

MEDIOBANCA

Quarterly Report

for the period ended 31 March 2003

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 389,274,707.50 FULLY PAID UP - RESERVES € 3,189.1m

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

Registered as a Bank. Parent Company of the Mediobanca Banking Group

Quarterly Report

for the three months ended 31 March 2003

www.mediobanca.it

REVIEW OF GROUP OPERATIONS

In the nine months to 31 March 2003, the Group earned a pre-tax profit from ordinary operations of € 350.3m, up 34.3% on the total recorded at the same juncture last year, due principally to a 46% increase in fee income achieved despite the ongoing stagnation in corporate and especially investment banking. The interest margin improved by 15.5%, benefiting from gains on trading involving the Bank's treasury portfolio. The rise in costs was due to an increase in our headcount, as well as our customary policy of booking fees payable as and when contracts are entered into given the growth in business volumes for our consumer financial services operations. The difficult market conditions continue to take their toll on the Group's accounts, which for the nine months to 31 March 2003 reflect a loss attributable to the parent company of € 206.2m. This was after charging writedowns of € 351.2m in our equity and bond portfolios to profit and loss (€ 322.2m relating to our investment portfolio and € 29m to treasury), and a € 49.3m loss on disposal of equity investments, some two-thirds of which relate to the sale of our holding in Fondiaria-SAI. The Group earned a profit of € 244m in the same period last year, after gains of € 465.4m on disposal of investment securities, and interim net losses of € 419.8m on our securities portfolio.

The downturn which continues to affect financial markets, and which currently shows no sign of any significant, lasting recovery, has meant that for the third quarter's accounts too we have adopted the conservative principle of writing down our equity investment portfolio on the basis of prices at the end of the period concerned, rather than on their average values throughout the period as a whole. This has resulted in a charge to profit and loss which is some € 94m higher. After such writedowns, as at 31 March 2003 our investment securities portfolios showed a gain of € 2,241.8m, which rises to € 2,681.4m based on current prices (for securities held in treasury the figures are € 77.4m and € 146.9m respectively). The net loss of € 87.5m on exchange and derivative transactions was offset by € 60.2m in gains on such instruments, € 45.8m of which have been accumulated since the beginning of the Bank's financial year, plus the € 77.4m gains on treasury securities mentioned earlier. Bad debt writeoffs as usual involve only *consumer credit* and *factoring*, and to a much lesser

extent the Group's *leasing* activities. The higher writedowns are attributable to the rigour being applied in the light of a deterioration in the general risk environment.

* * *

The following is a review of trends in major headings during the three months under review:

Funding: this item fell by € 298m, or 1.3%, which represents the balance between an increase of € 475.5m in funds raised through bonds and other debt securities, and a fall of € 773.5m in funds acquired on the interbank market and via current accounts. *Mediobanca International's* contribution to the aggregate was € 3,426.1m (31/12/02: € 3,311.7m).

Customer loans: these fell by € 180.7m, or 1.1%, vis-à-vis 31 December 2002. As at 31 March 2003, 71% of the Group's loan book consisted of *customer lendings* and structured finance, 15% of *leasing* transactions and 14% of *consumer credit*. At the same date, significant exposures in terms of loan concentration according to the permitted risk weightings (i.e. in excess of 10% of consolidated regulatory capital as determined under Bank of Italy regulations) totalled € 10,207.8m, or 23.6% of the aggregate limit of € 43,167.5m. The funds concerned were lent to eleven "groups of connected clients", all of which were within the individual permitted threshold.

Investment securities: these fell by € 320.4m, following the disposal of our shareholding in *Fondiarìa-Sai* in February of this year, and the transfer of several of the Bank's equity investments to our treasury portfolio (see later). The portfolio was also written down by € 322.2m, € 51.2m higher than the € 271m charged in December 2002.

Liquid assets: these rose by € 83.3m during the three months under review, from € 8,737.2m to € 8,820.5m, including forward transactions. The policy of keeping a large proportion of our assets in highly liquid form has been confirmed. The total includes € 2,268.5m in cash, and € 6,552m in marketable securities written down by € 29m on a net interim basis. After

such writedowns, the treasury portfolio reflects as we have seen a gain of € 77.4m based on current prices, to which should be added € 60.2m in unrealized gains on derivatives, of which € 45.8m have been accumulated since the beginning of our financial year.

* * *

A consolidated financial statement and profit and loss account are set out below in the usual restated format:

CONSOLIDATED FINANCIAL STATEMENT

	31/3/02	30/6/02	31/12/02	31/3/03
	€ m	€ m	€ m	€ m
Assets				
Treasury funds employed	3,542.3	5,614.5	8,737.2	8,820.5
Loans and advances	17,124.9	17,154.2	15,628.4	15,447.7
Investment securities	3,117.9	3,351.5	3,369.9	3,049.5
Intangible assets	1.3	1.9	1.7	1.5
Net fixed assets	127.4	126.2	124.7	124.0
Other assets	1,850.9	2,026.5	2,044.3	2,141.0
Total assets	<u>25,764.7</u>	<u>28,274.8</u>	<u>29,906.2</u>	<u>29,584.2</u>
Liabilities				
Deposits and loans	17,815.4	20,511.3	22,506.2	22,208.2
Provision for liabilities and charges ..	299.6	338.6	229.8	232.2
Consolidated provision for future liabilities and charges	6.6	5.8	5.6	5.3
Other liabilities	2,611.5	2,390.3	2,438.8	2,429.9
Credit risks provision	13.4	13.4	13.4	13.4
Shareholders' equity attributable to minorities	56.8	53.6	56.7	61.9
Shareholders' equity	4,717.4	4,706.7	4,841.8	4,839.5
Profit (loss)	244.0 ⁽¹⁾	255.1	(186.1) ⁽¹⁾	(206.2) ⁽¹⁾
Total liabilities	<u>25,764.7</u>	<u>28,274.8</u>	<u>29,906.2</u>	<u>29,584.2</u>

⁽¹⁾ Pre-tax.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	9 months to 31/3/02	12 months to 30/6/02	6 months to 31/12/02	9 months to 31/3/2003
	€ m	€ m	€ m	€ m
INTEREST MARGIN	319.0	550.4	267.2	368.5
<i>of which: dividends</i>	<i>0.4</i>	<i>128.8</i>	<i>3.5</i>	<i>3.5</i>
Commissions received and other income ..	140.1	177.6	95.1	203.9
General expenses and sundry operating costs	(198.3) (*)	(282.7) (*)	(147.6)	(222.1)
GROSS MARGIN FROM ORDINARY OPERATIONS	260.8	445.3	214.7	350.3
Net gain (loss) on sale of investment securities	465.4	463.7	(13.4)	(49.3)
Writedowns in securities and investments	(419.8)	(535.9)	(293.8)	(351.2)
Net loss on exchange and derivative transactions	(12.0) (*)	(19.8) (*)	(50.6)	(87.5)
Bad debts written off	(33.2)	(46.8)	(26.1)	(42.7)
Net provision for overtaxation (DIT).....	6.8	6.8	—	—
Loss on investments stated on equity basis	—	(5.1)	(2.4)	(2.4)
MARGIN BEFORE TAXATION AND PROVISIONS	268.0	308.2	(171.6)	(182.8)
Transfers to provisions for liabilities and charges	(11.2)	(13.3)	(8.4)	(11.3)
Accelerated depreciation and amortization	(2.6)	(3.6)	(2.1)	(2.9)
Profit attributable to minority interests	(10.2)	(7.0)	(4.0)	(9.2)
PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE PARENT COMPANY .	244.0	284.3	(186.1)	(206.2)
Transfers to provision for taxes on income and assets	—	(29.2)	—	—
NET PROFIT	—	255.1	—	—

(*) Restated.

* * *

A review of the main developments in the Group companies is given below, with particular reference to the Parent Company's operations.

MEDIOBANCA

HIGHLIGHTS

The Bank's accounts for the first nine months of the year reflect a loss of € 297.2m, as compared with a profit of € 106.5m one year previously, after charging € 56m to credit risks provision (31/3/02: € 60m), and write-downs in our securities portfolio of € 353.8m based on prices as at 31 March 2003 for equities and listed convertible bonds.

Earnings from ordinary operations totalled € 226.1m, up 44% over the figure recorded at the same juncture last year. Such growth was attributable to both the interest margin, which rose by 21.6%, greatly helped by treasury transactions, and fee income, which grew by 44.1% as a result of the Bank's involvement in several major market transactions. Higher general expenses were chiefly due to the increase in our headcount, with an average of 25 more staff employed during the three months under review.

Funding fell from € 19,809.8m at year-end 2002 to € 19,586.4m, and loans and advances from € 13,056.9m to € 12,981.8m. Cash and liquid assets grew marginally by € 34.6m, including forward transactions and changes in other assets and liabilities.

The Bank's securities portfolio closed at € 2,645.2m net of write-downs. This represents a fall of € 314.2m, principally due to:

- the disposal of 11.5m *Fondiaria-Sai* shares, involving a divestment of € 152.7m and a loss of € 34.8m. At the same time, the Bank entered into several equity swap agreements which enabled it to maintain its exposure to the stock's market performance unchanged. Based on current prices, these agreements reflect a gain of approximately € 30m;

- the transfer of the Bank's entire shareholdings in *Allianz*, *AMB*, *Banca Intesa*, *BNL*, *Cofide*, *ENEL* and *Stefanel* to its treasury portfolio, pursuant to a decision by the Board of Directors not to retain these holdings among Mediobanca's core investments. The securities transferred are worth € 131.1m, having been definitively written down by € 70.5m on the basis of current prices;
- the acquisition of 270,666 *Eurofind* shares for an outlay of € 15.2m, as part of the public tender offer for *La Rinascente*. This additional investment involves the Bank having a put option and *IFIL* having a call option for a period of 24 months, similar to the previous transaction described in our interim report;
- additional adjustments of € 50.8m to the investment securities portfolio, representing an increase from € 275.8m to € 326.6m, and involving the following items:

— *Writedowns:*

	€ m
<i>Commerzbank</i>	78.0
<i>Fiat</i>	38.3
<i>Mediolanum</i>	30.3
<i>Olivetti</i>	23.6
<i>Finmeccanica</i>	23.3
<i>Capitalia</i>	17.3
<i>Fondiaria-Sai</i>	9.2
<i>Pirelli & C. ordinary</i>	9.1
<i>Gemina</i>	6.0
<i>Securities definitively transferred to treasury portfolio</i>	70.5 ⁽¹⁾
<i>Others</i>	21.6
	327.2

⁽¹⁾ Of which € 50.6m relating to our holding in *Banca Intesa*, € 10.3m to our holding in *Allianz*, and € 6.1m to our share in *AMB*.

— *Writebacks:*

	€ m
<i>Olivetti 2004 convertible bonds</i>	0.6
	<u>0.6</u>

Subsequent to 31 March 2003, Mediobanca also acquired a 6% stake in *Cartiere Burgo* for an outlay of € 12.5m.

THE COMPASS GROUP

The Compass group includes all Mediobanca's financial services subsidiaries. As at 31 March 2003, its consolidated highlights reflect lendings of € 4,498.9m, 53% of which derive from *leasing* and 47% from *consumer credit*. This represents a reduction on the € 4,730m recorded at 31 December 2003, following the € 662m and € 216m loan securitizations undertaken by *SelmaBipiemme Leasing* and *Compass* respectively. Total funds of € 2,189.7m were disbursed in the nine months to 31 March, compared with € 1,847.8m at the same juncture last year, representing an increase of 18.5%. Earnings from ordinary operations amounted to € 94.9m, as against € 90.9m at 31 March 2002.

A review of the individual companies' results follows:

Compass

This company's gross profit from ordinary operations (i.e. before tax, net writedowns in listed investments and adjustments to receivables) for the nine months was € 49.8m (31/3/02: € 48.9m). Customer loans were 4.8% higher than at 31 December 2002.

SelmaBipiemme Leasing

Gross profit from ordinary operations (as defined above) was € 13.4m (31/3/02: € 20.4m), not including the € 4.5m non-recurring expenses aris-

ing in connection with the securitization mentioned earlier. The net value of goods on or pending lease was 0.4% higher than at 31 December 2002.

Palladio Leasing

Gross profit from ordinary operations (as defined above) was € 9.9m (31/3/02: € 10.4m). The net value of goods on or pending lease was 3.4% higher than at 31 December 2002.

Teleleasing

Gross profit from ordinary operations (as defined above) totalled € 22.4m (31/3/02: € 13.1m). The net value of goods on or pending lease fell by 51.3% vis-à-vis 31 December 2002, as a result of this company's reduced presence in the real estate leasing business.

Micos Banca

Gross profit from ordinary operations (as defined above) was € 5.5m (31/3/02: € 2.7m). Mortgage loans outstanding were up 6.3% on the figure recorded at 31 December 2002.

The performance of Mediobanca's other main subsidiaries is reviewed below:

MB Finstrutture - Intersomer

Pre-tax profit before provisions for the nine months was € 4.7m, after writedowns in securities held of € 1.7m (31/3/02: € 2.8m). Lendings amounted to € 692m, in comparison with € 620m as at year-end 2002.

Spafid

This company recorded a pre-tax profit for the nine months of € 579,000, after writedowns in securities held of € 760,000 (31/3/02: € 350,000). Securities and value items managed on a non-discretionary basis were worth a nominal amount of € 1,324m (31/12/02: € 1,428m).

Mediobanca International Limited

Profit for the nine months totalled \$ 6.9m (31/3/02: \$ 2.4m). Total deposits were \$ 3.7bn, as compared with \$ 3.5bn at year-end 2002.

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Significant events

Mr Francesco CINGANO has recently passed away. Mr CINGANO was involved with the Bank for more than thirty years, having made a significant contribution to its development even prior to joining the Board of Directors in 1973 and becoming Chairman in 1988. His human touch, his in-depth knowledge of individuals and situations, and the wealth of experience he displayed over all these years will be sorely missed. We are grateful to him for what he gave to the Bank and to us personally.

On 13 April 2003, Mr Vincenzo MARANGHI tendered his resignation as the Bank's Managing Director and General Manager. At a Board meeting held the next day, the Directors of Mediobanca appointed Mr Gabriele GALATERI di GENOLA as Chairman, Mr Alberto NAGEL as General Manager, and Mr Renato PAGLIARO as Co-General Manager and Secretary to the Board, with a view to calling an Extraordinary General Meeting to approve an amendment to the Bank's Articles of Association providing for a second post of General Manager, to be filled by Mr PAGLIARO.

Outlook

The trend for the final quarter of the Bank's financial year should be substantially in line with that shown in the first nine months, apart from the effect of an estimated 10-15% reduction in dividends collected as compared with the amount received last year. Recent market developments should ensure that writedowns in the Group's portfolio of securities are lower than those charged to the third quarter's accounts.

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Milan, 14 May 2003

THE BOARD OF DIRECTORS

Methods of consolidation and accounting policies

The financial situation and profit and loss account for the nine months ended 31 March 2003 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30 June 2002 and the six months ended 31 December 2002.

Scope of consolidation

The consolidated accounts as at 31 March 2003 comprise the results of the Parent Company and those of its directly or indirectly controlled subsidiaries engaged in banking or financial services or solely or principally in activities of a substantially similar nature. The Bank's other significant equity investments have been consolidated using the net equity method.

Basis of consolidation

Group subsidiaries have been consolidated on the line-by-line basis by combining their earnings, expenses, assets and liabilities, and by eliminating equity and intra-group accounts against the carrying value of the underlying investments.

Net differences arising when the accounts were first consolidated as at 30 June 1994 have been recorded in the item *Negative goodwill on consolidation*. No positive goodwill on consolidation has been attributed to any assets.

The portion of net equity and share of profit for the period attributable to minority interests has been stated as *Net equity attributable to minority shareholders*.

Accounts expressed in foreign currencies

Accounts of subsidiaries denominated in currencies other than the Euro have been translated into Euros at exchange rates ruling on 31 March 2003. Exchange differences against net equity arising when the accounts were first consolidated have been taken to *Other reserves*.

Accounts used for consolidation

The consolidated accounts have been prepared from the financial statements of the individual subsidiaries as at 31 March 2003, restated where appropriate on a basis consistent with the format adopted for the Parent Company's accounts, and also adjusted to eliminate amounts charged to the profit and loss account solely to achieve tax benefits.

Leasing companies have been consolidated on the basis of their accounts prepared according to the finance lease method.

Accounting policies

The accounting policies are the same as those used in presenting the consolidated accounts.

Profit for the period ended 31 March is shown before tax.