainable; and promotes loyalty retention. It is consistent with sustainability objectives that endure over time and is able to create value that is shared with all stakeholders.

The long-term incentive scheme has specific quantitative/financial and qualitative/non-financial objectives linked to the scheme's time horizon, and is subject to gateways.

Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component in this Policy, unless stipulated otherwise by the Board of Directors after consulting with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes and for payment of the variable remuneration accrued, including any specific resolutions requiring to be adopted in general meetings. In addition to the Chief Executive Officer and General Manager, 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. The 2:1 cap on variable/fixed remuneration approved by the shareholders in general meeting must be complied with for each year.

At present no such long-term incentivization scheme is in force.

d) Payment of variable component

I. Timing 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 verified. Payment is structured in the form of annual pro rata instalments and depends on the beneficiary's role and the variable remuneration payable to them.

For directors with executive duties and senior management (i.e. groups 2 and 3 in the table of Identified Staff), the deferral period is always five years. The deferred component is:

– 60% (55% in equities and 45% in cash), for variable remuneration equal to or higher than €425,000;

– 50% (56% in equities and il 44% in cash) for variable remuneration of less than €425,000.

For other Identified Staff, deferral is over a three-year time horizon, made up as follows:

– 60% (50% in equities and 50% in cash), for variable remuneration equal to or higher than €425,000;

– 40% (50% in equities and 50% in cash), for variable remuneration of less than €425,000.

For the Material Risk-Takers, the upfront component is paid half in cash and half in Mediobanca shares.

The €425,000 threshold has been identified in accordance with the regulations, as it is less than 10x the average overall compensation within the Group (approx. €82,500) and 25% of the overall remuneration for Italian high earners stated in the EBA 2019 report (i.e. €425,000). This threshold can be reviewed at least once every three years.

For Identified Staff, the deferral mechanism applies starting from a materiality threshold of variable remuneration equal to or higher than €80,000.

After the vesting period, the shares are subject to a further retention holding period of one year.

The time horizon over which the variable remuneration is distributed, in cash and shares, is therefore six years for senior management and four years for the other Identified Staff.

An overview of the timing for the various distributions is shown in the table below:

	Anno T	T+1	T+2	T+3	T+4	T+5
Senior management with variable remuneration ≥ €425,000	20% Upfront cash	20% Upfront equity	13% Deferred cash	11% Deferred equity	11% Deferred equity	11% Deferred equity 14% Deferred cash
Senior management with variable remuneration < €425,000	25% Upfront cash	25% Upfront equity	11% Deferred cash	9% Deferred equity	10% Deferred equity	9% Deferred equity 11% Deferred cash
Other Identified Staff with variable remuneration ≥ €425,000	20% Upfront cash	20% Upfront equity 5% Deferred cash	15% Deferred cash 10% Deferred cash	15% Deferred equity 15% Deferred cash		
Other Identified Staff with variable remuneration < €425,000	30% Upfront cash	30% Upfront equity	10% Deferred equity 10% Deferred cash	10% Deferred equity 10% Deferred cash		

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.[14]

II. Performance share scheme

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. The plan is subject to review by shareholders in annual general meeting, to adapt it to the conditions set forth in the section entitled "Timing and instruments" above, to which reference is made for all further details.

[14] For personnel not included among the definition of Identified Staff, the Group companies are free to adopt or not adopt their own internal deferral mechanisms and respective thresholds, including on the basis of specific sector regulations (e.g. in asset management). The deferral structure adopted to this end by the Mediobanca applies to those Group companies which do not have a policy or other specific remuneration and incentivization of their own, and which therefore adopt the Group policy directly without further specification.

The scheme involves the award of Mediobanca shares to staff members (employees, collaborators, staff on agency contracts) as the equity component of the variable remuneration granted to them as a result of the performance evaluation process, both short-term in relation to the annual budget (short-term incentive plan) and long-term (long-term incentive plan) usually assigned in conjunction with approval of the strategic plan.

The performance shares allocated as upfront equity component are subject to a holding period of no less than one year before they are actually awarded, subject to the beneficiary continuing to work with the Mediobanca Group.[15]

The performance shares awarded as deferred equity component are:

– Assigned within an overall vesting period for all deferred components over a time horizon of at least three years, provided that the beneficiaries are still employed by the Group[16] and that the additional performance conditions stipulated in the remuneration policies in force at the time regarding the sustainability of the results achieved have been met, with the conditions regarding the company's capital solidity and liquidity and/or proper individual conduct in particular respected.
– 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 with Mediobanca.[17]

Awards which are spread over time are an incentive to staff, in accordance with their role and business activities, to adopt conduct which is consistently geared towards ensuring that Mediobanca retains a solid capital base, substantial liquidity, control of all risks and profitable results, thus guaranteeing that the remuneration systems in place remain sustainable over the long term.

The Chief Executive Officer of Mediobanca 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, including outside the annual and/or long-term award cycle and with specific deferral mechanisms. The governing bodies may also award quantities of performance shares as part of compensation agreed in respect of

[15] I.e. the existence of a co-operation agreement between the beneficiary and the company, whether an employment contract or some other arrangement, not during a period of advance notice for resignation/withdrawal/termination, whether voluntary or due to dismissal/withdrawal on the part of the company. 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.

[16] See previous note.

[17] See note 15.

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 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 working relationship ends, whether governed by an employment contract or some other arrangement, due to resignation, dismissal and/or withdrawal. 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 of Mediobanca, 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 5,140,540 shares remain, and at present there is a total of 6,676,384 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 treasury shares currently held by the Bank and not reserved for other purposes may be used to this end.[18] The fully-diluted percentage of the share capital accounted for by the equity instruments assigned to Group staff amounts to approx. 0.75%. 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.[19]

[18] In accordance with the provisions of the resolution adopted by shareholders in the annual general meeting held on 27 October 2018.

[19] 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. No options remain to be taken up from that scheme. The 24,464,000 shares remaining from the capital increase (to be implemented by 1 July 2022) can no longer be used.

III. Performance conditions, malus conditions and clawback

The deferred variable remuneration component is paid, after the performance (short-term incentive) or long-term (long-term incentive), provided that:

– The beneficiary is still a Group employee [20] 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 "Gateways and risk-performance correlation" are met;

– The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as validated 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 policy and other internal regulations [21]) and no losses have been incurred which were attributable to their actions.

[20] Equivalent provisions have also been provided for working arrangements other than employment itself (e.g. co-operation 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.

[21] 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 evaluation process which always includes assessment of general conduct among the objectives, along with the individual operating targets. The materiality 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.

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 in place of 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. 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.

Clawback clauses can be applied to Identified Staff up to the fifth year following payment of variable remuneration, upfront or deferred, and up to one year for other staff.

e) Ban on hedging strategies

Staff members are not allowed to use hedging or insurance strategies on their remuneration or other aspects which could alter or otherwise distort the risk alignment effects inherent in the compensation mechanisms, especially if they refer to the variable component paid in the form of financial instruments.

As governed by the applicable internal regulations, [22] Identified Staff must give notice of transactions executed by them directly or indirectly in financial instruments issued by Mediobanca and those with Mediobanca instruments as underlying, transactions identified as potentially able to affect the risk alignment mechanisms, and more generally, to impact on achieving the objectives of the regulations in force in the area of remuneration [23]. Identified Staff are required to give notice of contracts executed with counterparties that generate the same effect (e.g. OTC derivatives). They are also obliged to disclose, from the moment they are included in the definition of Identified Staff and once a year if their inclusion is confirmed:

– All custody and administration accounts – opened with the Group or with other intermediaries – of which they are holders and/or joint account holders at the disclosure date. Also relevant in this connection are any accounts attributable to them indirectly (e.g. made out to companies 100% owned by them);
– The list of the financial instruments listed above with an indication of their respective quantities;
– The fact that no contracts have been entered into with third parties for hedging and/or insurance purposes.

Failure to disclose the above information could constitute a compliance breach.

The foregoing is without prejudice to the obligations and restrictions in force under any additional internal regulations governing trading in financial instruments on a personal basis.

Based on the information contained in the above disclosures, the control units carry out checks on the accounts and make further enquiries which may include asking to see the statements of account as appropriate.

[22] "Disclosure of accounts and trades by Group Identified Staff", "Regulations on internal dealing" and "Regulations governing personal transactions involving financial instruments made by relevant persons".

[23] Specific provisions are adopted for the companies operating in asset management, as the variable remuneration in such cases may be assigned in the form of fund stock units and/or fund-linked products.

6 Retribution structure for particular categories of staff

a) Non-executive directors

The emolument payable to non-executive directors of Mediobanca and the Group companies is fixed by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors of Mediobanca and all the Group companies are covered by a D&O insurance policy.

The Chairman is entitled to receive fixed remuneration only. The Board of Directors may, after consulting with the Remunerations Committee and within the limits set by the regulations in force, assess whether or not it is appropriate to pay him a variable component, on an exceptional basis, to be paid in accordance of the rules of this policy.

b) CEO and General Manager of Mediobanca

The remuneration of the CEO and the General Manager is regulated by individual agreements approved by the Board of Directors, and comprises:

1) A fixed salary;

2) A variable annual component (short-term incentive) which only accrues if the gateways stipulated in these policies are met (see the section entitled "Gateways and risk-performance correlation"), 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 met.
   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 it 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 good 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, 60% is deferred over a five-year time horizon, in cash and in Mediobanca shares, in accordance with the provisions of these Policies in the section entitled "Timing and instruments". All deferred components are subject to the performance and malus conditions stipulated in these Policies (see the section entitled "Performance conditions, malus conditions and clawback").

For the financial year ending 30 June 2020, the Chief Executive Officer has been assigned the following quantitative objectives:

Objective	**Weighting**
Profit before Taxes (PBT) from Group banking activities/capital absorbed (to optimize return and capital allocated to core activities)	35%
RWA density: Finrep assets/RWAs (focus on loan quality)	25%
Total fees (for focus on capital-light revenues)	20%
AUM-AUA-AUC as % of TFAs (for growth in indirect funding and reduction in weight of liquidity)	20%

The General Manager has been assigned the following objectives:

Objective	**Weighting**
Profit before Taxes (PBT) from Group banking activities/capital absorbed (to optimize return and capital allocated to core activities)	35%
RWA density: Finrep assets/RWAs (focus on loan quality)	20%
Banking cost/income ratio (to support balanced growth between revenues and costs)	20%
ROAC Wealth Management (to optimize return on capital absorbed by WM division)	25%

The following non-financial objectives have been assigned for the year ending 30 June 2020: to the Chief Executive Officer, management of Corporate Social Responsibility objectives, and strengthening the distribution platforms in the Wealth Management, Consumer Banking and CIB divisions; to the General

Manager, maximizing synergies between distribution network and product factories, and management of IT Growth to the Business and Data Quality projects.

For the year ending 30 June 2020, with a view to achieving convergence with the new long-term incentive plan shortly to be introduced as described below, the annual variable component may entail payment of up to a maximum of 150% of the annual fixed remuneration as recognition for achievement of the quantitative/financial objectives set, while the Board of Directors will be authorized to adjust the payment upwards if non-financial objectives are met too, up to a maximum cap of 160%.

3) When long-term plans are approved, the Board of Directors may approve a long-term incentive plan for the Chief Executive Officer and General Manager related to achievement of the strategic plan's objectives.

   Individual scorecards are used to show when the quantitative/financial and qualitative/non-financial objectives have been reached, whereupon the amount of the bonus awarded to the CEO and General Manager ranges from 20% to 40% of the value of their annual fixed remuneration for each year of the strategic plan. The final amount payable at the end of the plan, pro rata to the overall performance delivered, is determined by evaluating each of the objectives contained in the scorecard based on the weighting assigned to them.

4) 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 scheme, other benefits and welfare schemes operated for Mediobanca Group management staff.

5) 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 (known as the "stock ownership requirement"). 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 interests are aligned with those of the shareholders. [24]

c) Identified Staff employed in control units

The remuneration package for the Group's Identified Staff in the control units (Group Audit, Compliance and Risk Management) is structured so that the fixed component represents the majority, with a variable component assigned annually based on qualitative criteria in relation to the effectiveness and quality of control action. 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, at the Remuneration Committee's proposal.

d) Persons working for Group companies

In Group companies, 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 of Mediobanca and with Group HR. 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 and/or 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) and other secondary, quantitative objectives. Specific long-term incentivization plans may also be implemented, with performances evaluated over a time horizon of several years.

[24] At 30 June 2019, the Chief Executive Officer held 2,786,050 Mediobanca shares and the General Manager 1,065,000 Mediobanca shares, equal to approx. 14x and 6.4x their fixed remuneration respectively.

For the commercial branch and credit management network, the variable component is determined on the basis on specific quantitative indicators that 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, lack of complaints attributable to specific responsibilities due to improper conduct versus clients, transparency in banking and financial transactions and services offered to clients, evaluation 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 evaluation is completed by consideration of whether or not individual and project objectives have been achieved. 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 (including, but not limited to) 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.

e) Persons working for 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 [25])

[25] 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.

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 variable remuneration assigned 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 (see section above on "Limits on variable remuneration" and exceptions to the 2:1 cap on variable to fixed remuneration);
– Specific malus clauses and clawback mechanisms;
– Dismissal or resignation;
– Disclosure requirements.

f) External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group also uses financial advisors retained on the basis of agency contracts in the Wealth Management division, and wealth managers in the Consumer Banking division. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view 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 actions 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).

7 Policies in the event of the beneficiary leaving office or the employment arrangement being terminated

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 where beneficiaries leave office or the employment arrangement is terminated early, including the limits 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) involves 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 failure to give notice [26] and other entitlements payable upon termination (severance provision, holiday leave etc.);

[26] 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 employees' number of years' service.

- An additional amount by way of severance if appropriate: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment arrangement is terminated by mutual consent, in order to minimize 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

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), as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation ex ante, 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, the reasons for employment arrangement being terminated (which in some cases may be organizational and strategic rather than related to individual performance), the performance of activities that have caused problems for the risk profile decided by the Group, personal conduct that 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.

It 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.).[27] It does, however, include any non-competition agreements. Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

For Identified Staff, amounts paid as severance are included in calculating the limit on variable remuneration as a percentage of fixed remuneration represented by the cap, where instituted, with reference to the last year of employment. Any amounts agreed and/or paid under the terms of a non-competition agreement are included for purposes of calculating the cap only up to the amount which exceeds the share of the last year's annual fixed salary, for each year of the non-competition agreement's duration.

As provided by the regulations in force, in calculating whether or not the cap has been reached, no account is taken of any amounts agreed and/or paid under the terms of an agreement between the Bank and staff to settle a dispute that has already arisen (or at least is feared with good reason), at any stage of the settlement process, calculated as illustrated below. In order to quantify the risk objectively, the Bank takes advice from external lawyers specializing in employment law whose opinions are substantiated by objective legal references.

[27] To express this in terms of number of years' annual fixed salary, for staff members who have received variable remuneration equal to 2x their fixed salaries (given the 2:1 cap) on an ongoing basis over the whole time horizon taken into consideration, a total of six annual fixed salaries would be payable. This estimate, which is purely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.

Amounts agreed and/or paid as severance under the terms of an agreement between the Bank and staff in order to settle a dispute which has already arisen (or at least is feared with good reason), without reference to the cap, are therefore determined[28] on the basis of the following formula:

Severance = monthly salary (MTC) x indicator representing number of years' service (Y) ± correction factor (CF)

or

Severance = (MTC x Y) ± FC

where:

MTC	Calculation basis: average monthly total gross compensation, or fraction thereof, usually derived from the most recent annual fixed salary, the average variable remuneration paid over a given time horizon (last three years where applicable), and the value of any fringe benefits.
Y	Indicator representing the number of years' service in the Mediobanca Group: these are considered as not less than 7 and not more than 12.
CF	Correction factor: determined and justified, on the basis of objective and suitably documented parameters, to be calculated according to the criteria set forth below: • Age; • Personal and social conditions provided for under the internal regulations; • Role and position within organization; • Historical individual qualitative and quantitative performance delivered; • Reason for end of employment arrangement (in some cases may be organizational and strategic and not strictly related to individual performance); • Activities performed that have caused problems with respect to the risk profile adopted by the Group; • Personal behaviour not aligned with company values; • Existence of risks for the Bank as a result of disputes that have already arisen or are feared with good reason, based on opinions obtained from leading lawyers; and • Specific refinements which take into account the employment law provisions in force in the specific countries other than Italy where the Group operates. The Bank determines analytically in its internal regulations the weightings used to define the overall correction factor applicable in practice, which in general terms may vary between - 100% and + 100%.

Severance may not be paid in cases where the conduct of individual staff members has damaged the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

d) Timing and instruments

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Policies for identification of Material Risk-Takers", the methods and timescales provided for in making severance payments and any

[28] Net of the cost of any amounts paid by way of indemnity in lieu of notice and amounts due in connection with severance mentioned in point b) above, and with the provisos specified in the foregoing note 26.

compensation for non-competition agreements (except in the latter case for the share of any such amounts that does not exceed the last year's payment in terms of fixed salary) entered into upon terminating an employment relationship include payment based on the timescales and deferral mechanisms instituted for payment of variable remuneration, 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 deferred component 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 does the entitlement to any company benefits.

for treatment in cases of "good leavers", [29] 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.

[29] "Good leavers" are defined as those staff members whose employment arrangement ends by mutual consent (including in cases of retirement or early retirement), death or permanent incapacity, duly certified, if it remembers the staff member concerned unable to perform their duties. In all other cases where the employment arrangement is ended, including resignations, the staff members concerned are considered "bad leavers", even though the Bank may decide to treat them as "good leavers" in any case, in view of the specific features of the case concerned, to be evaluated on the basis of suitably justified and documented objective criteria.

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, CEO and General Manager of Mediobanca

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 arrangement is terminated.

SECTION 2

Report on application of staff remuneration and incentivization policies for year ended 30 June 2019

a) Introduction

The Mediobanca Group delivered an excellent set of results for the year ended 30 June 2019, which placed it among the top European banks for growth in revenues, profitability, shareholder remuneration and stock market performance. All divisions delivered good performances, with the main highlights as follows:

- Total revenues: up 4%, to €2.5bn;
- Net interest income: up 3%, to €1.4bn, due to growth in loans (up 8%, to €44bn) and a reduction in the cost of funding (from 90 bps to 80bps);
- Asset quality improving further, with the cost of risk declining (from 62 bps to 52 bps), gross NPLs down 8%, to €1.8bn, representing 3.9% of total loans (4.6%);
- GOP up 8%, to over €1.1bn;
- Adjusted net profit up 8% to €860m, adj. EPS up 8% to €0.97;
- Profitability higher: adj. ROTE 10.2%, vs 9.5% in 2018;
- CET 1 ratio stable at 14.1%;
- Payout ratio 50% (vs 48%), proposed dividend of €0.47 per share.

The 2016-19 strategic plan objectives have been fully achieved, on the back of our distinctive business model and financial solidity, factors which allow the Mediobanca Group to focus on growth and place us in the privileged position of being able to strengthen distribution, organically and via acquisitions. All divisions improved in terms of positioning and profitability: Wealth Management now visible by brand, scale and contribution to Group figures; record results posted in Consumer Banking; and CIB now leader in Southern Europe.

Decisions on staff remuneration have been taken in a business environment that increasingly requires the contribution of highly-skilled professionals.

b) 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 one case) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer and the head of Group HR also took part , 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); assessment of a long-term incentive scheme for Group senior management in connection with approval of the new strategic plan; decisions made by the Chief Executive Officer regarding the variable remuneration of other staff; review of the internal processes and procedures adopted in connection with the remuneration system; analysis of the new Bank of Italy instructions issued on 23 October 2018 on the subject of remuneration and incentivization policies and practices with a particular focus on the remuneration of financial advisors and staff working in asset management; analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; and application of the severance policy.

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 new remunerations policies.

The Compliance unit has issued a 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 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.

c) Incentivization system: determination of variable remuneration and allocation using risk-adjusted metrics based on sustainable results over time

All the Group's gateways for the year ended 30 June were met: consolidated gross operating profit €1,140m, CET 1 ratio 14.1%; Leverage ratio 8.4%; AFR/ECAP 192%; average Liquidity Coverage Ratio 177%; Net Stable Funding Ratio 107%. For the 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 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.

The Group's results for the year ended 30 June 2019 reflect:

- Stable capital solidity indicators (CET 1 ratio >14%);
- Growing GOP (€1.14bn), 7.8% higher than last year and 4.5% ahead of budget;
- Revenues of €2.5bn (up 4%), with net interest income increasing despite market rates remaining in negative territory;
- Good performance in trading activity (up 25% year-on-year);
- Loan loss provisions decreasing for the fifth year in a row (from €247m to €223m).

The Wholesale Banking division's results in the twelve months ended 30 June 2019 reflect a gross operating profit of €338m, following writebacks to loans totalling €63m, with its market leader position confirmed. The Economic Profit earned by Wholesale Banking totalled €252m, impacted by a negative performance from the proprietary trading portfolio in turn offset by the healthy trend in CIB Client business, which was ahead of budget and up 9% year-on-year due to CMS, Corporate Finance and an improved cost of risk. CIB Client in particular delivered:

– Economic Profit up 9%, from €253m to €275m;
– Investment banking revenues showed strong growth in Corporate Finance, a low capital-absorption product with higher pay-out consistent with market practice, and growth in Capital Market Solutions. The overall figure was penalized by the downturn in lending activity, where revenues were down 9%, in a difficult market scenario, but was boosted by writebacks which were far higher than the need for provisioning;
– Market leadership in advisory business;
– Fixed labour costs down slightly, due to more efficient organization in various teams plus a more favourable GBP/EUR exchange rate.

For Mediobanca Private Banking, the results were as follows:

– Profit from ordinary activities up 9%, from €14.1m to €15.4m;
– GOP €17m (30/6/18: €13.6m, reflecting €0.6m in provisions);
– AUM/AUA €15.5bn (€14.9bn); NNM approx. €2.5bn, €2.1bn of which liquid assets.

For the Consumer Banking division (Compass and Futuro):

– Revenues up 3%, and above budget, on resilient returns and volumes;
– Further improvement in asset quality drove a reduction in loan loss provisions, from €242m to €238m, due to the risk-taking and recovery policies;
– GOP €496m (up 7% Y.o.Y. and 11% above budget);
– ROAC for Consumer Banking division 30%, slightly higher than in 2018 (29%);
– Cost/income and compensation/income ratios stable Y.o.Y.

With regard to the Wealth Management – Affluent / Premier division (CheBanca!):

- Growth of 16% in gross profit (from €41m to €47m);
- TFAs up 12% to €25.4bn; of the €2.8bn added, approx. 70% were AUA;
- Healthy trend in revenues (up 2%);
- ROAC for CheBanca! almost double at 14% vs 8% in 2018 (helped by adoption of AIRB models);
- Cost/income and compensation/income ratios stable Y.o.Y.

Principal Investing delivered growth in profits, from €295m to €332.4m, with a ROAC of 15%, despite the lack of gains on disposals.

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, and the relevant internal and control units, thus established the overall amount for distribution to the Mediobanca S.p.A. divisions at approx. €74m (basically stable compared with 2018). Variable remuneration for the WB division was set at €48.2m (€47.6m), of which €46.8m for CIB Client (vs €45.1m in 2018), translating to payouts of 19% (18%) and 17% (18%) of Economic Profit respectively. The variable component for Private Banking totalled €7.2m (€6.7m), corresponding to a payout ratio of 29% (30%). A total of €18.6m was allocated to the PI division, MAAM and the Holding Functions units (versus €19.3m in 2018). The bonus pool includes the variable remuneration reserved to the Chief Executive Officer and the General Manager and the heads of the control units of Mediobanca S.p.A.

The variable/fixed remuneration ratio for WB division staff was 98%, basically flat versus last year (101%). For Mediobanca Private Banking the ratio is 38% (44%). Considering Identified Staff only the ratio was 116% (135%) for WB and 128% (174%) for Mediobanca Private Banking. If all Mediobanca staff are considered, the ratio falls to 65%, from 67% in 2018.

One of the main objectives in making individual awards of 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! reflects excellent earnings results, including on a risk-adjusted basis. The total variable remuneration awarded to the Consumer division was approx. €8m, in line with 2018, with Compass's commercial network, like in previous years, reaching the cap instituted as part of the incentivization system. For CheBanca! the variable remuneration was around €11m, largely stable versus 2018.

The variable/fixed ratio for identified staff in the Consumer division was around 102%, compared with 109% in 2018, and approx. 56% compared with 48% in 2018 for CheBanca! identified staff. Considering for the headcount as a whole for the Consumer division, the ratio was 9% (10% in 2018), and 13% (15%) for CheBanca!

As at 30 June 2019, 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.

d) Variable remuneration of the Chief Executive Officer and General Manager of Mediobanca

This reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. 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 2019 were for the CEO as follows:

Objective	Weighting	Reached
i) RWA density: RWA/total assets (to focus on asset quality)	25%	Comfortably exceeded
ii) Profit Before Taxes (PBT) from Group banking activities (to grow banking activities)	25%	Achieved
iii) Group ROTE (to ensure optimal use of overall capital)	25%	Achieved
iv) Growth in Total Financial Assets - AUM/AUA/direct funding (with focus in growth in assets in WM division)	25%	Comfortably exceeded

For the General Manager, the following objectives were assigned:

Objective	Weighting	Reached
i) Loans/funding ratio (to ensure effective balance between deposits and applications of funds)	20%	Partially achieved
ii) Profit Before Taxes (PBT) from Group banking activities (to grow banking activities)	30%	Achieved
iii) Banking activities cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%	Partially achieved
iv) Net New Money in Private Banking business line (focus on growth in Private Banking)	30%	Comfortably exceeded

For the CEO the qualitative objectives involved managing the Corporate Social Responsibility initiatives and activities directed 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/organization structure at the Wealth Management division. In both cases the objectives were found 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 €2,650,000 (€2,484,000 in 2018) and of €1,900,000 (€2,070,000 in 2018) to the General Manager, equal to 147% (138% in 2018) and 127% (138% in 2018) of their fixed salaries. 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. The ratio in 2019 between the CEO's gross total compensation and the average gross total compensation for Group staff members was approx. 55x.

e) 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 is 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 1,716,197 performance shares [30] (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €9.3 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.

[30] Of these, 142,358 were awarded to the CEO and 102,067 to the General Manager. The total also includes 141,669 performance shares already awarded to the CMB group's Identified Staff for the year ended 31 December 2018 and under recruitment agreements in the period from June 2019 – September 2019.

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 2018-19 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 "Limits on variable remuneration", which sets 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 and without prejudice to the exception to the above limits permitted for personnel working in the asset management area;

Resolution 3: to adopt the provision instituted in the section entitled "Policies in the event of the beneficiary leaving office or the employment arrangement being terminated" 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, 19 September 2019

THE BOARD OF DIRECTORS

SECTION 3

Tables with quantitative data

TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities (as per "Delibera Consob 18049" – 23rd December 2011)

(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	01/07/18	30/06/19	30/06/20	100,000	1,800,000	1,900,000				350,356		2,250,356		
	Member of Appointments committee										of which complementary pension scheme 346,413				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**				**350,356**		**2,250,356**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**100,000**	**1,800,000**	**1,900,000**	**–**	**–**	**–**	**350,356**	**–**	**2,250,356**	**–**	**–**
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/18	30/06/19	30/06/20	135,000		135,000						135,000		
	Member of Executive Committee	01/07/18	30/06/19	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 30/06/2019														
	(III) Total				**225,000**	**–**	**225,000**	**–**	**–**	**–**	**–**	**–**	**225,000**	**–**	**–**
Alberto Pecci	Deputy Chairman of Board of Directors	01/07/18	30/06/19	30/06/20	135,000		135,000						135,000		
	Member of Executive Committee	01/07/18	30/06/19	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**165,000**	**–**	**165,000**	**–**			**–**		**165,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**165,000**	**–**	**165,000**	**–**	**–**	**–**	**–**	**–**	**165,000**	**–**	**–**

(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 compen-sation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Alberto Nagel	CEO	01/07/18	30/06/19	30/06/20	100,000	1,800,000	1,900,000		854,000		454,804		3,208,804	1,048,984	
											of which complementary pension scheme 449,942				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**	**–**	**854,000**	**–**	**454,804**	**–**	**3,208,804**	**1,048,984**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**100,000**	**1,800,000**	**1,900,000**	**–**	**854,000**	**–**	**454,804**	**–**	**3,208,804**	**1,048,984**	**–**
Francesco Saverio Vinci	General Manager	01/07/18	30/06/19	30/06/20	100,000	1,500,000	1,600,000		628,400		369,045		2,597,445	781,448	
											of which complementary pension scheme 362,517				
	(I) Compensation in company preparing the accounts				**100,000**	**1,500,000**	**1,600,000**	**–**	**628,400**		**369,045**		**2,597,445**	**781,448**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**	**–**					**–**		
	(III) Total				**100,000**	**1,500,000**	**1,600,000**	**–**	**628,400**	**–**	**369,045**	**–**	**2,597,445**	**781,448**	**–**
Marie Bolloré	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Appointments committee	01/07/18	30/06/19	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 30/06/2019						**–**						**–**		
	(III) Total				**120,000**	**–**	**120,000**	**–**	**–**	**–**	**–**	**–**	**120,000**	**–**	**–**
Maurizio Carfagna	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee	01/07/18	30/06/19	30/06/20	80,000		80,000						80,000		
	Chairman of Remunerations committee	01/07/18	30/06/19	30/06/20	40,000		40,000						40,000		
	(I) Compensation in company preparing the accounts				**220,000**	**–**	**220,000**	**–**			**–**		**220,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2019				**35,000**		**35,000**	**–**					**35,000**		
	(III) Total				**255,000**	**–**	**255,000**	**–**	**–**	**–**	**–**	**–**	**255,000**	**–**	**–**

(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					
Maurizio Costa	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Chairman of Appointments committee	01/07/18	30/06/19	30/06/20	25,000		25,000						25,000		
	(I) Compensation in company preparing the accounts				**125,000**	**–**	**125,000**	**–**			**–**		**125,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**125,000**	**–**	**125,000**	**–**	**–**	**–**	**–**	**–**	**125,000**	**–**	**–**
Angela Gamba	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee				80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**180,000**	**–**	**180,000**		**–**		**–**		**180,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**180,000**	**–**	**180,000**	**–**	**–**	**–**	**–**	**–**	**180,000**	**–**	**–**
Valérie Hortefeux	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Remunerations committee				30,000		30,000						30,000		
	Member of Risks committee and Related parties committee				80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**210,000**	**–**	**210,000**		**–**		**–**		**210,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**210,000**	**–**	**210,000**	**–**	**–**	**–**	**–**	**–**	**210,000**	**–**	**–**
Maximo Ibarra	Director	20/09/18	30/06/19	30/06/20	77,808		77,808						77,808		
	(I) Compensation in company preparing the accounts				**77,808**	**–**	**77,808**		**–**		**–**		**77,808**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**77,808**	**–**	**77,808**	**–**	**–**	**–**	**–**	**–**	**77,808**	**–**	**–**
Alberto Lupoi	Director	01/07/18	30/06/19	30/06/20	100.000		100.000						100.000		
	Member of Remunerations committee	01/07/18	30/06/19	30/06/20	30.000		30.000						30.000		
	Member of Appointments committee	01/07/18	30/06/19	30/06/20	20.000		20.000						20.000		
	(I) Compensation in company preparing the accounts				**150,000**	**–**	**150,000**		**–**		**–**		**150,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**150,000**	**–**	**150,000**	**–**	**–**	**–**	**–**	**–**	**150,000**	**–**	**–**

(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					
Elisabetta Magistretti	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Chairman of Risks committee and Related parties committee	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Appointments committee	01/07/18	30/06/19	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**220,000**	**–**	**220,000**						**220,000**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**220,000**	**–**	**220,000**	**–**	**–**	**–**	**–**	**–**	**220,000**	**–**	**–**
Vittorio Pignatti - Morano	Director	20/09/18	30/06/19	30/06/20	77,808		77,808						77,808		
	Member of Risks committee and Related parties committee	20/09/18	30/06/19	30/06/20	62,247		62,247						62,247		
	(I) Compensation in company preparing the accounts				**140,055**	**–**	**140,055**						**140,055**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**140,055**	**–**	**140,055**	**–**	**–**	**–**	**–**	**–**	**140,055**	**–**	**–**
Gabriele Villa	Director	01/07/18	30/06/19	30/06/20	100,000		100,000						100,000		
	Member of Executive Committee	01/07/18	30/06/19	30/06/20	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**190,000**	**–**	**190,000**		**–**		**–**		**190,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019 [2]				**3,699**		**3,699**						**3,699**		
	(III) Total				**193,699**	**–**	**193,699**	**–**	**–**	**–**	**–**	**–**	**193,699**	**–**	**–**
Massimo Tononi	Director	01/07/18	25/07/18	25/07/18	6,849		6,849						6,849		
	Member of Risks committee and Related parties committee	01/07/18	25/07/18	25/07/18	5,479		5,479						5,479		
	(I) Compensation in company preparing the accounts				**12,329**	**–**	**12,329**		**–**		**–**		**12,329**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019														
	(III) Total				**12,329**	**–**	**12,329**	**–**	**–**	**–**	**–**	**–**	**12,329**	**–**	**–**

(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					
Dirigenti con responsabilità strategiche						3,628,314	3,628,314		1,725,390		324,331		5,678,035	1,843,118	
											di cui fondo pensione integrativo 283,957				
	(I) Compensation in company preparing the accounts					**3,628,314**	**3,628,314**		**1,725,390**		**324,331**	**–**	**5,678,035**	**1,843,118**	
	(II) Compensation from subsidiaries/associates at 30/06/2019					**738,930**	**738,930**		**376,500**		**7,136**		**1,122,566**		
	(III) Total				**–**	**4,367,244**	**4,367,244**	**–**	**2,101,890**	**–**	**331,467**	**–**	**6,800,601**	**1,843,118**	**–**
Natale Freddi	Chairman of Statutory Audit Committee	01/07/18	30/06/19	30/06/20	180,000		180,000						180,000		
	(I) Compensation in company preparing the accounts				**180,000**	**–**	**180,000**		**–**		**–**		**180,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**180,000**	**–**	**180,000**	**–**	**–**	**–**	**–**	**–**	**180,000**	**–**	**–**
Laura Gualtieri	Member of Statutory Audit Committee	01/07/18	30/06/19	30/06/20	140,000		140,000						140,000		
	(I) Compensation in company preparing the accounts				**140,000**	**–**	**140,000**		**–**		**–**		**140,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**140,000**	**–**	**140,000**	**–**	**–**	**–**	**–**	**–**	**140,000**	**–**	**–**
Francesco Di Carlo	Member of Statutory Audit Committee	01/07/18	30/06/19	30/06/20	140,000		140,000						140,000		
	(I) Compensation in company preparing the accounts				**140,000**	**–**	**140,000**		**–**		**–**		**140,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2019						**–**						**–**		
	(III) Total				**140,000**	**–**	**140,000**	**–**	**–**	**–**	**–**	**–**	**140,000**	**–**	**–**

Managerial staff with strategic responsibilities at 30 June 2019

1) Fees due in respect of position held in Mediobanca SGR

2) Fees due in respect of position held in Spafid

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	Periodo di vesting	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-ott-10	36,782 Performance shares	Nov. 2019							36,781	283,692	56,246
		28-ott-15	110,373 Performance shares	Nov. 2019 – Nov. 2021							73,583	567,546	115,727
		28-ott-15	152,387 Performance shares	Nov. 2019 – Nov. 2022									314,329
		28-ott-15	150,981 Performance shares	Nov. 2020 – Nov. 2023									265,601
		28-ott-15			142,358 Performance shares	1,122,202	Nov. 2021 – Nov. 2024	27 settembre 2019	10.069				297,081
Francesco Saverio Vinci	GM	28-ott-10	30,570 Performance shares	Nov. 2019							30,570	235,786	48,484
		28-ott-15	54,977 Performance shares	Nov. 2019 – Nov. 2021							36,650	282,681	57,644
		28-ott-15	116,830 Performance shares	Nov. 2019 – Nov. 2022									240,985
		28-ott-15	125,818 Performance shares	Nov. 2020 – Nov. 2023									221,335
		28-ott-15			102,067 Performance shares	804,590	Nov. 2021 – Nov. 2024	27 settembre 2019	10.069				213,000
Managerial staff with strategic responsibilities		28-ott-10									20,646	159,243	
		28-ott-10	37,498 Performance shares	Nov. 2019							64,385	497,615	59,471
		28-ott-15	188,858 Performance shares	Nov. 2019 – Nov. 2021							134,894	1,042,393	199,178
		28-ott-15	256,802 Performance shares	Nov. 2019 – Nov. 2022									534,885
		28-ott-15	254,309 Performance shares	Nov. 2020 – Nov. 2023									453,172
		28-ott-15			282,782 Performance shares	2,233,902	Nov. 2021 – Nov. 2024	27 settembre 2019	10.069				596,412
Total			**1,516,185**		**527,207**	**4,160,694**					**397,509**	**3,068,956**	**3,673,550**

Managerial staff with strategic responsibilities at 30 June 2019

Maximum number of shares that can be awarded if the performance objectives set in the Remunerations policy in force at the time are met and/or subsequent to the holding period elapsing, in accordance with the Remuneration policies in force at the time.

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 2018/2019	530,000	795,000	Nov. 2020 - Nov. 2024				
		FY 2017/2018						745,200	
		FY 2016/2017					324,000	486,000	
		FY 2015/2016						378,000	
		FY 2014/2015						337,500	
Francesco Saverio Vinci	GM	FY 2018/2019	380,000	570,000	Nov. 2020 - Nov. 2024				
		FY 2017/2018						621,000	
		FY 2016/2017					248,400	372,600	
		FY 2015/2016						188,280	
		FY 2014/2015						280,500	
Management with strategic responsibilities		FY 2018/2019	1,222,200	1,540,800	Nov. 2020 - Nov. 2024				
		FY 2017/2018						1,216,800	
		FY 2016/2017					549,350	782,150	
		FY 2015/2016						631,377,50	
		FY 2014/2015					330,340	13,725	
Total			**2,132,200**	**2,905,800**			**1,452,090**	**6,053,132,50**	

Managerial staff with strategic responsibilities at 30 June 2019

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	Chairman	MEDIOBANCA	2,200,000	==	100,000	**2,100,000**
Nagel Alberto	CEO	MEDIOBANCA	2,725,550	110,364 [1]	49,864	**2,786,050**
Vinci Francesco Saverio	GM	MEDIOBANCA	1,028,500	67,220 [1]	30,720	**1,065,000**
Carfagna Maurizio	Director	MEDIOBANCA	51,000	10,000	==	**61,000** [2]
Pecci Alberto	Director	MEDIOBANCA	4,677,500	==		**4,677,500** [3]
Pignatti-Morano Vittorio	Director	MEDIOBANCA	==	90,000	==	**90,000** [4]

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 performance shares scheme

[2] of which n. 40.000 shares owned through subsidiaries and n. 1.000 through marriage

[3] Investment owned through subsidiaries

[4] Investment owned through fiduciary company

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	84,585	219,925	113,584	190,926 **

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 30.6.2019.

** Shares awarded in execution of performance share scheme.

Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	FTE	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Instruments Upfront	Deferred Cash	Instruments equity
Management body Supervisory function - Mediobanca	14	3,973,890	—	—	—	—	—	—	—
Management body Management function (CEO/GM) - Mediobanca	2	3,500,000	4,550,000	200%	130.0%	910,000	910,000	1,365,000	1,365,000
Staff, Support, holding units	1,241	71,732,161	12,490,709	200%	17.4%	11,565,436	188,000	557,773	179,500
Control functions (Risk Management, Compliance, Audit)	299	19,639,237	3,538,477	33%	18.0%	3,324,002	65,700	104,975	43,800
Investment Banking - business	595	59,783,746	48,790,848	200%	81.6%	27,759,148	5,085,450	10,727,950	5,218,300
Retail e Consumer - business	2,568	133,589,273	16,401,725	200%	12.3%	14,925,700	476,550	526,775	472,700
Private Banking / Asset Management - business	385	46,378,271	19,792,576	200%	42.7%	16,676,189	449,400	2,255,388	411,600
	5,103	**338,596,580**	**105,564,335**	**—**	**31.2%**	**75,160,474**	**7,175,100**	**15,537,861**	**7,690,900**

Gross amounts included for Group Directors emoluments payable in respect of their office.

Includes Financial Advisors (recurrent component in Fixed salary and non recurrent component in variable remuneration)

EBA classification (2019 Organizational structure)

Includes Group companies which ended FY on 31 December 2018. Messier Maris & Ass. 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 maxi-mum	% Variable on fixed salary	*Cash Upfront*	Instruments Upfront	Deferred Cash	Instruments Deferred
1)	Non-executive directors (non-executive members of BoD, including Chairman)	1	1,800,000	—	—	—	—	—	—	—
2)	CEO	1	1,800,000	2,650,000	200%	147%	530,000	530,000	795,000	795,000
	GM	1	1,500,000	1,900,000	200%	127%	380,000	380,000	570,000	570,000
3)	Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	11	7,243,657	8,347,000	200%	115%	1,669,400	1,669,400	2,504,100	2,504,100
4)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	20	3,319,128	969,650	33%	29%	816,350	65,700	43,800	43,800
5)	Staff with managerial responsibilities in relevant business units	32	10,693,359	8,136,500	200%	76%	2,094,950	2,094,950	1,973,300	1,973,300
6)	Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	8	1,946,489	764,000	200%	39%	477,000	123,000	82,000	82,000
7)	Quantitative criteria	30	13,293,218	8,069,500	200%	61%	2,312,050	2,312,050	1,722,700	1,722,700
		104	**41,595,851**	**30,836,650**	**—**	**74%**	**8,279,750**	**7,175,100**	**7,690,900**	**7,690,900**

Gross amounts in €'000 – Performance variable FY ending 30 June 2019

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 2018, identified at that date.

Includes Financial Advisors (recurrent component in Fixed salary and non recurrent component in variable remuneration)

Messier Maris & Ass. 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 shar [1]
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) CEO - GM	2	572,400	2	1,369,705
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	11	1,470,490	10	2,884,285
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	2	22,290	1	39,722
5) Staff with managerial responsibilities in relevant business units	23	2,302,150	14	3,127,605
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	2	64,450	2	149,933
7) Quantitative criteria	18	1,791,050	10	1,969,269
	58	**6,222,830**	**39**	**9,540,519**

[1] Equivalent value in € at the award date.

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)	1	1,800,000	1	435,409
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	-	-	-	-
5) Staff with managerial responsibilities in relevant business units	-	-	1	850,000
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	-	-	-	-
7) Quantitative criteria	-	-	1	450,000
	1	**1,800,000**	**3**	**1,735,409 ***

[1] With reference to the identified staff identified as of 30 June 2018.

* Of which € 163.000 by way of incentive, 40% deferred.

The highest amount paid to an individual person was € 850.000 included notice and complementary pension scheme contributions.

Total remuneration awarded over € 1 mln.		#
€	1 million - 1,5 millions	10
€	1,5 - 2 millions	4
€	2 - 2,5 millions	
€	2,5 - 3 millions	1
€	3 - 3,5 millions	
€	3,5 - 4 millions	2
€	4 - 4,5 millions	
€	4,5 - 5 millions	1
Total		18

UPDATE THE PERFORMANCE SHARE SCHEME FOR GROUP STAFF

Dear shareholders,

As in previous years, the staff remuneration and incentivization policies submitted to your approval include performance shares among the incentivization instruments provided for. The previous scheme, approved at the annual general meeting held on 28 October 2015, needs to be updated in order to incorporate certain changes that have been made to the regulations, in particular the Bank of Italy's Supervisory Instructions on remuneration and incentivization policies and practices, issued on 23 October 2018. The maximum number of shares established by shareholders at the annual general meeting held on 28 October 2015 and the scheme's expiry date are unchanged, the latter coinciding with the expiry date set by shareholders at the same 2015 AGM for the Board's authorization to increase the company's share capital in connection with the scheme.

As well as revising the data on use of the performances shares and the number of shares outstanding, the main change refers to the time horizon over which the instruments may be distributed.

1. Recipients

The recipients of the performance share scheme are staff who, under the regulations in force and the remunerations policies approved by yourselves, receive a share of their variable remuneration in the form of equity instruments. These include employees who fall within the definition of the Mediobanca Group's identified staff, identified on a regular basis by the appointed bodies based on the criteria set by the regulations in force at the time and formalized in the Remuneration policies. Additional staff members considered relevant in organizational terms to the achievement of the Group's strategic objectives may also be recipients of the performance share scheme.

Recipients of the performance share scheme may include the following members of the Board of Directors: the Chairman Renato Pagliaro;[1] the Chief Executive Officer of Mediobanca, Alberto Nagel; and the General Manager, Francesco Saverio Vinci.

Persons with management duties who have regular access to inside information and who may take management decisions which can impact on the performance and future prospects of the issuer of the shares referred to under Article 152-*sexies*, para. 1, letter c)-c.2, in addition to the directors who are members of the Group's senior management listed above, include the "Strategic management" identified by the Board of Directors in the resolution in force at the time. At the date of this resolution there are a total of eight such strategic management members: the heads of the three 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 lines, and the two co-heads of the Corporate and Investment Banking division.

There are no categories of staff for which different treatment is provided in the performance share scheme, which is the same for all recipients.

2. Rationale for adopting the scheme

The scheme enables Mediobanca to:

- Align itself with the regulatory requirements regarding the payment of a share of the variable remuneration in the form of equity instruments, over a long-term time horizon, subject to performance conditions, i.e. to the sustainability of positive results delivered over time;
- Ensure that the interests of the Bank's management are aligned with those of its shareholders with reference to value creation in the medium/long term.

[1] The Chairman only receives a fixed salary. However, provision is made in the Remuneration policies for the Board of Directors to consider the possibility, after consulting with the Remunerations Committee and up to the limits provided by the regulations in force, of paying the Chairman a variable component, to be awarded in accordance with the rules of the policies themselves, including in the form of performance shares. To date the Board has never adopted a resolution of this kind.

3. Governance

The Board of Directors approves the proposals of the Remunerations Committee and the Chief Executive Officer regarding:

- The total quantity of shares to be issued for each award cycle, in accordance with the criteria and methods established in the Remunerations policies in force at the time;
- The award of performance shares to directors who are members of the Group's senior management;
- The scheme's regulations, which set down the rules by which it operates in practice.

The Chief Executive Officer is responsible for operating the scheme, with the assistance of Group HR, to establish the quantities to be awarded to the individual recipients.

4. Means of award

Under the terms of the scheme, Mediobanca shares are granted to people linked to the Group (employees, collaborators, staff employed under agency contracts, etc.) as the equity component of the variable remuneration awarded to them based on the results of the performance evaluation process, both short-term (i.e. in relation to the annual budget – the short-term incentive plan) and long-term (the long-term incentive plan, usually awarded when the strategic plan is approved).

The performance shares assigned as the upfront equity component are subject to a holding period of no less than one year before they are actually awarded, provided the beneficiary remains part of the Group.[2]

[2] By "remaining part of the Group" what is meant here is that the co-operation arrangement between the recipient and the company is ongoing, whether such arrangement takes the form of permanent employment or some other contractual agreement, not in a period of notice being served for resignation/withdrawal/termination from the contract, whether voluntary or due to dismissal/withdrawal on the part of the company. For Directors of Group companies not linked to the Group by means of an employment contract, when their term of office comes to an end or is not renewed, their rights continue to apply without prejudice to the provisions of any individual specific agreements and provided their term of office has not come to an end due to compliance breaches attributable to them.

The performance shares assigned as the deferred equity component are:

– Assigned as part of the overall vesting period for all deferred components over a time horizon of at least three years, provided the beneficiary is still linked to the Group[3] and that the additional performance conditions identified by the remuneration policies in force at the time have been regarding the sustainability of the results achieved, the company's capital solidity and liquidity conditions continuing to be met, and the proper conduct of the individual beneficiary;
– Subject to a subsequent holding period of no less than one year prior to their actual award, provided the beneficiary still works for Mediobanca [4].

Deferring the awards over time in this way acts as an incentive to recipients, consistent 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, substantial liquidity, control of all risks and profitable results, thus ensuring that the remuneration systems are sustainable over the long term.

The remuneration policies in force at the time set out in detail the performance evaluation period and the specific vesting and holding periods applicable to the performance shares with reference to the provisions of this resolution. The Board of Directors may also identify additional performance indications on the occasion of each individual award cycle. For Group company staff members the Chief Executive Officer of Mediobanca, after consulting with the CEOs of the Group companies themselves, may identify one or more specific economic indicators.

As provided by the remuneration policies, Mediobanca reserves the right to take measures to claw back variable remuneration already paid in the event of damage emerging to the integrity of its capital, profitability and earnings/financial or reputational situation which is attributable to the conduct of individual staff members, regardless of whether such behaviour constitutes instances of wilful misconduct or fraud. Such measures are also provided for cases which involve breach of the obligations set under Article 26 of the Italian Banking Act (Company representatives – Professional qualifications, fit and proper person requisites, and independence of company representatives), or, when the person concerned is an interested party, Article 53, paras 4ff (Regulatory supervision), or the obligations in respect of remuneration and incentivization.

[3] See previous note.

[4] See note 2.

The Chief Executive Officer may also use performance shares in defining remuneration packages in connection with the recruitment of key staff, including outside of the annual and/or long-term award cycle and with specific deferral mechanisms as provided under the terms of this resolution. The governing bodies may also award shares in relation to compensation agreements entered into in connection with early termination of the working relationship, to ensure these are correlated to the performance achieved and the risks taken by the individual concerned and the Bank, in accordance with the regulatory requirements and the aims set by the Remuneration policies in force at the time.

The entitlement to receive shares is retained if the beneficiary retires or in the event of permanent disability and/or illness making them unable to continue working. Such entitlement is lost, however, in cases where the working arrangement, whether based on an employment contract or other form of agreement, ends due to resignation, dismissal and/or withdrawal. The governing bodies (Board of Directors, Remunerations Committee, CEO of Mediobanca) are responsible for handling any exceptions, under the powers attributed to them respectively, in particular in cases where the working relationship is ended by mutual consent as defined in the remuneration policies in force at the time. The foregoing is without prejudice to decisions taken, if any, by a third party authorized to do so (such as the judicial and/or arbitration and/or conciliation authorities) and to regulations, if any, providing more favourable treatment issued by the applicable local legislations.

5. Characteristics of instruments awarded

The scheme provides for the award of ordinary Mediobanca shares. The shares are delivered after the dividend, if any, has been paid and in compliance with the Group regulations in force at the time on internal dealing and personal trading in financial instruments by management with strategic duties. The shares are awarded personally, without prejudice to succession rights. The shares, once received, subject to the performance conditions and after the holding period has ended, may be traded immediately up to the limits set by the law and regulations in force (e.g. on market abuse). The performance share scheme makes no provision for restrictions on voting rights or property rights in relation to the ordinary Mediobanca shares awarded.

6. Funding

The maximum number of shares that may be awarded under the terms of this scheme is 20 million, from the capital increase approved on 28 October 2015, reserved to Mediobanca Group staff members by or before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code. Of thus, at present a total of 5,140,540 are still available for future distributions; 6,676,384 have been allocated but not yet awarded as they are still covered by vesting/holding periods. Treasury shares held by the Bank which are freely available and not earmarked for some other purpose may also be used for the performance share scheme.

The remaining shares for use in the scheme currently represent 0.57% of the company's share capital fully diluted. The impact on the stock market value and possible dilutive effects on the Bank's share capital are not considered to be material, given that the awards take place over several years.

7. Changes and amendments to the scheme

No particular procedures have been set in place to revise the Mediobanca performance share scheme, other than those entailed by the powers vested in the governing bodies.

If extraordinary events with significant impact on the Group's earnings/ financial performance take place, the performance share scheme may be revised and/or abolished at Board of Directors' discretion after consulting with the Remunerations Committee. In the event of extraordinary transactions taking place which involve the Bank's share capital, the allocation of performance shares not yet available will be amended accordingly.

8. Accounting and tax issues

Under the accounting policies adopted, the performance shares awarded are booked to the profit and loss account based on a notional cost split over several financial years in view of the benefit received and the vesting period. The notional cost is equal to the value of the shares at the time of the award, adjusted to reflect the probabilistic elements connected with the scheme (e.g. possibility of beneficiaries resigning, actuarial parameters, etc.). The total expense for Mediobanca in the event of all 20 million shares being awarded was originally €158m, to be split across the entire vesting period. At present the expense is €45m, based on the shares outstanding and the current stock market price. It is not possible to state the actual total cost, as the number of shares to be awarded is up to the governing bodies based on the regular award cycles. The performance shares shall be subject to taxation and social security contributions in line with the regulations in force in the country of residence for tax purposes of each individual beneficiary.

9. Other information

The performance share scheme:

- Makes no provision for the award of other financial instruments, only ordinary Mediobanca shares traded on regulated markets;
- is not influenced by tax or accounting issues. It will take into account the taxation and social security regime in force at the time in the individual beneficiaries' country of residence.

No provision is made under the terms of the performance share scheme for shares awarded to be bought back.

No provision is made for support from the Special Fund to incentivize investment by employees in the companies for which they work instituted under Article 4, para. 112, of Italian law 350/03.

It should be noted that no individual persons control Mediobanca.

The Board of Directors, having received the favourable opinion of the Remunerations Committee on 11 September 2019, on 19 September 2019 approved the revised version of the scheme resolution to be submitted to shareholders in annual general meeting. The market price of the ordinary Mediobanca shares on the two dates referred to above was €9.57 and €9.69 respectively. The awards for the performance share scheme will be notified to the market pursuant to and within the meaning of the regulatory provisions currently in force.

Dear shareholders,

You are invited to approve the proposal included on the agenda and, accordingly, to adopt the following resolution:

"The shareholders of Mediobanca, gathered in ordinary general meeting, having heard the Board of Directors' proposal,

HEREBY RESOLVE

– To approve the revised version of the performance share scheme for selected Mediobanca Group staff on the terms and by the methods illustrated above;
– To confer on the Board of Directors, the Chairman and the Chief Executive Officer, jointly and severally, all suitable powers to:
    a) Enact this resolution and adopt any other measures that should become necessary to implement the resolution approved;
    b) Make such amendments and/or additions to this resolution (that do not alter the substance hereof) that should prove necessary to bring it into line with any legal or regulatory provisions or guidance issued by the regulatory and/or supervisory authorities that come into force in the meantime

Milan, 19 September 2019

The Board of Directors

STATEMENT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

CONTENTS

Statement on Corporate Governance and Ownership Structure

2019[1]

Introduction

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 on the Corporate Governance Committee's website at www.borsaitaliana.it/comitato-corporate-governance/homepage/homepage.htm), to which Mediobanca adheres, on the terms set forth below. The Corporate Governance Committee monitors its application in practice, and informs listed companies of possible areas for improvement. The recommendations made by the Chairman of Corporate Governance Committee in a letter dated 21 December 2018 were brought to the attention of the Appointments Committee (on 14 March 2019) and the Board of Directors (on 20 March 2019), and were incorporated at the self-assessment stage.

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.

This statement has also been submitted to the external auditor. The judgement regarding its consistency required under Article 123-bis of the Italian Finance Act is contained in the reports drawn up in compliance with Article 14 of Italian Legislative Decree 39/2010, included with the individual and consolidated financial statements.

1. Mediobanca Group profile

Mediobanca is the parent company of the Mediobanca Banking Group. Various components contribute to the business performance: corporate/investment banking, consumer banking and wealth management.

Mediobanca was set up in 1946 and has been listed on the Italian stock market since 1956. It provides its clients with lending and other services in financial advisory and asset management. It has branch offices in London, Paris, Frankfurt and Madrid, and subsidiaries based in New York, Luxembourg and London. It also holds a 12.92% interest in Assicurazioni Generali.

[1] Where not otherwise specified, information refers to the situation at 30 June 2019

Over time it has strengthened its footprint in specialist banking activities provided to corporates (lending, intermediation and advisory) and households in the form of consumer credit with Compass Banca and retail banking market with CheBanca!.

With the approval of the 2016-19 strategic plan, priority has been given to asset management and investment activities for households, which has led to the establishment of a Wealth Management division combining CheBanca!, which collects households' savings, Mediobanca Private Banking, Compagnie Monégasque de Banque and Spafid which collect AUM for Private & HNWI clients. As part of the organization of a full, integrated product offering the new Mediobanca Asset Management product factory brings together the activities of Cairn Capital, Compagnie Monégasque de Gestion, Mediobanca SGR and RAM Active Investments (the latter with offices in Geneva, Zurich and Luxembourg).

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, 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 European Central Bank.

Mediobanca adopts a traditional model of corporate governance based on the presence of Board of Directors, an Executive Committee and a Statutory Audit Committee. This corporate governance system combines maximum efficiency in terms of operations with effective control. The Articles of Association also provide for three executives from the Banking Group to be represented on the 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 for the management of the Company's day-to-day business.

2. Information on ownership structure

2.1 Structure of share capital, powers to increase share capital and authorization to acquire treasury shares

The Bank's share capital at 30 June 2019 totalled €443,608,088.50, made up of 887,216,177 ordinary par value €0.50 shares. The shares are registered shares, and entitle shareholders to one vote per share in the general meeting.

The powers vested in the Board of Directors by shareholders at the annual general meeting held on 28 October 2015 are as stated in Article 4 of the Articles of Association and involve in particular:

- Authorization, under Articles 2443 and 2420 –ter of the Italian Civil Code, to issue shares or convertible bonds up to a maximum of up 200 million ordinary par value €0.50 shares;
- Authorization, under Article 2443 of the Italian Civil Code, to issue up to a maximum of 80 million 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 Article 2441 paragraph four, second sentence of the Italian Civil Code;
- Authorization, under Article 2349 of the Italian Civil Code, to issue a maximum of up to 20 million ordinary shares to be awarded to Mediobanca Group staff members by way of performance shares. The performance share schemes approved by shareholders at the 2015 general meeting, and the press release regarding the awards made are published on the Bank's website at www.mediobanca.com.

At an annual general meeting held on 27 October 2018, shareholders adopted a resolution to buy back the company's shares up to 3% of the share capital (26,611,288 shares). As at 30 June 2019 Mediobanca owned a total of 15,445,795 treasury shares (average book value €8.3171 per share). As at the date of this statement, the number of treasury shares owned was 17,964,417.

2.2 Ownership structure

Mediobanca has approximately 45,000 shareholders.

As at the date of this statement, Shareholders with interests in excess of 3% are as follows:

Shareholder	NO. of shares owned	% of share capital
UniCredit group °	78,141,556	8.81
Bolloré group	69,681,608	7.86
Leonardo Del Vecchio ◊	61,577,870	6.94
Black Rock group *	44,171,756	4.98
Mediolanum group	29,095,110	3.28

° Of which 0.41% held via subsidiary UniCredit Bank AG, which owns another 0.57% under put option contracts taken out to hedge the risks deriving from market maker activities in respect of financial instruments (form 120B, 10 July 2019).

◊ Indirect shareholding.

* Black Rock Inc. (NY) via fifteen asset management subsidiaries, 0,514% of which by way of potential investment as part of securities lending and 0.216% as contracts of differences (form 120B, 29 October 2018).

Some shareholders, including Unicredit and Mediolanum,[2] representing approximately 21% of the company's share capital, are parties to a consultation agreement which makes no provision for commitments in terms of lock-up or votes in respect of the shares syndicated to it. By signing this agreement, which has been in force since 1 January 2019, the parties confirm their common interest in the growth of the Group. The agreement governs the means by which the parties meet to share reflections and considerations regarding the Group's performance, without prejudice to the principle of full parity of information versus the market. The parties also recognize that the preferred practice is for the outgoing Board to submit a list of Directors to be reappointed to the Board, as already provided for in the Articles of Association. The agreement is valid until 31 December 2021 and is automatically renewed for further three-year periods between those parties who have not given notice of their intention to withdraw from it at least three months prior to the original or extended date of expiry. 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/Corporate Governance.

2.3 Change of control clauses

Mediobanca is a party to shareholder agreements in unlisted Group companies which provide, in the event of a change of control, for the other parties to exercise put options over their own interests.

[2] The other parties to the agreement are: Schematrentatre S.p.A. (Benetton), Fininvest, FIN.PRIV, Gavio group, Ferrero group, Pecci group, Angelini Partecipazioni Fin., Finprog Italia (Doris), Sinpar (Lucchini), Mais Partecipazioni Stabili (Seragnoli), Vittoria Assicurazioni and Romano Minozzi.

Furthermore, as part of its ordinary activities, Mediobanca is a party to master agreements and contracts which may include provision for specific effects if a change of control occurs, such as amendment to or termination of the contract itself. Such master agreements or contracts should not be considered significant in themselves, either in terms of amount or effects.

3. 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, which are usually held in a single session on 28 October each year, 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) Remuneration policies and compensation schemes based on financial instruments adopted for directors, Group employees and collaborators;
5) Transactions required by law to be approved by shareholders in extraordinary general meeting.

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 illustrates the methods 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 notice of meeting contains an indication of the deadline by which questions must be submitted.

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.

4. Board of Directors

4.1 Composition and appointment

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, at least two qualify as independent as required by Article 148, para. 3 of the Italian Legislative Decree 58/98 and at least one-third qualify as independent in accordance with the definition provided in Article 19 of the Articles of Association. 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 independence qualifications provided by Article 19 of the Articles of Association are basically aligned with those in the Code of conduct for listed companies. Under the Articles, Directors are held not to qualify as independent if they hold an interest of over 2% in the company or are significant representatives of the group to which the company belongs, regardless of whether they are parties to shareholder agreements. Furthermore, given that such requisites are stipulated in the Articles, by their nature no exceptions to them are possible.

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.

In this connection, the Board of Directors must be formed of members:

– Who are fully aware of the powers and obligations relating to the functions they are each required to carry out;

– Who have a suitable professionalism for the role they are to perform, including for any committees within the board, and calibrated in relation to the operational and dimensional characteristics of the bank;;

– With expertise that is spread between all members and suitably diversified, in order to allow each of the members, within the committees they are part of and in collegial decisions, to contribute effectively to ensuring an effective governance of the risks in all areas of the bank;

– Who dedicate suitable time and resources to the complexity of their assignment.

The Report on the qualitative and quantitative composition of the Board of Directors illustrates, based on the regulations in force, the requisites for Board members in terms of professional qualifications, fitness to hold office and independence, time commitment, maximum number of directorships to be held, and skills (cf. Report dated 14 June 2017). In addition to the requisites set by the regulations in force (cf. ECB guide to fit and proper assessments, EBA/ESMA joint guidelines on the assessment of the suitability of members of the management body and key function holders), Mediobanca has instituted additional requisites of its own: in order to limit the risk of conflicts of interest for Directors, they are not allowed to perform executive duties in banks, insurances or asset management companies, or sit on their advisory boards; may not be either directly or indirectly significant shareholders (i.e. with shares of above 10%) in banks, insurances or asset management companies. Checks are performed in order to ascertain that these requisites are met on an ongoing basis and formally in conjunction with the annual self-assessment process, and the checks to confirm that the Board as a whole is collectively suitable and reflects the qualitative and quantitative composition held to be optimal, including in terms of compliance with the gender quotas. All the Directors in office meet these requirements.

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, and following the resignation of two Directors, was restored to its full complement on 20 September 2018 through two new Directors being co-opted, and subsequently confirmed to their posts by shareholders at the Annual General

Meeting held on 27 October 2018. The appointments in 2017 were made, as required by the Articles of Association, 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 took 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. Together with each list, and along with the other information and statements required by the regulations in force at the time, the CVs of the individual candidates were submitted, containing details of their professional qualifications, plus declarations in which they state, under their own responsibility, that there are no grounds that would render them incompatible with or ineligible for office, that the requisites stipulated by the law in force and the Articles of Association are met, and attaching a list of the management and control positions held by them in other companies.

As at 30 June 2019, the Board of Directors consisted of 15 members, eleven of whom qualify as independent under Article 148, para. 3 of the Italian Finance Act, eight of which eleven also qualify as independent under Article 19 of the Articles of Association. The Board's composition complies with the legal requirements on gender representation.

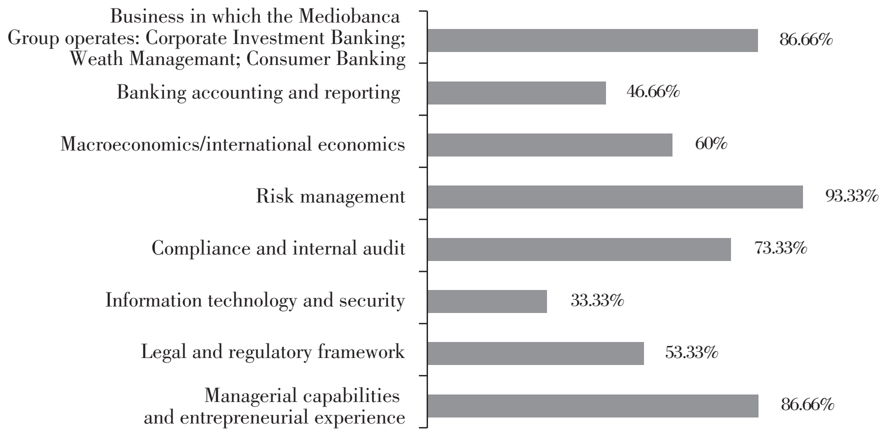
The Board of Directors has found that the independence requirements have been met: i) as stated under Article 148, para. 3 of the Italian Finance Act, by Maurizia Angelo Comneno, Marie Bolloré, Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Maximo Ibarra, Alberto Lupoi, Elisabetta Magistretti, Vittorio Pignatti Morano and Gabriele Villa; and ii) as stated under Article 19 of the Articles of Association, by Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Maximo Ibarra, Alberto Lupoi, Elisabetta Magistretti and Vittorio Pignatti Morano. 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.

In accordance with the Supervisory Instructions for banks in the area of corporate governance and with the Articles of Association, Directors who are not members of the Group's management but who are part of the Executive Committee are treated as though there were executive directors and accordingly do not form part of the Remunerations, Appointments and Risks Committees.

Member (as at 30/6/19)	Post held	Date of birth	Indep. *	Indep. **	Management	In office since ***
Renato Pagliaro ♦	Chairman	20/2/1957			X	2/7/2007
Maurizia Angelo Comneno ♦	Deputy Chair	18/6/1948		X		28/10/2014
Alberto Pecci ♦	Deputy Chair	18/9/1943				27/10/2012
Alberto Nagel ♦	CEO	7/6/1965			X	2/7/2007
Francesco Saverio Vinci ♦	General Manager	10/11/1962			X	2/7/2007
Marie Bolloré ♦	Director	8/5/1988		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	15/8/1970	X	X		28/10/2017
Maximo Ibarra •	Director	13/12/1968	X	X		20/9/2018
Valérie Hortefeux ♦	Director	14/12/1967	X	X		28/10/2017
Alberto Lupoi ■	Director	29/3/1970	X	X		28/10/2017
Elisabetta Magistretti ♦	Director	21/7/1947	X	X		28/10/2011
Vittorio Pignatti Morano •	Director	14/9/1957	X	X		20/9/2018
Gabriele Villa ♦	Director	18/6/1964		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.
• Co-opted on 20 September 2018.

The composition of the Board of Directors reflects the appropriate combination of capabilities and professional expertise.



The Board of Directors is comprised of 10 men (66.67%) and 5 women (33.33%); 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	3	1	2	1	4

A breakdown of the Board of Directors by years of seniority is shown below.

0-2 years	3-5 years	>6 years
40%	27%	33%

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 in the lists or proposals published in the section entitled "General meetings".

4.2 Role and functioning

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;
- Proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
- 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 and ILAAP processes;
- 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.

A total of ten Board meetings took place in the period from 1 July 2018 to 30 June 2019. The average duration of Board meetings was around 3 hours and 35 minutes.

The independent Directors meet regularly without the other Directors present. In the period from 1 July 2018 to 30 June 2019, the independent Directors met on two occasions, discussing the self-assessment process for the Board of Directors, and the thoroughness and effectiveness of the flow of reporting from the delegated bodies to the Board of Directors in particular.

4.3 Role of the Chairman

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 his role in liaising with the Group Audit Unit, which he performs 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, including management committees, in order to facilitate effective reporting flows versus the Board of Directors.

4.4 Induction and regular training

The Board promotes induction and training programmes for members of the governing bodies, ensuring that the necessary resources are provided to this end.

The objective of the induction meetings is to provide participants with knowledge to enable them to take an informed part in the Board of Directors' discussions and deliberations.

The training meetings serve to refresh members' knowledge of general issues in the banking world, such as the regulatory scenario, risks, etc. Training meetings are open to participation by the Directors and Statutory Auditors of the Group's other banks as well.

The induction and training programmes spread out meetings over the financial year according to a timetable which is set annually. In setting the agenda, the Chairman takes account of the findings to emerge from the self-assessment process from the governing bodies, any comments from the Directors themselves, and suggestions made by the heads of area and control units.

Each meeting is supported by documentation which is sent to participants in advance.

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 induction meetings for the whole Board on the following topics: Wealth Management and commercial networks: control measures and main risks; Investor Relations and analysts' reports; activities outsourced by Mediobanca and the other banks in the Group and related risks; strategy; Group IT systems; and corporate social responsibility;

– Two induction meetings addressed to the Risks Committee and subsequent debate by the Board of Directors on the following issues: ICAAP-ILAAP; and Group Recovery Plan;

– Four induction meetings addressed specifically to newly-appointed members on the following issues: integrated risks monitoring, rating systems governance policy and credit risk governance policy; Mediobanca Alternative Asset Management (Cairn Capital and RAM Active Investments) and Mediobanca SGR: structure and services/products offered; RAF/RAS and risk monitoring, ICAAP and internal models, ILAAP; mail balance-sheet data, IFRS 9, resolution; meeting with heads of control units to present teams and duties;

– Five training sessions on more general issues (open also to Board members of other Group banks) on the following issues: geopolitical scenario; non-executive directors' liability; security, cybercrime and fintech; provisioning calendar.

The average duration of the induction and training meetings was about two and a half hour.

4.5 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 March and July 2019, with the assistance of an external advisor (Egon Zehnder), under the supervision of one of the independent Directors who is also a member of the Appointments Committee (and was mandated by the Committee itself to perform this duty).

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. Each Director may approach the Director appointed to supervise the self-assessment process and/or the external advisor;
– 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 of Directors.

The following positive aspects emerged in particular from the self-assessment process: i) The individual and collective composition (in terms of size, capabilities, background, diversity – including in terms of gender – and number of independent members; ii) the flow of information ahead of the meetings (including with reference specifically to the Corporate Governance Committee's recommendation on pre-Board reporting), 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; iii) a positive assessment of the role of the Chairman; iv) the work done by the Board was adjudged to be satisfactory in terms of the number and duration, level of debate and minutes of the meetings and the induction and training programme; v) the participation of the heads of the control units and the Group's main business areas in Board and induction meetings was appreciated; vi) increased focus by the Board on senior management succession issues and visibility over key function holder development schemes; and vii) the Executive, Appointments, Remunerations and Risks Committees were felt to be excellent in terms of role, functioning, composition and size.

It is also worth noting that based on the self-assessment exercises held in previous years, the need has never emerged for a Lead Independent Director to be appointed, partly because the Chairman and Chief Executive Officer are not the same person.

Areas for improvement in the coming year involved:

- More space for sustainability issues in the Board's agenda;
- Step up the involvement of Group senior management in Board and induction meetings;
- Increased level of detail in minute-taking and hoped livelier debate;
- Regular reporting to the Appointments Committee and the Board on the composition of the governing bodies of the most important Group companies;
- With reference to the reporting flow by the Executive Committee, comment on the rationale for the main decisions taken by the delegated bodies in Board meetings.

As mentioned earlier, the recommendations made in the letter by the Chairman of the Corporate Governance Committee sent on 21 December 2018 have been taken into consideration in the self-assessment process. No need for specific action emerged, as the governance organization is already basically aligned with the recommendations.

The Board of Directors has been informed that the Statutory Audit Committee has carried out its own self-assessment, resulting in a positive opinion of the supervisory body's collective suitability, composition in qualitative and quantitative terms, and functioning.

4.6 Appointed bodies

4.6.1. 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 (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), 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 Officer is Alberto Nagel.

4.6.2. 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 part of the management function, 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 or by the 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 Francesco Saverio Vinci, who is responsible for supervising the Holding Functions division, which includes Finance and Group Technology and Operations, and also, in conjunction with the Chief Executive Officer, for directing and co-ordinating operations at Group level.

5. Board Committees

In accordance with Article 20 of the Articles of Association, the Board of Directors, at the Appointments Committee's proposal, have 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. Another Committee has also been set up pursuant to Article 18 of the Articles of Association, 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.

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 Board of Directors at the first available meeting on its activities and the Committee's proposals to be submitted for examination by the Board.

5.1 Executive Committee

The Executive Committee consists of between three and five directors.

Members (as at 30/6/19)	Post held	Executive
Alberto Nagel (Chair)	Chief Executive Officer and Committee 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	71/75
0	0	0	2	1	0	0	1

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 Executive Committee remains in office for the entire duration of the office of the Board of Directors which appointed it.

The Executive 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.

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 eleven meetings were held in the period from 1 July 2018 to 30 June 2019, with an average duration of roughly 1 hour and 40 minutes.

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;
– Establishes operating limits on the taking of various types of risk, in accordance with the Risk Appetite Framework;
– Is responsible for the Group's investment process.

The Executive Committee reviews transactions which qualify as "most significant" under the regulations in force that have received a negative opinion from the Risk Management, and, if appropriate, authorizes them; and informs the Board of Directors and the Statutory Audit Committee of such transactions.

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, for issuing guidance in respect of credit, issuer, operational and conduct risk, and with approval powers on market risks;
– Lending and Underwriting, with powers of approval for 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;
– Group Operational Risks, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions;
– Group Wealth Investments, for defining market views at Group level based on analysis of the economic situation for relevant markets and countries and for monitoring their track record;
– Private Investments, for defining strategic and tactical asset allocation, selecting investment houses, funds and other financial instruments.

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 the internal management committees.

5.2 Risks and Related Parties Committee

As at 30 June 2019, the Committee consisted of five non-executive Directors who qualify as independent as defined in Article 19 of the Articles of Association. 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.

Members (as at 30/6/19)	Independent (Article 19)*	Independent (Finance Act)**
Elisabetta Magistretti (Chair)◊	X	X
Maurizio Carfagna	X	X
Angela Gamba	X	X
Valérie Hortefeux	X	X
Vittorio Pignatti Morano	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.

The Committee consists of three women (60%) and two men (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	71/75
0	0	1	1	0	1	0	2

The Secretary and the Statutory Audit Committee (with which the Committee exchange information and coordinate itself) 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 if considered necessary other Group staff also attend.

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;

– Issues opinions on the appointment of any external advisors which the Board might retain;

– Makes recommendations to the Board on any risk strategy adjustments that might prove necessary based on the business model, market developments or which otherwise derive from Risk Management;

– 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 and liquidity, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP and ILAAP), reporting back to the Board on this issue;;
– Checks that the Bank's remuneration and incentivization system is consistent with the Risk Appetite Framework;
– Reviews the Consolidated Non-Financial Statement.

With reference to the structure of the Bank's financial reporting organization, the Committee, together with the Head of Company Financial Reporting and after consulting the external auditors and the Statutory Audit Committee , assess the correct application of accounting standards for purposes of drawing up individual and consolidated financial statements, assess the external auditors' recommendations, 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 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 27 June 2019 (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 eleven occasions in the period from 1 July 2018 to 30 June 2019 and on ten occasions as the Related Parties Committee.

The average duration of Risk Committee meetings was roughly three hours and 15 minutes, and that of Related Parties Committee meetings around 30 minutes.

5.3 Remunerations Committee

As at 30 June 2019, 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.

Members (as at 30/6/19)	Indep. (Article 19) *	Independent (Finance Act) **
Maurizio Carfagna (Chair)	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.

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	1	1	0	0	0	2

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. 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 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 2018 to 30 June 2019, including one meeting not attended by the executive directors, to formulate proposals to the Board of Directors regarding their remuneration and the structure of a long-term incentive plan shortly to be adopted. For further information on the issue of remuneration, please see the Report on Remuneration available on the Bank's website at www.mediobanca.com/Corporate Governance.

The average duration of Committee meetings was roughly one hour and 45 minutes.

5.4 Appointments Committee

As at 30 June 2019, 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.

Members (as at 30/6/19)	Independent (Article 19) *	Independent (Finance Act) **
Maurizio Costa (Chair)	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.

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	71/75
1	0	1	0	0	1	1	1

The Committee has duties of consultation and enquiry with regard to:

– The Board of Directors' annual self-assessment exercise;
– Identification of the optimal qualitative/quantitative composition of the Board of Directors, and subsequently checks to ascertain that it corresponds to the actual composition which results from the appointment process;
– 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;
– Succession planning for directors who are members of the Bank's management and key function holders (heads of the Group's control units and main business areas);
– Governance issues.

The Committee also supports the Risks Committee in identifying the heads of the company control units.

The Secretary, Chief Executive Officer and General Manager take part in Committee meetings, along with any other Group staff considered necessary.

The Committee met nine times in the period from 1 July 2018 to 30 June 2019. The average duration of committee meetings was roughly 1 hour and 40 minutes.

5.5 Committee instituted pursuant to Article 18 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.

As at 30 June 2019, the Committee consisted of the Chief Executive Officer, General Manager and two Directors, one of whom qualifies as independent.

Members (as at 30/6/19)	Independent (Article 19) *	Independent (Finance Act) **
Alberto Nagel (Chair)		
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	1	1	0	0	1

The Committee met on one occasion during the last financial year.

6. Other information required under Article 123-bis of the Italian Finance Act on severance pay agreements

The aggregate compensation payable to the Board of Directors is set by shareholders in general meeting, in a fixed amount for each year in which the Board is in office,[3] with no provision made for incentives linked to the Bank's performance. This compensation is split by the Board on the basis of the individual members' participation in the Board Committees.

It does not include the remuneration paid to the Executive Directors (Chief Executive Officer and General Manager) which, as members of the Group's senior management, is governed by the "Mediobanca Group staff remuneration and incentivization policy", approved annually by the shareholders in general meeting.[4] The policy provides for a fixed salary,[5] a variable short-term component, and in some cases a variable long-term component as well, plus other staff benefits such as complementary pension scheme, healthcare policy, corporate welfare, etc. Directors who are members of the Group's senior management receive the emolument due to them for serving on the Board but no further emoluments for serving on the Board Committees.

[3] The remuneration determined by shareholders at the Annual General Meeting held on 28 October 2017 was €2,500,000.

[4] The Remuneration Policy for FY 2018-19 as approved by shareholders in annual general meeting is available at www.mediobanca.com/Corporate Governance.

[5] The annual gross fixed salary of the Chief Executive Officer is €1,800,000, that of the General Manager €1,500,000.

The Chairman is entitled to receive fixed remuneration only. The Board of Directors may, after consulting with the Remunerations Committee and within the limits set by the regulations in force, assess whether or not it is appropriate to pay him a variable component, on an exceptional basis.

With reference to the requirements of Article 123-bis of the Italian Finance act, 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 policy shall apply.

7. Conflicts of interest and related party transactions

7.1 Conflict of interests policy

Consistent with the requirements of the regulations in this area, Mediobanca has adopted a conflict of interest management policy to identify, monitor and manage conflicts which may arise in the provision of investment or ancillary services. Taking into account the provisions of the ECB Guide to fit and proper assessments for Directors, it also governs the measures to be taken in the event of one of them or a Statutory Auditor becoming involved in a conflict of interest.

The Policy describes the methods by which to identify and manage real and potential conflicts of interest that 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 is 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

7.2 Transactions with related parties

At a Board meeting held on 27 June 2019, 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 lay down the regulations 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 procedure, 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.

8. Internal controls and risk management system

The internal controls system is a fundamental part of banks' overall governance system. It has a central role in the organization, and allows risks and the inter-relations between them to be governed in an effective manner, to ensure that the business is carried on in line with the company strategy and policies, and is based on sound and prudent management principles.

8.1 Bodies and functions

8.1.1 Board of Directors

The Board of Directors sets the direction for the internal controls and risk management system, in accordance with the strategic guidelines and risk appetite chosen. In this way it ensures that the principal risks are identified correctly, and measured, managed and monitored adequately, *inter alia* according to how they develop.

To this end, it reviews the Group's Risk Appetite Framework annually, in accordance with the budget process and strategic plan definition timing, to ensure that business develops in line with the desired risk profile.

The Board makes its assessments and decisions on the internal controls and risk management system. It appoints the heads of the control units, approves the plans of their activity, and receives regular reporting from them.

The senior management of Mediobanca is responsible for the adequacy of the Bank's internal controls and risk management system. It is the senior management which draws up measures to ensure that the internal controls system is effective and efficient and remains so over time, on the back of an understanding of all the risks facing the company and the inter-relations between them with a view to ensuring integrated risk management.

8.1.2 Risks Committee

The Risks Committee performs duties of instruction and consultation for the Board of Directors on matters pertaining to risks and the internal controls system as described in section 5.2.

8.1.3 Group Risk Management unit

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 unit is also responsible for the Group's stress testing process and execution.

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.

The Head of the unit attends meetings of the Risks Committee, assisting it in its control tasks. Once a year the unit submits a report to the Risks Committee, the Board of Directors and the Statutory Audit Committee on the activities performed and an assessment of the Group's risk profile and the adequacy of the Group's risk management measures; once a quarter it draws up the integrated risks, RAF and Recovery Plan monitoring report.

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 overall risk level.

The Group Risk Management unit reports directly to the Chief Executive Officer under the leadership of the Group Chief Risk Officer, Pierpaolo Montana. In functional terms the unit reports to the Risks Committee.

8.1.4 Compliance unit

The Compliance unit manages the regulatory and reputational risks of the Group, and checking 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 Risks Committee, the Board of Directors and the Statutory Audit Committee once a year, plus an executive summary once a quarter to flag up any critical issues in a timely manner. The Compliance unit is headed up by Massimiliano Carnevali, who reports directly to the Chief Executive Officer. In functional terms the unit reports to the Risks Committee.

8.1.5 Group Anti-Money-Laundering unit

The Anti-Money-Laundering unit, as required by the instructions issued by the Bank of Italy in a measure dated 26 March 2019, 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.

8.1.6 Group Audit unit

Mediobanca maintains a Group Audit Unit, centralized at Mediobanca S.p.A., 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 Group under the terms of specific outsourcing contracts, or in limited cases, based on the governance role performed by equivalent local units (i.e. in cases where there is a unit responsible for third-level controls, notably CMB), or alternatively in the capacity of headquarters.

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 third-level control structure more efficient by:

– Allocating 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, quantitative issues), and audit methodologies and reporting standards vis-à-vis governing bodies and senior management.

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 relation to aspects regarding the internal control system. The unit submits a report to the Risks Committee, meeting in conjunction with the Statutory Audit Committee, and to the Board of Directors once a year on the activities performed and remediation of any critical issues noted, and a quarterly report to flag up any critical issues in a timely manner.

The plan of activities, drawn up in accordance with the unit's own Regulations, is executed in accordance with the provisions contained in the Audit Plan approved each year by the Board of Directors.

The head of the Group Audit Unit is Giorgio Paleari, who reports to the Board of Directors.

8.2 Financial reporting process

8.2.1. 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, 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 regarding the adequacy of the administrative and accounting procedures and their application in practice, and regarding whether or not they correspond to the data recorded in the company's documents, books and accounts, 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.

8.2.2. Financial control 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[6] and CobIT Framework[7]). 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.

[6] The version of the COSO entitled "Internal Control – Integrated framework", published in September 1992, has been used as the benchmark by the US regulators which have oversight in this area (SEC and PCAOB – Public Company Accounting Oversight Board) for purposes of applying the regulations contained in the Sarbanes Oxley Act, the Bank of Italy's Supervisory Instructions, and the Code of conduct for listed companies operated by Borsa Italiana.

[7] The version of the COBIT entitled "IT Control Objective for Sarbanes Oxley" has been considered appropriate for purposes of applying the regulations contained in the Sarbanes Oxley Act.

- 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.

For the risks identified in the assessment of the administrative and accounting processes, the appropriate control measures are identified to ensure they are represented truthfully and accurately in the financial reporting. Such measures include "key" controls, i.e. those without which there is the risk of serious error in the financial statements.

To measure the adequacy of these controls and ensure they are up-to-date at all times, tests are carried out twice a year on the design of the controls, and the test of controls itself, chiefly using the self-assessment methodology.[8] At this stage the possible impact is assessed of any irregularities detected in the course of the controls, to ensure the administrative and accounting procedures are adequate and applied effectively in order that the financial statements can be drawn up correctly.

The Group Audit unit, working together with the head of company financial reporting, performs regular checks to ascertain 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. Co-ordinated by the Head of company financial reporting a plan of corrective action is drawn up which assigns responsibilities and defines timescales.

Assessment of the adequacy and operational effectiveness of the controls, conducted in accordance with the model adopted, enables the Head of Company Financial Reporting to issue:

[8] Based on the self-assessment methodology, the tests are performed by the process owners, i.e. those responsible for managing the specific process.

- The declarations attached to the annual report, the interim report and the consolidated financial statements, issued in conjunction with the Chief Executive Officer, as required by Article 154-bis, para. 5 of the Italian Finance Act, 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.
- The declarations, required under Article 154-bis, para. 2 of the Italian Finance Act, to be attached to the financial reporting issued to the market, regarding the results for the period (analyst presentations and press releases), and the Basel III Pillar III disclosure, annual and interim.

8.3 External auditors

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 Italian Legislative Decree 39/10 for the 2013-21 period.

8.4 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 external regulatory framework and certain important internal organizational changes (e.g. establishment of the Private Banking division).

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 disciplinary system and reporting flows versus the supervisory body.

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.
   - The 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.
   - **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 Committee 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 Risks Committee.

8.5 Corporate Social Responsibility, codes of ethics and conduct, whistle-blowing, internal dealing and personal trading

8.5.1. Corporate Social Responsibility

Growth and sustainability are two of the Group's distinctive traits. Our development strategy is based on the conviction that ethics and profits can and indeed must go hand in hand, because in the long term there cannot be economic growth without social and environmental growth as well. Responsible, proper and transparent conduct grows and protects a company's reputation, credibility and consensus over time, laying the foundation for sustainable business development which aims to create and protect value for all stakeholders. In line with our commitment in this area, the Group contributes to promoting the universal principles contained in the Global Compact, of which it is a member, and to realization of the Sustainable Development Goals (SDGs) set out in the United Nations' 2030 Agenda, supporting and encouraging new sustainable growth and development prospects at the global level.

The Group staff incentivization system reflects these principles, and CSR objectives are included in the CEO's and the General Manager's performance evaluation scorecards used to determine the variable component of their remuneration.

In 2017 a Group Sustainability unit was set up, with its own head and a management committee chaired by the CEO, with responsibility for: defining the Group's policies in the area of Corporate Social Responsibility (CSR) to be submitted to the Board of Directors for approval; promoting the implementation of practices consistent with this policy up to the limits of its own budget, and monitoring performance.

Since the reporting date, the Board has set up its own Corporate Social Responsibility committee, with duties of instruction with regard to the items to be submitted to the Board's attention, including in particular the Group CSR Policy and the Consolidated Non-Financial Statement prepared by the management committee. The CSR Committee also liaises with the Remunerations Committee in assessing whether or not the objectives identified in the scorecards used for senior management performance evaluation have been met. The Committee is made up of the CEO himself plus Directors Angela Gamba, Maximo Ibarra and Elisabetta Magistretti.

8.5.2. Codes of ethics and 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.

8.5.3. Whistle-blowing

Mediobanca has also adopted a policy on whistle-blowing to enable staff to report, including anonymously, 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 reports relevant for Italian legislative decree 231/01 are addressed. The policy, adopted by all Group companies, defines 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 system for Mediobanca is Massimiliano Carnevali, who is also responsible for the Compliance unit.

8.5.4. Internal dealing and personal trading

The Board of Directors has adopted Regulations on Internal Dealing to govern reporting requirements for transactions involving financial instruments issued by Mediobanca. Persons defined as "relevant" (chiefly Directors, statutory auditors and strategic management) notify Mediobanca of any transaction involving such instruments, within two days of execution. Mediobanca then discloses all such information to the market and Consob. 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.

Mediobanca, in accordance with the provisions of regulations in this area, has adopted a procedure to ban and/or identify personal transactions made (or transactions recommended, solicited or divulged to third parties) by relevant persons (including members of the Executive Committee and the Statutory Audit Committee, and also other Directors in cases where they have been included in the insider or transaction watch lists) which could give rise to conflicts of interest or otherwise be in breach of the regulations on insider or confidential information.

The Regulations also institute a ban on staff members executing trades in financial instruments with equity content (shares, convertible bonds, derivatives, etc., apart from those involving Mediobanca or SPVs promoted by Mediobanca) if the main market on which the instrument is listed or the issuer's registered office is in one of the member states of the European Union.

9. 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 the Bank of Italy's Supervisory Instructions, 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 made up as follows:

Members (as at 30/6/19)	**Position**	**In office since**
Natale Freddi *	Chairman	28/10/11
Laura Gualtieri ♦	Standing Auditor	28/10/14
Francesco Di Carlo ♦	Standing Auditor	28/10/17
Alessandro Trotter ♦	Alternate Auditor	28/10/14**
Barbara Negri ♦	Alternate Auditor	28/10/14
Stefano Sarubbi *	Alternate Auditor	28/10/17

♦ 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 auditor 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.com/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 Articles of Association, 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 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 Statutory Audit 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 Statutory Audit Committee is kept informed at all times 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.

The Statutory Audit Committee regularly illustrates the critical issues that emerge in the course of its control activities to the Board of Directors.

A total of thirty-one meetings of the Statutory Audit Committee were held in the last financial year, eleven 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 3 hours.

10. Succession planning and diversity criteria

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 procedure for 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, including the emergency plan for renewal of appointments to senior management positions in the event that this should suddenly become necessary. 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 Chief Executive Officer and General Manager, the policies stipulate, in addition to the requirements specified by the regulations in force, that candidates for succession must have the specific capabilities required by the role and complexity of the business that must be met in full. In emergency situations, the policies provide that the Chairman shall swiftly call 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. The Appointments Committee has ascertained that the requirements stipulated are met and has identified a select number of Group senior management members whose personal and professional qualifications make them potential candidates for succession.

If a member of the Executive Committee requires to be replaced, 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. To this end the Appointments Committee assesses the profiles represented on the Board to gauge which candidates 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, giving priority to candidates in possession of the same characteristics as the Director leaving office (in terms of gender, independence, international experience and specialization).

As for the Key Function Holders, a total of eleven positions have been identified (currently covered by twelve individuals): for each of them, the respective capabilities required to perform them have been defined and formalized. The Appointments Committee ascertains that all the current holders of the eleven positions meet the requirements, and for each of them has identified an internal candidate with the requisite qualifications who is therefore able to succeed them.

Mediobanca is fully aware of the benefits deriving from diversity of gender, and accordingly, if the minimum quota for the least represented gender in the governing bodies currently stipulated by law should cease to be met, nonetheless recommends that it continue to be respect in the composition of both Board of Directors and Statutory Audit Committee.

Since January 2019 Mediobanca has been one of the 230 companies in the 2019 Bloomberg Gender-Equality Index, an initiative that selects companies on the basis of the transparency of their approach, as demonstrated in the reporting on gender issues and by adopting an increasingly egalitarian approach towards women. The Group currently has around 4,600 staff, more than 40% of whom are women. All issues relating to female employment are fully discussed in the Group's Consolidated Non-Financial Statement.

11. 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 - Group Investor Relations & Strategic Corporate Development and Lorenza Pigozzi – Communications and Marketing).

Milan, 19 September 2019

Table 1: Structure of Board of Directors and Committees as at 30 June 2019

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	Esec.	Indep. (Article 19)	Indep. (Finance Act)	No. of other posts held ***	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)
Chair	Renato Pagliaro	1957	28/10/08 (1)	28/10/17	28/10/20	(a)	X				1	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	100%						75%		
Chief Executive Officer ◊ ♦	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	100%		100%						
Director	Marie Bolloré	1988	28/10/14	28/10/17	28/10/20	(a)	X			X	10	70%								77.78%
Director	Maurizio Carfagna	1947	28/10/14	28/10/17	28/10/20	(a)	X		X	X	4	90%				100%	P	100%		
Director	Maurizio Costa	1948	28/10/14	28/10/17	28/10/20	(a)	X		X	X	1	100%							P	100%
Director	Angela Gamba	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	2	90%				100%				
Director	Valérie Hortefeux	1967	28/10/17	28/10/17	28/10/20	(a)	X		X	X	3	100%				90.91%		100%		
Director	Maximo Ibarra	1968	20/09/18	27/10/18	28/10/20		X		X	X	1	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	28/10/17	28/10/20	(a)	X		X	X	2	100%			P	100%				100%
Director	Vittorio Pignatti Morano	1957	20/09/18	27/10/18	28/10/20		X		X	X	8	85.7%				62.50%				
Director ♦	Gabriele Villa	1964	28/10/17	28/10/17	28/10/20	(a)		X		X	1	100%		100%						

DIRECTORS WHO LEFT OFFICE DURING FY 2018-19

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.**	**Esec.**	**Indep. (Code)**	**Indep. (Finance Act)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**
Director	Massimo Tononi	1964	28/10/17	28/10/17	25/07/18	(a)	X		X	X	100%				100%				

* 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

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 2019:

Board of Directors: 10	**Executive Committee: 11**	**Risks Committee: 11**	**Related Parties Committee: 10**	**Remunerations Committee: 8**	**Appointments Committee: 9**
Quorum required for minority shareholders to submit lists for the appointment of one or more directors:			at least 1% of the share capital		

• During the twelve months ended 30 June 2019, the Board of Directors also held two meetings of independent Directors, six induction sessions and five training meetings.

Table 2: Structure of Statutory Audit Committee as at 30 June 2019

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 **
Chair	Natale Freddi	1952	28/10/11	28/10/17	28/10/20	(b)	X	100%	-
Standing Auditor	Francesco Di Carlo	1969	28/10/17	28/10/17	28/10/20	(a)	X	90%	1
Standing Auditor	Laura Gualtieri	1968	28/10/14	28/10/17	28/10/20	(a)	X	100%	2
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)			

No. of meetings held during the year ended 30 June 2019§: 31

Quorum required for minority shareholders to submit lists for the appointment of one or more Statutory Auditors:	at least 1% of the share capital

§ 11 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.

Table 3: Other requirements under code of conduct for listed companies

	YES	NO	Reasons for any departures from recommendations made in the Code
Powers 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, as shown by the minutes of the meeting.
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
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 e-mail 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 in office at 30 June 2019 **

Name	Post held in Mediobanca	Main posts held in other companies
PAGLIARO Renato	Chair	Director, Istituto Europeo di Oncologia
ANGELO COMNENO Maurizia	Deputy Chair and Executive Committee member	=
PECCI Alberto	Director	Chair, Pecci Filati Chair, Tosco-Fin Director, El.EN.
NAGEL Alberto	Chief Executive Officer and Executive Committee Chairman	=
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, Financière V Director, Omnium Bolloré Director, Blue Solutions Director, Société Industrielle et Financière de l'Artois Supervisory Board member Sofibol Chair of Supervisory Board, Compagnie du Cambodge Chief Executive Officer, System and Telecoms Division of Bolloré Group
CARFAGNA Maurizio	Director	Chief Executive Officer, H-Invest Director, Futura Invest Director, FingProg Italia S.p.A. Director, Istituto Europeo di Oncologia
COSTA Maurizio	Director	Director Amplifon
GAMBA Angela	Director	Director, FPS Investments S.r.l. Director, Medical Technology and Devices SA
HORTEFEUX Valérie	Director	Director, Blue Solutions Director, Ramsay – Générale de Santé Director, Socfinasia
IBARRA Maximo	Director	Chief Executive Officer, Royal KPN [9]
LUPOI Alberto	Director	=
MAGISTRETTI Elisabetta	Director	Director, Luxottica Group Director, Smeg
PIGNATTI MORANO Vittorio	Director	Chair, Gamenet Group Director, Trilantic Capital Management GP Director, Trilantic Capital Partners Management Director, Trilantic Capital Partners V Management Director, Ocean Ring Jersey Co Director, Ocean Trade Lux Co Director, Marex Group Director, Istituti Clinici Scientifici Maugeri
VILLA Gabriele	Director	Standing Auditor, Edison S.p.A.

[9] According to press reports, Mr Ibarra tendered his resignation from this position on 25 June 2019, with effect as from 30 September 2019.

* The full list of positions is available at https://www.mediobanca.com/it/corporate-governance/consiglio-di-amministrazione/incarichi-consiglieri.html

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 – Foundaton Internal Rating Based), and the "advanced" internal ratings-based method (AIRB – Advanced Internal Rating Based). 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 categories for financial assets and liabilities provided for in IFRS 9 (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 (Hold 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.

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.

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.

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.
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: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages until 2025.

Benchmark test: a qualitative and quantitative analysis, to be carried out to verify whether the conditions of the SPPI test (see definition) are met, according to paragraph B4.1.9Aff of IFRS9 standard; it regards those financial instruments which show an interest rate mismatch between the duration and the interest rate, thus for them it results a modified remuneration related to the time value of money. In order to carry out the benchmark test, an hypothetical instrument is considered (the “benchmark” instrument), identical to the instrument for which the test is carried out apart from the characteristic which modifies the interest rate. Then, it is necessary to compare the undiscounted contractual cash flows of the instrument subject of the analysis with those of the benchmark instrument; the SPPI test is considered not to be met, whether the difference arising is significant.

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: Hold to collect, Hold 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 IAS 39 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 IAS 36, 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.

Collateralized Loan Obligation (CLO): A particular type of CDO (see definition), in which the collateral is made up by receivables.

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 enables 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).

Discounted Cash Flows Model: it's a valuation method, alternative to the Dividend Discount Model (see definition), suited for those companies which do not have to comply with capital strength requirements, and based on the assumption that the value of asset depends on cash flows generated by the asset, by the time horizon and by their riskiness. Also in this valuation model, cash flows are discounted using the Ke rate (determined pursuant to the CAPM methodology, see definition) over a time horizon forecast by the company into its plans and budgets, and taking also into account a terminal value obtained by using a constant 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, agency in charge of assessing the credit risk whortiness.

Earnings per share – EPS: the ratio between the net income and the average number of shares outstanding during the period, possibly adjusted for taking into account potential equity instruments such as options and convertible bonds.

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).

EUro Interbank Offered Rate – EURIBOR: it means the short-term interbank rate, calculated on a daily basis, at which the most important banks exchange among them euro-denominated funds.

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.

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 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.

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.

Fairness/Legal opinion: it means an opinion, given at request, by professionals of sure and certain competence and professionalism, in order to ensure the correctness of economic conditions and/or of the legitimacy and/or of technical aspects of a certain operation at a certain moment.

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 IAS 39 to neutralize exposure to changes in a balance-sheet item's fair value.

FTA – First Time Adoption: Governed by IFRS 1, 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 IFRS 9 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 IFRS 9 (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 (Hold 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 IFRS 9 (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): A 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 IFRS 9, 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.

Funds Transfer Pricing (FTP): FTP is the rate to which each branch of the Institution resells the gathered funds to the central treasury; mirror-like it can also be the rate to which branches buy funds required to finance their own loans. FTP scheme aims to rebalance the profitability among each branch/area of the institution, rebalancing both funding and loans rates.

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 (obtained as the difference between acquired assets and assumed liabilities, both valued at fair 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.

Impairment test: Test aimed at checking the book value of each financial assets: in case of a permanent reduction in the value, the value of the assets should be reduced (with impact taken to profit and loss). This test should take place once a year both for intangible assets with indefinite life and for goodwill originated by a business combination (see definition); in all other cases, the entity should check, at the end of each reporting date, whether there are evidences of permanent reduction in value.

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 (see definition): 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 (see definition) 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.

London InterBank Offered Rate – LIBOR: it represents a reference rate for the interbank market transactions, calculated on a daily basis by the British Bankers' Association, and represents the rate at which most important English and European banks exchange funds with short term horizon.

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).

Loan To Value Ratio – LTV ratio: obtained as the ratio between the amount lended and the value of the asset which is supposed to be bought with this amount. The LTV Ratio is commonly used by banks as an indicator of credit risk.

Low credit risk exemption: Pursuant to paragraph 5.5.10ff of IFRS 9, a company can assume that for a certain instrument the credit risk has not experienced a significant increase when this instruments shows, at the reporting date, a low credit risk. This definition is met for Stage 1 exposures, which show a low insolvency risk since they can be qualified as investment grade instruments.

Low value (IFRS 16 definition): Pursuant to paragraph 5 of IFRS 16, it represents one of two cases in which the lessee can choose not to apply the standard provisions. The standard (paragraph B3) indicates 5,000$ (ca. 5,000 Euros) as the presumption for considering an asset of low value.

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.

Maturity: it indicates the reimbursement date or the expiring date of the instrument.

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 expiry 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 IFRS 15, 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; or

– 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 IFRS 15 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.

Pillar III: Pillar III is a disclosure document come into force with EU Regulation n. 575/2013 (CRR, see definition) which introduces into European Union the bank supervisory rules of Basel Committee (see definition) known as "Basel 3". This includes both capital adequacy (Pillar I) and disclosure to the public (Pillar III). These disclosures enable market operators to make a more accurate assessment of banks' capital solidity and exposure to risks.

Plain Vanilla (derivatives): Plain vanilla 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.

Provisioning (loans): This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

- if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;
- if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

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).

Right of Use: According to IFRS 16 (Appendix A) it is defined as "An asset that represents a lessee's right to use an underlying asset for the lease term".

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).

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.

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 of them.

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.

Significant Increase in Credit Risk – SICR: Pursuant to paragraph 5.5.3ff of IFRS 9 standard, it is necessary to assess at each reporting date whether an instrument has experienced a significant increase in credit risk since the date of initial recognition. This assessment has to take into account qualitative as well as quantitative factors, typical of each facility. The granting of forbearance measures as well as the failing of the 30-days past-due period criterion are considered backstop events. Exposures showing a significant increase in credit risk at the reference date are classified into Stage2.

Short term: according to para. 5 of IFRS 16, it represents one of the two cases when the lessee can decide not to apply the requirements of the principle itself. The lessee can make use of this faculty if the lease has a lease term of 12 months or less.

Significant bank: The EU Regulation n. 1024/2013 (this regulation establishes the Single Supervisory Mechanism, see definition) states three criteria to define whether the financial institution can be considered significant (if even one of this requirements is met):

- Total asset over 30 billions;
- The ratio between total assets and GDP of the EU state in which it resides is more than 20%, unless total assets value is below 5 billions;

– The ratio between total assets/liabilities of the institution and total assets/ liabilities of at least another EU state is more than 20%.

A financial institution is also considered to be significant when it has applied for or has received financial aid. Significant Institution are subject to direct supervision of ECB (see definition).

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.

Stress Test: A stress test is a simulation procedure used to measure the impact of extreme market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Structured Notes: A structured note is a debt obligation whose return performance is related to one or more embedded derivative components such as stock index, single securities or currency.

Sublease: According to IFRS 16 (Appendix A) it is "A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and the lessee remains in effect".

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 to 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 28 OCTOBER 2019

Resolutions adopted by shareholders at the Annual General Meeting held on 28 October 2019

At the Annual General Meeting held on 28 October 2019, the shareholders of Mediobanca approved:

- The financial statements as at 30 June 2019 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 20 November 2019, with record date 19 November 2019, after coupon no. 36 is detached on 18 November 2019;
- The "Staff Remunerations Policies", including the cap on variable and fixed remuneration based on a ratio of 2:1 (with the exception of persons working in asset management), and the criteria for establishing the compensation payable in cases where beneficiaries leave office or cease to work for Mediobanca;
- The updated version of the performance share scheme for Group staff adopted by shareholders at the Annual General Meeting held on 28 October 2015.

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	Banking book investments AFS securities (**)	Banking book securities already 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
2018/2019 (*)	4,648,266	684,686	10,779,272	28,671,014	2,056,577	1,135,267	111,125	36,517	868,819	65,908,069

§ 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). The total assets differ from the of the components because the Net treasury fund includes treasury liabilities.

** The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS39, are not fully comparable.

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
2018/2019 *	443,608	4,357,026	4,800,634	125,982	15,785,759	26,967,864	925,059	386,245	65,908,069

§ 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). The total liabilities differ from the sum of the components because the treasury liabilities are included in the aggregate Net Treasury Fund.

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	—	—
2018/2019	386,245	—	337,034	38,624	409,732	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.

Mercurio GP - Milan