MEDIOBANCA

Quarterly review of operations

(30 September 2011)

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 430,564,606

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

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REVIEW OF GROUP OPERATIONS

The three months under review were marked by the ongoing sovereign debt crisis among Eurozone member states, which impacted significantly on the valuations of all asset classes. The increased diversification of the Group's sources of income, each showing different correlations to market performances, enabled Mediobanca to record a net profit of €56.8m for the quarter, down sharply on the €127.6m profit recorded last year exclusively due to the poor results from trading activity, with a net trading loss of €2.9m (compared with a €72m profit twelve months previously), and the AFS securities portfolio which was down €85m (consisting of a €15.8m loss on disposals and €69.2m in provisions). Indeed the other income items performed well:

— net interest income was up 7.5%, from €262.1m to €281.8m, the increase being attributable to retail and private banking (which was up from €145m to €172.6m), with corporate and investment banking holding up well at €110m (compared with €115.9m);

— net fee and commission income increased from €113.1m to €117.1m, reflecting a good performance in consumer credit (up from €41.3m to €43.7m) and wholesale banking (up from €62.9m to €63.9m);

— the aggregate profit earned by the equity-accounted companies improved from €43.8m to €73m, with all the investee companies returning to profit.

Operating costs were up 4.6%, from €188m to €196.6m, as a result of higher administrative costs (up €9m) related to the increase in business volumes recorded by Compass and CheBanca!.

Loan loss provisions were down 8.5%, from €112.3m to €102.8m, showing an improvement involving all the main business areas: corporate finance was down from €19.4m to €17.9m, leasing from €5.6m to €5.3m, consumer finance from €79.6m to €74.6m, and retail finance from €7.7m to €5m.

Provisions for financial assets include further adjustment of €44.5m to cover exposure to Greek government securities, now valued at 50% of their nominal amount, and €24.4m in provisions for AFS equities.

As for the individual business areas, corporate and investment banking showed a €25.9m net loss, compared with a net profit of €79.2m last year, due to provisioning and the losses incurred on the securities portfolio. Retail and private banking showed a €19.8m profit (€15m), helped by the improvement in consumer credit, where net profit rose from €12.7m to €25m. Principal investing contributed €64.2m (€50.6m).

Turning now to the balance-sheet aggregates, there was a slight increase in loans and advances to customers, from €36.2bn to €37.4bn, against a reduction in treasury funds, from €8.6bn to €7bn, and AFS investments (from €7.7bn to €7.2bn). Funding also declined, from €51.7bn to €51.1bn, despite a 1% increase by CheBanca!. Assets under management in private banking fell from €12.7bn to €12.4bn.

The Group's main capital ratios remain at high levels, with the core tier 1 ratio at 11.13% (30/6/11: 11.19%), and the total capital ratio at 14.10% (14.36%).

* * *

Significant events that took place during the three months include:

— the decision by Standard & Poor's, following the downgrade of the rating for the Republic of Italy, to revise Mediobanca's long-term credit rating from A+ to A with negative outlook;

— approval of a partial demerger by Compass to Mediobanca involving its investments in CheBanca! and SelmaBipiemme, its stake in Assicurazioni Generali (equal to 0.91% of the company's share capital), and the property located in Foro Buonaparte, Milan. The rationale for the demerger is to streamline the Group structure, thus concentrating the consumer credit businesses within Compass (which include Group companies Futuro, Cofactor, Creditech and Compass RE).

CONSOLIDATED FINANCIAL STATEMENTS *

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 mths to 30/9/10	12 mths to 30/6/11	3 mths to 30/9/11	Y.o.Y. chg.
Profit-and-loss data	€m	€m	€m	%
Net interest income	262.1	1,070.3	281.8	+7.5
Net trading income	79.7	208.7	(12.0)	n.m.
Net fee and commission income	113.1	520.3	117.1	+3.5
Equity-accounted companies	43.8	203.0	73.0	+66.7
Total income	**498.7**	**2,002.3**	**459.9**	**–7.8**
Labour costs	(101.3)	(418.8)	(100.8)	–0.5
Administrative expenses	(86.7)	(405.1)	(95.8)	+10.5
Operating costs	**(188.0)**	**(823.9)**	**(196.6)**	**+4.6**
Loan loss provisions	(112.3)	(348.8)	(102.8)	–8.5
Provisions for other financial assets	(1.1)	(275.5)	(70.2)	n.m.
Other gains (losses)	—	0.1	—	n.m.
Profit before tax	**197.3**	**554.2**	**90.3**	**–54.2**
Income tax for the period	(68.1)	(180.6)	(32.3)	–52.6
Minority interest	(1.6)	(5.0)	(1.2)	–25.0
Net profit	**127.6**	**368.6**	**56.8**	**–55.5**

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

RESTATED BALANCE SHEET

	30/09/10	30/06/11	30/09/11
	€ m	€ m	€ m
Assets			
Treasury funds	12,729.7	8,608.0	7,029.4
AFS securities	8,117.8	7,749.9	7,213.0
of which: fixed-income	*6,525.5*	*6,092.3*	*5,773.2*
equities	*1,557.0*	*1,643.6*	*1,427.4*
Fixed financial assets (HTM & LR)	1,455.8	2,308.1	2,407.5
Loans and advances to customers	34,313.9	36,225.6	37,411.1
Equity investments	3,313.1	3,156.1	3,210.3
Tangible and intangible assets	760.1	757.8	763.5
Other assets	1,299.3	1,376.7	1,330.7
of which: tax assets	*872.4*	*967.0*	*1,063.9*
Total assets	61,989.7	60,182.2	59,365.5
Liabilities and net equity			
Funding	53,427.2	51,712.9	51,118.5
of which: debt securities in issue	*34,331.0*	*34,460.5*	*33,866.4*
retail deposits	*10,131.2*	*9,960.3*	*10,014.8*
Other liabilities	1,561.2	1,258.9	1,490.7
of which: tax liabilities	*692.7*	*565.8*	*565.9*
Provisions	183.5	182.6	181.6
Net equity	6,690.2	6,659.2	6,517.9
of which: share capital	*430.6*	*430.6*	*430.6*
reserves	*6,154.0*	*6,113.9*	*5,974.8*
minority interest	*105.6*	*114.7*	*112.5*
Profit for the period	127.6	368.6	56.8
Total liabilities and net equity	61,989.7	60,182.2	59,365.5

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

30 September 2011	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss data				
Net interest income	110.0	(1.9)	172.6	281.8
Net trading income	(11.8)	—	2.5	(12.0)
Net fee and commission income	64.8	—	61.4	117.1
Equity-accounted companies	5.9	67.6	—	73.0
Total income	**168.9**	**65.7**	**236.5**	**459.9**
Labour costs	(55.8)	(1.3)	(46.5)	(100.8)
Administrative expenses	(25.3)	(0.7)	(77.2)	(95.8)
Operating costs	**(81.1)**	**(2.0)**	**(123.7)**	**(196.6)**
Loan loss provisions	(23.2)	—	(79.6)	(102.8)
Provisions for other financial assets	(69.8)	(0.1)	(0.3)	(70.2)
Other gains (losses)	—	—	—	—
Profit before tax	**(5.2)**	**63.6**	**32.9**	**90.3**
Income tax for the period	(19.5)	0.6	(13.1)	(32.3)
Minority interest	(1.2)	—	—	(1.2)
Net profit	**(25.9)**	**64.2**	**19.8**	**56.8**
Cost/income ratio %	48.0	3.0	52.3	42.7
Balance-sheet data				
Treasury funds	9,155.5	—	3,108.3	7,029.4
AFS securities	6,041.5	130.9	1,528.2	7,213.0
Fixed financial assets (HTM & LR)	4,100.1	—	4,128.8	2,407.5
Equity investments	366.8	2,770.7	—	3,210.3
Loans and advances to customers	28,488.8	—	14,152.7	37,411.1
of which: to Group companies	*5,223.3*	—	—	—
Funding	(45,145.1)	(259.8)	(22,313.3)	(51,118.5)
Risk-weighted assets	40,483.6	3,217.7	11,567.5	55,293.2
No. of staff	989	—	2,637 *	3,491

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

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

2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between business areas (€17.2m and €1.5m as at 30 September 2010 and 30 September 2011 respectively).

30 September 2010	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss data				
Net interest income	115.9	(2.1)	145.0	262.1
Net trading income	72.9	—	28.3	79.7
Net fee and commission income	63.5	—	58.6	113.1
Equity-accounted companies	(9.0)	52.9	—	43.8
Total income	**243.3**	**50.8**	**231.9**	**498.7**
Labour costs	(58.2)	(1.4)	(45.0)	(101.3)
Administrative expenses	(22.6)	(0.6)	(70.1)	(86.7)
Operating costs	**(80.8)**	**(2.0)**	**(115.1)**	**(188.0)**
Loan loss provisions	(25.0)	—	(87.3)	(112.3)
Provisions for other financial assets	(0.8)	—	(0.3)	(1.1)
Profit before tax	**136.7**	**48.8**	**29.2**	**197.3**
Income tax for the period	(55.9)	1.8	(14.2)	(68.1)
Minority interest	(1.6)	—	—	(1.6)
Net profit	**79.2**	**50.6**	**15.0**	**127.6**
Cost/income ratio %	33.2	3.9	49.6	37.7
Balance-sheet data				
Treasury funds	14,059.7	—	4,590.6	12,729.7
AFS securities	6,526.4	127.9	2,421.3	8,117.8
Fixed financial assets (HTM & LR)	1,455.1	—	2,693.7	1,455.8
Equity investments	386.2	2,869.9	—	3,313.1
Loans and advances to customers	25,206.1	—	12,603.6	34,313.9
of which: to Group companies	*3,488.2*	—	—	—
Funding	(44,448.6)	(259.8)	(21,633.4)	(53,427.2)
No. of staff	898	—	2.484 *	3,261

* Includes 121 staff employed by the Esperia group pro-forma not included in the Group total.

BALANCE SHEET

The main balance-sheet items, of which Mediobanca contributes over half, showed the following trends for the twelve months under review (comparative data as at 30 June 2011):

Funding — this item fell from €51,712.9m to €51,118.5m, reflecting the reduction in debt securities, which down from €34,460.5m to €33,866.4m, and use of the banking system (down from €4,729.2m to €4,332.3m), reflecting the market tensions. By contrast, the CheBanca! retail channel rose from €9,960.3m to €10,014.8m, as did funds raised from customers (up from €2,562.9m to €2,905m).

Loans and advances to customers — these were up 3.3%, from €36,225.6m to €37,411.1m, in all business segments, reflecting business levels before the summer holidays, in corporate banking in particular (up 3.5%). Since September there has been a sharp reduction in lending volumes.

	30/6/11	30/9/11	Change
	€m	€m	%
Corporate and investment banking	22,479.7	23,265.5	+3.5
– *of which: leasing*	*4,417.6*	*4,388.5*	*–0.7*
Retail and private banking	13,745.9	14,145.6	+2.9
– *of which: consumer credit*	*8,926.9*	*9,084.5*	*+1.8*
mortgage lending	*4,102.6*	*4,307.7*	*+5.0*
private	*716.4*	*753.4*	*+5.2*
TOTAL LOANS AND ADVANCES TO CUSTOMERS	36,225.6	37,411.1	+3.3

Equity investments— these increased from €3,156.1m to €3,210.3m, as a result of profits for the period totalling €73m (€63.3m of which attributable to Assicurazioni Generali), offsetting the €17.3m reduction in the valuation reserves. All the main investments delivered a profit for the three months: Telco €3.6m, Pirelli €3.6m, Burgo Group €2.3m, and RCS MediaGroup €0.2m. Based on current prices and holdings the portfolio shows a surplus of €212m (compared to a deficit of €19.3m at 30 September 2011).

	Percentage shareholding *	Book value	Market value as at 30/9/11	Gain (loss)
	%	€m	€m	€m
LISTED EQUITY INVESTMENTS				
Assicurazioni Generali	13.24	2,288.9	2,460.8	171.9
RCS MediaGroup, *ordinary*	14.36	191.8	77.5	(114.3)
Pirelli & C. S.p.A.	4.49	109.9	117.7	7.8
Gemina	12.53	196.3	111.6	(84.7)
		2,786.9	2,767.6	(19.3)
OTHER EQUITY INVESTMENTS				
Telco	11.62	258.2		
Banca Esperia	50.00	56.6		
Burgo Group	22.13	83.1		
Athena Private Equity class A	24.27	24.4		
Fidia	25.00	1.1		
Other minor investments		—		
		423.4		
		3,210.3		

* Percentage of entire share capital.

Fixed financial assets — this portfolio consists of financial assets held to maturity totalling €1,744.5m (€1,643.6m) and unlisted debt securities (recognized at cost) worth €663m (€664.5m). The three months under review saw new investments worth €97.5m, redemptions totalling €2.8m, and €4.7m in other adjustments. Based on prices and holdings at the reporting date, the portfolio showed an implicit loss of €74m, higher than the €19.6 loss reported three months previously, due to the adverse market trends.

AFS securities — this portfolio is made up of debt securities totalling €5,773.2m (€6,092.3m), equities worth €1,427.4m (€1,643.6m), and stock units in funds held by Compagnie Monégasque de Banque amounting to €12.4m (€14m). Holdings in bonds declined during the period, due to divestments in the three months (€36.4m) and downward adjustments to fair value (€238.8m) as a result of the increase in risk premiums on Italian sovereign debt and financial issuers, plus the new impairment charges on

Greek government securities already referred to (€44.5m). Movements on the equity side consist of disposals worth €58.4m (at a net loss of €23.7m), writedowns of €24.4m taken through the profit and loss account, and downward adjustments to reflect fair value at the reporting date totalling €111.9m.

	Percentage shareholding *	Book value as at 30/9/11	Adjustments to fair value	Impairment to P&L	Total AFS reserve
Sintonia S.A.	6.50	336.3	—	—	—
UCI cashes		218.4	(33.2)	—	(62.0)
Delmi S.p.A.	6.00	94.2	—	—	—
Santé S.A.	9.99	82.4	—	(0.8)	—
Italmobiliare	9.5 – 5.47	42.1	(11.0)	—	7.5
Other listed shares		342.8	(67.5)	(12.7)	(61.8)
Other unlisted shares ...		311.2	(0.2)	(10.9)	60.0
TOTAL SHARES		1,427.4	(111.9)	(24.4)	(56.3)

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

The AFS valuation reserve was in negative territory at minus €407.9m, €352.9m of which in respect of debt securities and €55m equities and other securities.

Treasury funds — these fell from €8,608m to €7,029.4m, and include €702.9m (€469.6m) in cash and cash equivalents, €3,537.3m (€4,599.5m) in fixed-income securities, €1,295m (€2,141.6m) in equities, €2,295m (€1,938.3m) in net applications of treasury funds, such as repos, interbank deposits, etc., and €800.8m (€541m) in negative value adjustments to derivatives contracts.

Tangible and intangible assets — these increased from €757.8m to €763.5m, reflecting the acquisition of the new Mediobanca International offices in Luxembourg as to €4.1m and the refurbishment and expansion work on the Seteci property as to €6.2m; the item reflects depreciation and amortization charges for the period totalling €10.9m, and include €365.9m in goodwill plus brands worth €6.3m.

Provisions — this item comprises the provision for liabilities and charges, which stands at €156.8m, virtually unchanged in the three months; and the staff severance indemnity provision, amounting to €24.8m (€26.1m), down solely as a financial effect of discounting future outlays at higher rates.

Net equity — net equity fell by €139.1m, from €6,544.5m to €6,405.4m, due to the reduction in the valuation reserves referred to above (€371.5m, €349.7m of which in relation to the Group and €21.8m to the equity-accounted companies), only in part offset by the provision of undistributed earnings from the previous financial year (€225.1m). In detail, the AFS securities valuation reserve remained negative at minus €290.3m (compared with minus €22m), the cash flow hedge reserve returned to negative territory at €71.5m, (as against €9.8m positive), as did the share of the valuation reserves attributable to the equity-accounted investments (down from €1.5m to minus €20.3m).

PROFIT AND LOSS ACCOUNT

Net interest income — the increase in this item, from €262.1m to €281.8m, reflects a healthy performance in the retail and private banking segment, where net interest income climbed 19%, from €145m to €172.6m, boosted by a higher contribution from CheBanca! (up €23.2m on last year) and further improvement by Compass (up €6.4m). Corporate banking remained largely stable.

Net trading income — this heading brings together trading results (where a €2.9m loss was incurred, compared with a €72m profit last year), net losses on disposals of AFS securities totalling €15.8m (€1.8m), and dividends worth €6.7m (€5.8m). The trading results were affected by the market crisis, which impacted on share trading (with a €17m loss incurred, as opposed to €17.1m in profits last year) and reduced the earnings on fixed-income dealing (from €54.9m to €14.1m).

Net fee and commission income — this item increased from €113.1m to €117.1m, reflecting an improved contribution from all companies, in particular Mediobanca (up from €53.1m to €53.8m), Compass (up from €38.1m to €38.9m), Compass RE (up from €1.3m to €2.4m) and Compagnie Monégasque de Banque (up from €7.4m to €7.8m).

Operating costs — this item rose 4.6%, from €188m to €196.6m, and consists of:

- labour costs amounting to €100.8m (€101.3m); these include €2m in directors' emoluments (unchanged), and €2.5m (€2.1m) in implicit expenses linked to performance share and stock option schemes;
- sundry costs and expenses amounting to €95.8m (€86.7m), including €10.9m (€10.4m) in depreciation charges, and administrative expenses totalling €84.6m (€76.3m), made up as follows:

	3 mths to 30/9/10	3 mths to 30/9/11
	€m	€m
Legal, tax and other professional services	9.5	8.3
Bad debt recovery	6.5	7.2
Marketing and communications	13.5	17.1
Rent and property maintenance charges	8.4	10.0
EDP	8.0	9.0
Financial information subscriptions	5.4	6.2
Banking services, collection and payment charges	5.0	5.2
Operating expenses	12.3	13.3
Other labour costs	4.3	4.9
Other costs	1.3	1.1
Direct and indirect taxes (net of amounts withheld)	2.1	2.3
TOTAL	76.3	84.6

The increase is due to higher operating volumes and certain advertising costs being taken early.

Loan loss provisions — this item confirmed the improving trend ongoing for several quarters, and involved both business areas, retail financial services (down from €87.3m to €79.6m) and corporate lending (down from €25m to €23.2m).

Provisions for financial assets — this item consists of €24.4m for AFS shares (€12.7m listed and €11.7m unlisted), €44.5m for Greek government bonds, €1.3m for fixed assets, and the remainder for other securities.

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

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

Corporate and investment banking (wholesale banking and leasing)

	3 mths to 30/9/10	12 mths to 30/6/11	3 mths to 30/9/11	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss data				
Net interest income	115.9	429.3	110.0	–5.1
Net trading income	72.9	169.4	(11.8)	n.m.
Net fee and commission income	63.5	315.1	64.8	2.0
Equity-accounted companies	(9.0)	(1.2)	5.9	n.m.
Total income	**243.3**	**912.6**	**168.9**	**–30.6**
Labour costs	(58.2)	(234.4)	(55.8)	–4.1
Administrative expenses	(22.6)	(106.2)	(25.3)	+11.9
Operating costs	**(80.8)**	**(340.6)**	**(81.1)**	**+0.4**
Loan loss provisions	(25.0)	(25.3)	(23.2)	–7.2
Provisions for financial assets	(0.8)	(150.4)	(69.8)	n.m.
Other profits (losses)	—	—	—	n.m.
Profit before tax	**136.7**	**396.3**	**(5.2)**	**–103.8**
Income tax for the period	(55.9)	(149.1)	(19.5)	–41.9
Minority interest	(1.6)	(5.0)	(1.2)	n.m.
Net profit	**79.2**	**242.2**	**(25.9)**	**n.m.**
Cost/income ratio %	33.2	37.3	48.0	

	30/9/10	30/6/11	30/9/11	Change
	€m	€m	€m	%
Balance-sheet data				
Treasury funds	14,059.7	9,469.5	9,155.5	–3.3
AFS securities	6,526.4	6,550.5	6,041.5	–7.8
Fixed financial assets (HTM & LR)	1,455.1	4,001.1	4,100.1	+2.5
Equity investments	386.2	385.6	366.8	–4.9
Loans and advances to customers	25,206.1	27,623.9	28,488.8	+3.1
of which: to Group companies	*3,488.2*	*5,144.2*	*5,223.3*	n.m
Funding	(44,448.6)	(44,908.2)	(45,145.1)	+0.5

Corporate and Investment Banking 30 September 2011	Wholesale	Leasing	Total
	€m	€m	€m
Net interest income	93.2	16.8	110.0
Net trading income	(11.7)	(0.1)	(11.8)
Net fee and commission income	63.9	0.9	64.8
Equity-accounted companies	5.9	—	5.9
Total income	**151.3**	**17.6**	**168.9**
Labour costs	(51.5)	(4.3)	(55.8)
Administrative expenses	(22.5)	(2.8)	(25.3)
Operating costs	**(74.0)**	**(7.1)**	**(81.1)**
Loan loss provisions	(17.9)	(5.3)	(23.2)
Provisions for financial assets	(69.8)	—	(69.8)
Other profits (losses)	—	—	—
Profit before tax	**(10.4)**	**5.2**	**(5.2)**
Income tax for the period	(17.2)	(2.3)	(19.5)
Minority interest	—	(1.2)	(1.2)
Net profit	**(27.6)**	**1.7**	**(25.9)**
Cost/income ratio %	48.9	40.3	48.0
Other assets	19,583.0	80.9	19,663.9
Loans and advances to customers	24,100.3	4,388.5	28,488.8
of which to Group companies	*5,223.3*	—	*5,223.3*
New loans	—	284.8	—
No. of staff	782	207	989

Corporate and Investment Banking 30 September 2010	Wholesale	Leasing	Total
	€m	€m	€m
Net interest income	97.9	18.0	115.9
Net trading income	72.9	—	72.9
Net fee and commission income	62.9	0.6	63.5
Equity-accounted companies	(9.0)	—	(9.0)
Total income	**224.7**	**18.6**	**243.3**
Labour costs	(53.9)	(4.3)	(58.2)
Administrative expenses	(19.8)	(2.8)	(22.6)
Operating costs	**(73.7)**	**(7.1)**	**(80.8)**
Loan loss provisions	(19.4)	(5.6)	(25.0)
Provisions for financial assets	(0.8)	—	(0.8)
Profit before tax	**130.8**	**5.9**	**136.7**
Income tax for the period	(53.3)	(2.6)	(55.9)
Minority interest	—	(1.6)	(1.6)
Net profit	**77.5**	**1.7**	**79.2**
Cost/income ratio (%)	32.8	38.2	33.2
Other assets	22,381.4	57.6	22,439.0
Loans and advances to customers	20,736.2	4,469.9	25,206.1
of which to Group companies	*3,488.2*	—	*3,488.2*
New loans	—	261.9	—
No. of staff	691	207	898

This division reported a net loss of €25.9m, compared with a €79.2m net profit last year, due chiefly to the performance in trading, where an €11.8m loss was recorded (compared with a €72.9m profit last year), as a result of the fall in prices for the majority of financial instruments which affected all Eurozone countries, the peripheral member states in particular.

Total income declined from €243.3m to €168.9m, as a result of the lack of dealing profits (€2.7m loss, versus a €69.9m profit last year), and higher losses on disposals of AFS securities of €15.8m (€3m). Conversely net interest and fee income both held up well during the quarter, at €110m (€115.9m) and €64.8m (€63.5m) respectively, and the equity-accounted companies returned a €5.9m profit (as against a €9m loss). Operating costs were stable, up from €80.8m to €81.1m, while loan loss provisions improved from €25m to €23.2m. The bottom line was also hit by higher provisions for financial assets (up from €0.8m to €69.8m), €44.5m of which in respect of Greek sovereign debt and €10.9m for the write-off of the Ferretti investment.

Turning to the balance-sheet aggregates, there was an increase in loans and advances to customers, up from €27,623.9m to €28,488.8m (including amounts lent to Group companies), against a reduction in treasury funds, from €9,469.5m to €9,155.5m, and in AFS securities (down from €6,550.5m to €6,041.5m); while funding was virtually stable at €45,145.1m (€44,908.2m).

Principal investing

	3 mths to 30/9/10	12 mths to 30/6/11	3 mths to 30/9/11	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss data				
Net interest income	(2.1)	(7.5)	(1.9)	–9.5
Net trading income	—	—	—	n.m.
Net fee and commission income	—	—	—	n.m.
Equity-accounted companies	52.9	203.6	67.6	+27.8
Total income	**50.8**	**196.1**	**65.7**	**+29.3**
Labour costs	(1.4)	(5.5)	(1.3)	–7.1
Administrative expenses	(0.6)	(2.5)	(0.7)	+16.7
Operating costs	**(2.0)**	**(8.0)**	**(2.0)**	**n.m.**
Provisions for financial assets	—	(124.6)	(0.1)	n.m.
Profit before tax	**48.8**	**63.5**	**63.6**	**+30.3**
Income tax for the period	1.8	5.8	0.6	n.m.
Net profit	**50.6**	**69.3**	**64.2**	**+26.9**

	30/9/10	30/6/11	30/9/11
	€m	€m	€m
AFS securities	127.9	134.1	130.9
Equity investments	2,869.9	2,712.5	2,770.7

The share of the investee companies' profits attributable to the Group improved, from €52.9m to €67.6m, due to a positive contribution from all the investments: Assicurazioni Generali added €63.3m (€46.3m), RCS MediaGroup €0.2m (€3m), and Telco €3.6m (€3.7m).

Retail and private banking

	3 mths to 30/9/10	12 mths to 30/6/11	3 mths to 30/9/11	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss data				
Net interest income	145.0	660.5	172.6	+19.0
Net trading income	28.3	49.6	2.5	–91.2
Net fee and commission income	58.6	245.5	61.4	+4.8
Equity-accounted companies	—	—	—	n.m.
Total income	**231.9**	**955.6**	**236.5**	**+2.0**
Labour costs	(45.0)	(192.0)	(46.5)	+3.3
Administrative expenses	(70.1)	(324.1)	(77.2)	+10.1
Operating costs	**(115.1)**	**(516.1)**	**(123.7)**	**+7.5**
Loan loss provisions	(87.3)	(323.5)	(79.6)	–8.8
Provisions for financial assets	(0.3)	(0.6)	(0.3)	n.m.
Other profits (losses)	—	—	—	n.m.
Profit before tax	**29.2**	**115.4**	**32.9**	**+12.7**
Income tax for the period	(14.2)	(37.6)	(13.1)	–7.7
Net profit	**15.0**	**77.8**	**19.8**	**+32.0**
Cost/income ratio %	49.6	54.0	52.3	

	30/9/10	30/6/11	30/9/11
	€m	€m	€m
Treasury funds	4,590.6	4,000.7	3,108.3
AFS securities	2,421.3	1,762.0	1,528.2
Fixed financial assets (HTM & LR)	2,693.7	3,191.7	4,128.8
Equity investments	—	—	—
Loans and advances to customers	12,603.6	13,751.9	14,152.7
Funding	(21,633.4)	(22,082.7)	(22,313.3)

The profit earned by this division during the three months rose to €19.8m, from the €15m reported last year, due to higher revenues (up from €231.9m to €236.5m), the increase in costs (from €115.1m to €123.7m) being almost entirely offset by the reduction in loan loss provisions (from €87.3m to €79.6m).

Turning to the individual sectors, consumer credit reported an improvement in both the main revenue items: net interest income (up from €123.6m to €130m) and net fee and commission income (up from €41.3m to €43.7m). Net profit virtually doubled to reach €25m, following a small rise in costs (from €58.1m to €60.2m) and lower loan loss provisions (down from €79.6m to €74,6m). Loans and advances to customers grew 2% during the quarter, from €8,926.9m to €9,084.4m, while impaired assets reduced from €174.5m to €165m (1.8% of the loan book).

At CheBanca! the improving trend in net interest income continued, climbing from €14.1m to €37.3m, and offsetting the reduction in trading income (from €24.1m to €0.7m). However, the net loss increased from €4.6m to €7.4m, due to higher operating costs (up from €37.5m to €43.6m) against a reduction in loan loss provisions (from €7.7m to €5m, in line with the trend in recent quarters). Retail deposits at the reporting date totalled €10,014.8m, slightly up on the €9,960.3m recorded at end-June, while loans and advances to customers rose to €4,307.7m (€4,102.6m).

Private banking reported a net profit of €2.2m, down sharply on the €6.9m recorded in the first quarter last year, on lower net interest and trading income reported by CMB (down from €6.7m to €4.6m and from €3.8m to €1.9m respectively), and lower revenues posted by Banca Esperia (down from €7.3m to €6.7m). Operating costs were stable at €19.9m (€19.5m). Assets under management on a discretionary/non-discretionary basis fell slightly during the three months to €12.4bn, €5.9bn of which at CMB (€5.8bn) and €6.5bn (€6.9bn) at Banca Esperia, exclusively due to market effects.

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

Retail and private banking 30 September 2011	Consumer credit	Retail banking	Private banking	Total
	€m	€m	€m	€m
Net interest income	130.0	37.3	5.3	172.6
Net trading income	0.2	0.7	1.6	2.5
Net fee and commission income	43.7	2.2	15.5	61.4
Equity-accounted companies	—	—	—	—
Total income	**173.9**	**40.2**	**22.4**	**236.5**
Labour costs	(19.4)	(14.4)	(12.7)	(46.5)
Administrative expenses	(40.8)	(29.2)	(7.2)	(77.2)
Operating costs	**(60.2)**	**(43.6)**	**(19.9)**	**(123.7)**
Loan loss provisions	(74.6)	(5.0)	—	(79.6)
Provisions for financial assets	—	—	(0.3)	(0.3)
Other profits (losses)	—	—	—	—
Profit before tax	**39.1**	**(8.4)**	**2.2**	**32.9**
Income tax for the period	(14.1)	1.0	—	(13.1)
Net profit	**25.0**	**(7.4)**	**2.2**	**19.8**
Cost/income ratio (%)	34.6	n.m.	n.m.	52.3
Equity investments	—	—	—	—
Other financial assets	443.3	6,779.9	1,542.3	8,765.5
Loans and advances to customers	9,084.4	4,307.7	760.6	14,152.7
New loans	1,266.6	296.4	—	1,563.0
No. of branches	146	44	—	190
No. of staff	1,347	934	356	2,637

Retail and private banking 30 September 2010	Consumer credit	Retail banking	Private banking	Total
	€m	€m	€m	€m
Net interest income	123.6	14.1	7.3	145.0
Net trading income	0.2	24.1	4.0	28.3
Net fee and commission income	41.3	1.8	15.5	58.6
Equity-accounted companies	—	—	—	—
Total income	**165.1**	**40.0**	**26.8**	**231.9**
Labour costs	(20.2)	(12.4)	(12.4)	(45.0)
Administrative expenses	(37.9)	(25.1)	(7.1)	(70.1)
Operating costs	**(58.1)**	**(37.5)**	**(19.5)**	**(115.1)**
Loan loss provisions	(79.6)	(7.7)	—	(87.3)
Provisions for financial assets	—	—	(0.3)	(0.3)
Other profits (losses)	—	—	—	—
Profit before tax	**27.4**	**(5.2)**	**7.0**	**29.2**
Income tax for the period	(14.7)	0.6	(0.1)	(14.2)
Net profit	**12.7**	**(4.6)**	**6.9**	**15.0**
Cost/income ratio (%)	35.2	n.m.	72.8	49.6

Equity investments	—	—	—	—
Other financial assets	361.1	7,872.0	1,472.5	9,705.6
Loans and advances to customers	8,367.1	3,584.7	651.8	12,603.6
New loans	1,026.1	151.2	—	1,177.3
No. of branches	146	42	—	188
No. of staff	1,301	843	340	2,484

Private banking 30 September 2011	CMB	Banca Esperia 50%	Other	Total PB
	€m	€m	€m	€m
Net interest income	4.6	0.7	—	5.3
Net trading income	1.9	(0.3)	—	1.6
Net fee and commission income	7.8	6.3	1.4	15.5
Equity-accounted companies	—	—	—	—
Total income	**14.3**	**6.7**	**1.4**	**22.4**
Labour costs	(7.0)	(4.8)	(0.9)	(12.7)
Administrative expenses	(4.6)	(2.4)	(0.2)	(7.2)
Operating costs	**(11.6)**	**(7.2)**	**(1.1)**	**(19.9)**
Loan loss provisions	—	—	—	—
Provisions for financial assets	(0.2)	—	(0.1)	(0.3)
Other profits (losses)	—	—	—	—
Profit before tax	**2.5**	**(0.5)**	**0.2**	**2.2**
Income tax for the period	—	—	—	—
Net profit	**2.5**	**(0.5)**	**0.2**	**2.2**
Assets under management	5,853.0	6,512.9	—	12,365.9
Securities held on a trustee basis	N/A	N/A	1,459.0	1,459.0

Private banking 30 September 2010	CMB	Banca Esperia 50%	Other	Total PB
	€m	€m	€m	€m
Net interest income	6.7	0.5	0.1	7.3
Net trading income	3.8	0.3	(0.1)	4.0
Net fee and commission income	7.4	6.5	1.6	15.5
Equity-accounted companies	—	—	—	—
Total income	**17.9**	**7.3**	**1.6**	**26.8**
Labour costs	(6.6)	(4.9)	(0.9)	(12.4)
Administrative expenses	(4.6)	(2.4)	(0.1)	(7.1)
Operating costs	**(11.2)**	**(7.3)**	**(1.0)**	**(19.5)**
Loan loss provisions	—	—	—	—
Provisions for financial assets	(0.3)	—	—	(0.3)
Other profits (losses)	—	—	—	—
Profit before tax	**6.4**	—	**0.6**	**7.0**
Income tax for the period	—	—	(0.1)	(0.1)
Net profit	**6.4**	—	**0.5**	**6.9**
Assets under management	5,556.0	6,215.0	—	11,771.0
Securities held on a trustee basis	N/A	N/A	1,523.1	1,523.1

Outlook

Estimates for the current financial year continue to be strongly affected by the impact of the market crisis on financial asset valuations, and on the other main items related to the Group's core business (net interest income, fees and commissions and loan loss adjustments) most closely linked to the real economy's performance.

Against a scenario in which European banks are encountering increasing difficulties in refinancing their liabilities, Mediobanca's operations will give priority to capitalization and the liquidity base.

Milan, 28 October 2011

THE BOARD OF DIRECTORS

ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 September 2011 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Council and Commission on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks was governed by Bank of Italy circular no. 262 issued on 22 December 2005 (first update 18 November 2009). This report was also drawn up in compliance with Consob's regulations for issuers as contained in Consob regulation 11971/99.

Section 2

Area and methods of consolidation

Subsidiaries are consolidated on the line-by-line basis, whereas investments in associates and jointly-controlled operations are consolidated and accounted for using the equity method.

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

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

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

		Registered office	Type of relation-ship [1]	Shareholding		% voting rights [2]
				Investee company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	*Line-by-line*					
1.	MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.p.A. -in liquidazione	Roma	1	A.1.1	100.00	100.00
3.	PRUDENTIA FIDUCIARIA S.p.A	Milan	1	A.1.1	100.00	100.00
4.	SETECI - Società Consortile per l'Elaborazione, Trasmissione dati, *Engineering* e Consulenza Informatica S.c.p.A.	Milan	1	A.1.1	100.00	100.00
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.00	100.00
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.00	100.00
7.	C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.6	99.94	99.94
				A.1.8	0.06	0.06
8.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89	99.89
9.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
10.	C.M.B. ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.50	99.50
11.	MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.6	99.00	99.00
				A.1.8	1.00	1.00
12.	MOULINS 700 S.A.M.	Monte Carlo	1	A.1.7	99.90	99.90
13.	CMB BANQUE PRIVÈE (Suisse) S.A.	Lugano	1	A.1.6	100.00	100.00
14.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.15	1.00	1.00
15.	COMPASS S.p.A.	Milan	1	A.1.1	100.00	100.00
16.	CHEBANCA! S.p.A.	Milan	1	A.1.15	100.00	100.00
17.	COFACTOR S.p.A.	Milan	1	A.1.15	100.00	100.00
18.	SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.15	60.00	60.00
19.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.18	95.00	100.00
				A.1.19	5.00	
20.	TELELEASING S.p.A.	Milan	1	A.1.18	80.00	80.00
21.	SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.00	100.00
22.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.00	100.00
23.	CREDITECH S.p.A.	Milan	1	A.1.15	100.00	100.00
24.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
25.	CONSORTIUM S.r.l.	Milan	1	A.1.1	100.00	100.00
26.	QUARZO S.r.l.	Milan	1	A.1.15	90.00	90.00
27.	QUARZO LEASE S.r.l.	Milan	1	A.1.18	90.00	90.00
28.	FUTURO S.P.A.	Milan	1	A.1.15	100.00	100.00
29.	JUMP S.r.l.	Milan	4	A.1.15	—	—
30.	MB COVERED BOND S.r.l.	Milan	1	A.1.16	90.00	90.00
31.	COMPASS RE (Luxembourg) S.A.	Luxembourg	1	A.1.15	100.00	100.00
32.	JODEWA (Luxembourg) Sarl.	Luxembourg	1	A.1.14	100.00	100.00

Legend

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

[2] Effective and potential voting rights in ordinary AGMs.

Section 3

Significant accounting policies

Financial assets held for trading

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

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

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

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

AFS securities

This category includes all financial assets apart from derivatives not booked under the headings *Financial assets held for trading*, *Financial assets held to maturity* or *Loans and receivables*.

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

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over one half or for longer than twenty-four months, compared to the initial recognition value. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to the profit and loss account for debt securities to and net equity for shares.

Financial assets held to maturity

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

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

Assets are tested for impairment at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to the profit and loss account up to the value of amortized cost.

Loans and receivables

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

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates, including non-interest-bearing loans. The relevant value adjustment is taken through the profit and loss account.

If the reasons which brought about the loss of value cease to apply, the original value of the loan is recovered in the profit and loss account in subsequent accounting periods up to the value of amortized cost.

Accounts for which there is no objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the profit and loss account, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Leasing

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

Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

– changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;

– the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in net equity, while the gain or loss deriving from the ineffective portion is recognized through the profit and loss account only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

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

Equity investments

This heading consists of investments in:

– subsidiaries;

– associates, defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;

– jointly-controlled companies;

– other investments of negligible value, stated at cost.

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

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

Derecognition of assets

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

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

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

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

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

Trading liabilities

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

Staff severance indemnity provision

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

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

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

Provisions for liabilities and charges

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

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

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

Foreign currency transactions

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

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

Tax assets and liabilities

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

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

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

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

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

Stock options and performance shares

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

Treasury shares

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

Dividends and commissions

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

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

Related parties (IAS 24)

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

a) individuals or entities which directly or indirectly:
    1. are subject to joint control by Mediobanca (including the parent company, subsidiaries and associates);
    2. hold an interest in Mediobanca which allows them to exert a significant influence over Mediobanca: significant influence is presumed to exist in cases where an individual or entity holds an interest of more than 5% in the share capital of Mediobanca, along with the entitlement to appoint at least one member of the Board of Directors;

b) associate companies;

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) subsidiaries, jointly-controlled companies and companies subject to significant influence by one of the individuals referred to in letter c) above, or in which they themselves hold, directly or indirectly, a significant share of the voting rights or are shareholders and hold strategic roles (Chairman or Chief Executive Officer);

e) close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or subject to significant influence by such individuals, or in which such individuals hold, directly or directly, a significant share of the voting rights;

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

CONSOLIDATED BALANCE SHEET (IAS/IFRS-compliant)

		IAS-compliant 30/9/11	IAS-compliant 30/6/11	IAS-compliant 30/9/10
		€ m	€ m	€ m
	Assets			
10.	Cash and cash equivalents	36.6	31.5	33.2
20.	Financial assets held for trading	14,858.1	13,716.7	16,715.9
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	7,213.0	7,749.9	8,117.8
50.	Financial assets held to maturity	1,744.5	1,643.6	726.2
60.	Due from banks	5,748.3	5,653.2	3,322.3
	of which:			
	other trading items	*4,264.1*	*4,313.2*	*2,693.5*
	securities	—	—	—
	other items	*8.4*	*115.2*	*1.4*
70.	Due from customers	42,515.9	40,094.1	39,012.4
	of which:			
	other trading items	*5,722.8*	*4,244.9*	*4,357.1*
	securities	*663.1*	*664.6*	*729.6*
	other items	*90.4*	*80.2*	96.0
80.	Hedging derivatives	1,924.6	1,368.1	2,054.6
	of which:			
	funding hedge derivatives	*1,924.6*	*1,367.1*	*2,053.3*
	lending hedge derivatives	—	*1.0*	*0.5*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	3,210.3	3,156.1	3,313.1
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	329.8	320.4	319.0
130.	Intangible assets	433.7	437.4	441.1
	of which:			
	goodwill	*365.9*	*365.9*	*365.9*
140.	Tax assets	1,063.8	967.1	872.4
	a) current	*373.4*	*375.6*	*298.5*
	b) advance	*690.4*	*591.5*	*573.9*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	195.6	253.4	359.5
	of which:			
	other trading items	*27.6*	*40.1*	*30.8*
	Total assets	**79,274.2**	**75,391.5**	**75,287.5**

The balance sheet provided on p. 8 reflects the following restatements:

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

— *Funding* comprises the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank items), plus the relevant amounts in respect of hedge derivatives;

— *Loans and advances to customers* comprise asset headings 60 and 70 (net of the amounts restate as *Treasury funds*), the relevant amounts of asset heading 80 and liability heading 60 (hedge derivatives), plus the relevant share of liability heading 100.

		IAS-compliant 30/9/11	IAS-compliant 30/6/11	IAS-compliant 30/9/10
		€ m	€ m	€ m
	Liabilities and net equity			
10.	Due to banks	8,830.0	8,971.2	8,090.5
	of which:			
	other trading items	*4,283.1*	*4,228.8*	*2,063.8*
	other liabilities	*214.5*	*13.2*	*0.5*
20.	Due to customers	15,698.9	14,525.7	14,240.2
	of which:			
	other trading items	*2,769.1*	*1,992.3*	*1,150.4*
	other liabilities	*10.0*	*10.2*	*9.7*
30.	Debt securities	35,482.2	35,270.7	35,847.0
40.	Trading liabilities	10,826.6	7,516.6	7,877.8
50.	Liabilities recognized at fair value	—	—	—
60.	Hedging derivatives	405.7	647.7	688.0
	of which:			
	funding hedge derivatives	*308.9*	*557.0*	*537.3*
	lending hedge derivatives	*54.8*	*58.9*	*62.1*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities:	565.8	565.9	692.6
	a) current	*267.2*	*252.8*	377.0
	b) deferred	*298.6*	*313.1*	*315.6*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	Other liabilities	643.3	628.6	827.9
	of which:			
	other trading items	*0.8*	0.9	*81.6*
	Adjustments to L & R	*49.7*	*45.0*	—
110.	Staff severance indemnity provision	24.8	26.0	27.4
120.	Provisions:	156.8	156.5	156.1
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*156.8*	*156.5*	*156.1*
130.	Technical reserves	65.4	54.8	22.1
140.	Valuation reserves	(364.8)	6.7	48.5
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	4,433.3	4,200.9	4,199.5
180.	Share premium reserve	2,120.1	2,120.1	2,119.9
190.	Share capital	430.6	430.6	430.6
200.	Treasury shares	(213.8)	(213.8)	(213.8)
210.	Net equity attributable to minorities	112.5	114.7	105.6
220.	Profit (loss) for the year	56.8	368.6	127.6
	Total liabilities and net equity	**79,274.2**	**75,391.5**	**75,287.5**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS (IAS/IFRS-compliant)

Profit and loss account	3 mths to 30/9/11	12 mths to 30/6/11	3 mths to 30/9/10
	€ m	€ m	€ m
10. Interest and similar income	773.5	2,787.5	705.3
20. Interest expense and similar charges	(487.5)	(1,655.9)	(426.6)
30. Net interest income	**286.0**	**1,131.6**	**278.7**
40. Fee and commission income	105.3	485.6	104.6
50. Fee and commission expense	(9.0)	(48.6)	(10.5)
60. Net fee and commission income	**96.3**	**437.0**	**94.1**
70. Dividends and similar income	10.9	116.0	7.3
80. Net trading income	(17.9)	(32.8)	41.8
90. Net hedging income (expense)	0.8	0.1	(0.1)
100. Gain (loss) on disposal of:	(9.9)	64.1	14.1
a) loans and receivables	—	*0.6*	—
b) AFS securities	*(15.8)*	*22.2*	*1.8*
c) financial assets held to maturity	—	*(3)*	—
d) other financial liabilities	*5.9*	*44.6*	*12.3*
120. Total income	**366.2**	**1,716.0**	**435.9**
130. Adjustments for impairment to:	(173.0)	(504.7)	(113.4)
a) loans and receivables	*(100.5)*	*(343.1)*	*(106.9)*
b) AFS securities	*(69.3)*	*(145.1)*	*(1.1)*
c) financial assets held to maturity	*(0.6)*	*(10.5)*	*0.4*
d) other financial liabilities	*(2.6)*	*(6.0)*	*(5.8)*
140. Net income from financial operations	**193.2**	**1,211.3**	**322.5**
150. Net premium income	4.3	9.5	1.9
160. Income less expense from insurance operations	(2.0)	*(4.7)*	(0.6)
170. Net income from financial and insurance operations	**195.5**	**1,216.1**	**323.8**
180. Administrative expenses:	(197.3)	(833.2)	(189.3)
a) personnel costs	*(100.8)*	*(418.8)*	*(99.3)*
b) other administrative expenses	*(96.5)*	*(414.4)*	*(90.0)*
190. Net transfers to provisions for liabilities and charges	(0.3)	(1.0)	—
200. Net adjustments to property, plant and equipment	(4.1)	(17.4)	(4.4)
210. Net adjustments to intangible assets	(6.8)	(24.5)	(6.0)
of which: goodwill	—	—	—
220. Other operating income (expenses)	30.2	130.8	29.3
230. Operating costs	**(178.3)**	**(745.3)**	**(170.4)**
240. Profit (loss) from equity-accounted companies	73.0	83.4	43.8
270. Gain (loss) on disposal of investments	—	—	0.1
280. Profit (loss) before tax on ordinary activities	**90.2**	**554.2**	**197.3**
290. Income tax on ordinary activities for the year	(32.2)	(180.6)	(68.1)
300. Profit (loss) after tax on ordinary activities	**58.0**	**373.6**	**129.2**
310. Net gain (loss) on non-current assets being sold	—	—	—
320. Profit (loss) for the year	**58.0**	**373.6**	**129.2**
330. Profit (loss) for the year attributable to minorities	(1.2)	(5.0)	(1.6)
340. Net profit (loss) for the year attributable to Mediobanca	**56.8**	**368.6**	**127.6**

The profit and loss account reported on p. 7 reflects the following restatements:

— *Net interest income* includes the result of hedging activity, funding and lending (€0.9m, €1.5m and €0.1m respectively) and margins on swaps reported under Heading 80 amounting to minus €51, minus €60,4 and minus €16,4m respectively, net of interest expense on securities lending transactions amounting to €0.6m as at 30 June 2011 and €0.3m as at 30 September 2010, accounted for as *Net trading income*;

— Amounts reported under Heading 220 have been treated as *Net fee and commission income*, save for redemptions/amounts recovered totalling €11.9m, €52.3m and €11.6m respectively, which net operating costs; items 150 and 160 are included in commissions and other net income.

— In addition to the items already stated, *Net trading income* includes dividends from trading and the gains (losses) on financial liabilities reported under Heading 100.

Declaration by Head of Company Financial Reporting

As required by Article 154-*bis*, para. 2 of Italian Legislative Decree 58/98, the undersigned hereby declares that the accounting information contained in this quarterly review of operations conforms to the documents, account ledgers and book entries kept by the company.

Head of
Company Financial Reporting

Massimo Bertolini

Graphicscalve S.p.A.
Vilminore di Scalve (BG)