MEDIOBANCA

Quarterly review of operations

(30 September 2010)

MEDIOBANCA
LIMITED COMPANY
SHARE CAPITAL € 430,551,416
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

In the first three months the Mediobanca Group earned a net profit of €127.6m, lower than the €200.6m recorded at the same stage last year, but an improvement on the preceding three quarters (when €69.5m, €84.3m and €46.4m respectively were earned). The corresponding quarter last year was boosted by higher gains on disposal of AFS securities (€103.4m, compared with €7.7m), and especially high dealing profits of €162.9m (as against €72m this year), due to a very favourable market scenario. The reduction in total income, from €678.1m to €498.7m, reflects the following trends:

— net interest income was up 22.5%, from €213.9m to €262.1m, reflecting the lower cost of funding for retail and private banking (which reported a 21.4% improvement, from €119.4m to €145m), and higher returns in corporate and investment banking (up 13.3%, from €102.3m to €115.9m);

— net fee and commission income fell 21.8%, from €144.6m to €113.1m, with a reduced contribution from corporate and investment banking (down 31.8%, from €93.1m to €63.5m) compared to the especially good result posted last year, reflecting the market's reaction to the weakness of the economic recovery and the sovereign debt crisis;

— the aggregate profit earned by the equity-accounted companies declined from €53.3m to €43.8 m, due to a €9.2m loss incurred by Pirelli (in connection with the one-off loss reported in connection with the Prelios spinoff) and a reduced contribution from Assicurazioni Generali of €46.3m (30/9/09: €58.9m), partly offset by RCS MediaGroup returning to profit (€3m).

Costs were largely stable, rising just 3.4%, from €181.8m to €188m.

Loan loss provisions were down 20%, from €140.9m to €112.3m, in particular in the corporate segment (from €40.2m to €19.4m) and in leasing (from €7.8m to €5.6m), bearing out the improvement seen last year. Provisions for losses on loans to households also fell, from €92.9m to €87.3m.

Provisions for AFS equities were virtually non-existent, at €1.1m, due to the generalized stock market recovery, which among other things led to a €36.2m increase in the valuation reserve, €20.4m of which in respect of securities subject to impairment in previous years.

As for the individual business areas, corporate and investment banking showed a net profit of €79.2m (€146.6m), on lower total income (down from €427.8m to €243.3m) due to the reduced income from treasury operations and the AFS securities portfolio already mentioned. Retail and private banking showed a profit of €15m (€3.3m), boosted by an improvement in total income which reached €231.9m (compared with €207.1m) and lower loan loss provisions (down from €92.9m to €87.3m). Principal investing contributed €50.6m (€49.6m).

Turning now to the balance-sheet aggregates, there was a reduction in treasury funds, from €15bn to €12.7bn, while loans and advances to customers rose from €33.7bn to €34.3bn, and the AFS fixed-income portfolio also increased, from €5.2bn to €6.5bn. Funding declined from €53.8bn to €53.4bn, €10.1bn of which from the CheBanca! retail banking channel (€9.6bn). Assets under management in private banking rose from €11.7bn to €11.8bn.

* * *

Significant events that took place during the three months include the resolutions adopted by the Board of Directors at a meeting held on 21 September 2010, on the Group's remuneration policies and the related performance share scheme, which form part of Mediobanca's attempts to bring its staff remuneration schemes into line with the Financial Stability Board's recent guidance and which will be subject to the approval of shareholders at the general meeting to be held on 28 October 2010.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated profit and loss account and balance sheet have been restated in order to provide the most accurate reflection of the Group's operations. 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 30/9/09	12 mths to 30/6/10	3 mths to 30/9/10	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	213.9	917.0	262.1	+22.5
Net trading income	266.3	353.8	79.7	–70.1
Net fee and commission income	144.6	533.5	113.1	–21.8
Equity-accounted companies	53.3	213.5	43.8	–17.8
TOTAL INCOME	**678.1**	**2,017.8**	**498.7**	**–26.5**
Labour costs	(96.0)	(379.6)	(99.3)	+3.4
Administrative expenses	(85.8)	(393.3)	(88.7)	+3.4
OPERATING COSTS	**(181.8)**	**(772.9)**	**(188.0)**	**+3.4**
Loan loss provisions	(140.9)	(516.8)	(112.3)	–20.3
Provisions for other financial assets	(73.5)	(150.0)	(1.1)	n.m.
Other gains (losses)	5.4	5.2	—	n.m.
PROFIT (LOSS) BEFORE TAX	**287.3**	**583.3**	**197.3**	**–31.3**
Income tax	(85.6)	(181.2)	(68.1)	–20.4
Minority interest	(1.1)	(1.3)	(1.6)	+45.5
NET PROFIT	**200.6**	**400.8**	**127.6**	**–36.4**

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

RESTATED BALANCE SHEET

	30/9/09	30/6/10	30/9/10
	€m	€m	€m
Assets			
Treasury funds	12,611.3	14,976.0	12,729.7
AFS securities	7,341.6	6,825.7	8,117.8
of which fixed-income	*5,598.3*	*5,248.6*	*6,525.5*
equities	*1,329.7*	*1,538.8*	*1,557.0*
Fixed assets (HTM & LR)	1,534.1	1,455.4	1,455.8
Loans and advances to customers	34,615.8	33,701.5	34,313.9
Equity investments	2,749.0	3,348.0	3,313.1
Tangible and intangible assets	760.7	762.6	760.1
Other assets	1,025.3	1,188.3	1,299.3
of which:	*803.1*	*924.5*	*872.4*
Total assets	60,637.8	62,257.5	61,989.7
Liabilities			
Funding	52,814.1	53,852.3	53,427.2
of which: debt securities in issue	*35,993.3*	*35,193.3*	*34,331.0*
retail deposits	*7,295.0*	*9,561.1*	*10,131.2*
Other liabilities	1,377.1	1,387.2	1,561.2
of which: tax liabilities	*755.1*	*633.1*	*692.7*
Provisions	182.8	183.6	183.5
Net equity	6,063.2	6,433.6	6,690.2
of which: share capital	*430.5*	*430.5*	*430.6*
reserves	*5,529.0*	*5,899.8*	*6,154.0*
minority interest	*103.7*	*103.3*	*105.6*
Profit for the period	200.6	400.8	127.6
Total liabilities	60,637.8	62,257.5	61,989.7

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

30 SEPTEMBER 2010	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss figures				
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	(57.7)	(1.4)	(43.6)	(99.3)
Administrative expenses	(23.1)	(0.6)	(71.5)	(88.7)
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)
Other gains (losses)	—	—	—	—
PROFIT (LOSS) BEFORE TAX	**136.7**	**48.8**	**29.2**	**197.3**
Income tax	(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 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 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 (€0.8m and €17.2m as at 30 September 2009 and 30 September 2010 respectively), the latter includes €21.5m in net trading income on intra-Group trades in the retail segment.

30 September 2009	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss figures				
Net interest income	102.3	(2.7)	119.4	213.9
Net trading income	233.5	—	28.2	266.3
Net fee and commission income	93.1	—	59.6	144.6
Equity-accounted companies	(1.1)	54.5	(0.1)	53.3
Total income	**427.8**	**51.8**	**207.1**	**678.1**
Labour costs	(55.4)	(1.4)	(41.8)	(96.0)
Administrative expenses	(20.9)	(0.7)	(70.8)	(85.8)
Operating costs	**(76.3)**	**(2.1)**	**(112.6)**	**(181.8)**
Loan loss provisions	(48.0)	—	(92.9)	(140.9)
Provisions for other financial assets	(73.2)	—	(0.3)	(73.5)
Other gains (losses)	—	—	5.5	5.4
Profit (loss) before tax	**230.3**	**49.7**	**6.8**	**287.3**
Income tax	(82.6)	(0.1)	(3.5)	(85.6)
Minority interest	(1.1)	—	—	(1.1)
Net profit	**146.6**	**49.6**	**3.3**	**200.6**
Cost/income ratio %	17.8	4.1	54.4	26.8
Balance-sheet data				
Treasury funds	13,443.3	—	3,367.6	12,611.3
AFS securities	4,856.4	121.5	2,966.2	7,341.6
Fixed assets (HTM & LR)	1,533.3	—	1,021.6	1,534.1
Equity investments	408.8	2,282.6	0.5	2,749.0
Loans and advances to customers	26,008.3	—	12,048.2	34,615.8
of which: to Group companies	*3,427.4*	—	—	—
Funding	(43,097.2)	(259.8)	(18,620.8)	(52,814.1)
No. of staff	853	—	2,410 *	3,153

* Includes 104 staff employed by the Esperia group pro-forma not included in the Group total.

Balance sheet

The main balance-sheet items showed the following trends for the three months:

Funding — this item fell slightly, by 0.8%, from €53,852.3m to €53,427.2m, bearing out last year's trend insofar as composition is concerned: debt securities in issue fell, from €35,193.3m to €34,331m, as did bank debt (from €9,097.9m to €8,965m), with the CheBanca! retail component up 6%, from €9,561.1m to €10,131,2m.

Loans and advances to customers — these rose slightly, from €33,701.5m to €34,313.9m, reflecting the recovery in corporate and retail lending.

	30/6/10	30/9/10	Change
	€m	€m	%
Corporate and investment banking	21,144.2	21,718.0	+2.7
– of which:	*4,544.7*	*4,469.9*	*–1.6*
Retail	12,557.3	12,595.9	+0.3
– of which: consumer credit	*8,271.0*	*8,367.0*	*+1.2*
mortgage lending	*3,545.8*	*3,584.7*	*+1.1*
private banking	*740.5*	*644.2*	*–13.0*
TOTAL LOANS AND ADVANCES TO CUSTOMERS	33,701.5	34,313.9	+1.8

Equity investments — these declined marginally, from €3,348m to €3,313.1m, after booking net profit of €43.8m for the period (€46.3m of which attributable to Assicurazioni Generali and €3m to RCS MediaGroup, plus a €9.2m loss for Pirelli) and reductions of €78.7m to the valuation reserves, virtually all of which was due to Generali. Based on holdings and prices for the listed investments as at 30 September 2010, the portfolio shows a surplus of €612.8m (30/6/10: €455.3m).

	Percentage shareholding*	Book value	Market value as at 30/9/10	Gain (loss)
		€m	€m	€m
LISTED EQUITY INVESTMENTS				
Assicurazioni Generali	13.24	2,277.8	3,044.0	766.2
RCS MediaGroup, *ordinary*	14.36	192.0	121.0	(71.0)
Pirelli & C. S.p.A.	4.49	109.6	130.9	21.3
Gemina	12.53	197.8	94.1	(103.7)
		2,777.2	3,390.0	612.8
OTHER EQUITY INVESTMENTS				
Telco	11.62	373.1		
Banca Esperia	50.00	56.9		
Burgo Group	22.13	78.8		
Athena Private Equity class A	24.27	25.9		
Fidia	25.00	1.1		
Other minor investments		0.1		
		535.9		
		3,313.1		

* Percentage of entire share capital.

Fixed financial assets — these were stable at €1,455.4m (€1,455.8m), after redemptions of €6.1m, and €6.5m in upward adjustments to reflect amortized cost. Based on current prices and holdings, this portfolio shows an implicit loss of €11.3m (€22.4m).

AFS securities — this portfolio is made up of debt securities totalling €6,525.5m (€5,248.6m), equities worth €1,557m (€1,538.8m), and stock units in funds held by Compagnie Monégasque de Banque worth €35.4m (€38.3m). The debt securities component increased by over €1.2bn, partly as a result of Mediobanca reallocating securities from the trading to the banking book; the recovery in fair value was worth €44m. Movements on the equity side (which also includes holdings in bonds convertible into shares) consist of net investments of €10m and upward adjustments of €36.1m to reflect fair value at the reporting date, €20.4m of which in connection with securities subject to impairment charges last year.

Impairment recognized in the profit and loss account was virtually nil, with just a €0.8m downward adjustment reflected.

	Percentage shareholding *	Book value at 30/9/10	Adjustments to fair value	Impairment recognized in P&L	Total AFS reserve
Italmobiliare	9.5 – 5.47	51.8	4.8	—	17.2
Unicredit CASHES		315.7	(0.4)	—	(21.1)
Sintonia S.A.	6.50	311.8	—	—	—
Delmi S.p.A., *ordinary*	6.00	97.3	—	—	(12.8)
Santé S.A.	9.90	82.2	—	(0.7)	—
Other listed shares		436.2	31.1	(0.1)	(15.9)
Other unlisted shares ...		262.0	0.7	—	53.7
TOTAL SHARES..........		1,557.0	36.2	(0.8)	21.1

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

The valuation reserve returned to positive territory, at €31.8m (compared with minus €47.1m at the balance-sheet date), €21.8m of which involved equities and other securities (minus €14,5m) and €10m (minus €32.6m) debt securities.

Treasury funds — these declined from €14,976m to €12,729.7m, and include €422.7m (€722.3m) in cash and cash equivalents, €7,101.5m (€9,185.4m) in fixed-income securities, €2,057m (€1,512.4m) in equities and fund stock units, €320.4m (€430.8m) in downward adjustments to derivatives contracts, and €3,468.9m (€3,986.7m) in net applications of funds, such as repos, bank deposits, etc.

Provisions — this item comprises the provision for liabilities and charges, which stood at €156.1m (€156.3m), and the staff severance indemnity provision amounting to €27.4m (€27.3m).

Net equity — net equity rose by €254.2m, from €6,330.4m to €6,584.6m, after the 2010 profit not distributed to shareholders (€257.4m), and an increase of €72.4m in the valuation reserves, net of negative differences arising on consolidation due to application of the equity method totalling €77.5m. The AFS securities portfolio valuation reserve returned to positive territory, at €26.6m (compared with minus €22.6m), while the cash flow hedge reserve remains negative at minus €76.5m (€99.5m). The equity-accounted companies' valuation reserve fell from €162.1m to €83m.

PROFIT AND LOSS ACCOUNT

Net interest income — this item rose from €213.9m to €262.1m, reflecting the positive trend in corporate finance, which grew 13.3%, from €102.3m to €115.9m as a result of spreads widening, and also in retail finance, where 21.4% growth was recorded, from €119.4m to €145m, as this segment continues to benefit from the reduced cost of funding against higher lending volumes.

Net trading income — in addition to €72m in net trading income (30/9/09: €162.9m), this heading also includes €1.8m (€98.4m) in gains on disposal of AFS securities. The trading result is lower than the one posted twelve months previously, but shows a return to profit following the €46.5m loss incurred during the last year's fourth quarter. Both components contributed to the result, with fixed-income trading adding €54.9m, and equity trading €17.1m.

	3 mths to 30/9/09	3 mths to 30/9/10
	€m	€m
Dealing profits	98.0	116.9
Mark-to-market as at reporting date	64.4	(46.4)
Dividends	0.5	1.5
NET TRADING INCOME	162.9	72.0

Net fee and commission income — this item fell by 21.8%, chiefly due to a reduced contribution from corporate and investment banking affected primarily by the slowdown in capital market business (€6.5m, versus €34.3m); commissions from consumer credit were stable at €39.5m (€39.8m), whereas private banking continues to be weak, recording fees of €8.3m (€10.3m).

Operating costs — these rose slightly by 3.4%, from €181.8m to €188m, and consist of:

- labour costs amounting to €99.3m (€96m), with the headcount rising from 3,153 to 3,261 staff; this item includes €1.9m (€2.7m) in directors' emoluments, and €2.1m (€1.3m) in stock option expenses;
- sundry costs and expenses amounting to €88.7m (€85.8m), including €10.4m (€9.1m) in depreciation charges, and administrative expenses totalling €78.3m (€76.7m), made up as follows:

	3 mths to 30/9/09	3 mths to 30/9/10
	€m	€m
Legal, tax and other professional services	8.2	9.5
Bad debt recovery	6.0	6.5
Marketing and communication	11.2	13.4
Rent and property maintenance charges	11.9	8.4
EDP	7.2	8.0
Financial information subscriptions	4.7	5.4
Banking services, collection and payment charges	4.1	5.0
Operating expenses	13.3	12.3
Other labour costs	5.8	6.4
Other	2.1	1.3
Direct and indirect taxes (net of withholding tax)	2.2	2.1
TOTAL	76.7	78.3

Loan loss provisions — the reduction in this item, from €140.9m to €112.3m, bears out the gradual improvement in all segments: provisions for consumer finance services business fell, from €92.9m to €87.3m, as did those for the corporate finance portfolio, from €40.2m to €19.4m.

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

A review of the Group's performance in its main areas of operation is provided below.

Corporate and investment banking (wholesale banking and leasing)

	3 mths to 30/9/09	12 mths to 30/6/10	3 mths to 30/9/10	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	102.3	428.9	115.9	+13.3
Net trading income	233.5	244.4	72.9	–68.8
Net fee and commission income	93.1	332.4	63.5	–31.8
Equity-accounted companies	(1.1)	0.3	(9.0)	n.m.
TOTAL INCOME	**427.8**	**1,006.0**	**243.3**	**–43.1**
Labour costs	(55.4)	(205.1)	(57.7)	+4.2
Administrative expenses	(20.9)	(98.0)	(23.1)	+10.5
OPERATING COSTS	**(76.3)**	**(303.1)**	**(80.8)**	**+5.9**
Loan loss provisions	(48.0)	(156.0)	(25.0)	–47.9
Provisions for other financial assets	(73.2)	(135.8)	(0.8)	n.m.
PROFIT (LOSS) BEFORE TAX	**230.3**	**411.1**	**136.7**	**–40.6**
Income tax	(82.6)	(166.7)	(55.9)	–32.3
Minority interest	(1.1)	(1.4)	(1.6)	+45.5
NET PROFIT	**146.6**	**243.0**	**79.2**	**–46.0**
Cost/income ratio %	17.8	30.1	33.2	

	30/9/09	30/6/10	30/9/10
	€m	€m	€m
Treasury funds	13,443.3	16,362.2	14,059.7
AFS securities	4,856.4	5,122.4	6,526.4
Fixed assets (HTM & LR)	1,533.3	1,454.5	1,455.1
Equity investments	408.8	397.8	386.2
Loans and advances to customers	26,008.3	24,629.5	25,206.1
of which to Group companies	*3,427.4*	*3,485.2*	*3,488.2*
Funding	(43,097.2)	(44,921.7)	(44,448.6)

This division reported a net profit of €79.2m, lower than the €146.6m reported in the first quarter last year but a significant improvement on the other three, with €61.8m earned in the second quarter ended 30 December 2009, €50.5m in the third, and a €15.9m loss incurred in the fourth. Total income declined from €427.8m to €243.3m, due to the lower result from net trading already mentioned (€69.7m, as compared with €163.5m last year) and gains on disposals of AFS securities (€3.2m, compared with €70m), both of which suffered from an unfavourable comparison base, as the first quarter last year was boosted by a particularly good performance in fixed-income trading (€163.5m compares with a quarterly average of approx. €40m over the past three years), due to the narrowing of spreads on the securities held, and by the sale of the last shareholding in Fiat (€64.5m). The 13.3% rise in net interest income, from €102.3m to €115.9m, was more than offset by a 31.8% reduction in net fee and commission income, from €93.1m to €63.5m, and by non-recurring losses of €9m incurred by the equity-accounted companies (in particular Pirelli). Operating costs were up 5.9%, from €76.3m to €80.8m, and are again linked to growth in business levels and to developing the IT infrastructure. Loan loss provisions amounted to €25m, €5.6m of which in respect of leasing (€7.8m) and €19.4m (€40.2m) on the corporate loan book, the latter having shown improvements for the last five quarters in a row. Provisions for other financial assets were virtually nil, at just €0.8m.

Turning to the balance-sheet aggregates, the AFS securities portfolio grew from €5.1bn to €6.5bn, and loans and advances to customers from €24.6bn to €25.2bn, financed by the reduction in treasury funds from €16.4bn to €14.1bn.

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	(53.5)	(4.2)	(57.7)
Administrative expenses	(20.2)	(2.9)	(23.1)
OPERATING COSTS	**(73.7)**	**(7.1)**	**(80.8)**
Loan loss provisions	(19.4)	(5.6)	(25.0)
Provisions for other financial assets	(0.8)	—	(0.8)
PROFIT (LOSS) BEFORE TAX	**130.8**	**5.9**	**136.7**
Income tax	(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 financial assets	22,369.8	57.6	22,427.4
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

Corporate and Investment Banking 30 September 2009	Wholesale	Leasing	Total
	€m	€m	€m
Net interest income	83.7	18.6	102.3
Net trading income	233.5	—	233.5
Net fee and commission income	92.4	0.7	93.1
Equity-accounted companies	(1.1)	—	(1.1)
TOTAL INCOME	**408.5**	**19.3**	**427.8**
Labour costs	(51.3)	(4.1)	(55.4)
Administrative expenses	(17.9)	(3.0)	(20.9)
OPERATING COSTS	**(69.2)**	**(7.1)**	**(76.3)**
Loan loss provisions	(40.2)	(7.8)	(48.0)
Provisions for other financial assets	(73.2)	—	(73.2)
PROFIT (LOSS) BEFORE TAX	**225.9**	**4.4**	**230.3**
Income tax	(80.4)	(2.2)	(82.6)
Minority interest	—	(1.1)	(1.1)
NET PROFIT	**145.5**	**1.1**	**146.6**
Cost/income ratio %	16.9	36.8	17.8
Other financial assets	20,186.8	55.0	20,241.8
Loans and advances to customers	21,232.6	4,775.7	26,008.3
of which to Group companies	*3,427.4*	—	*3,427.4*
New loans	—	294.2	—
No. of staff	642	211	853

Principal Investing

	3 mths to 30/9/09	12 mths to 30/6/10	3 mths to 30/9/10	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	(2.7)	(9.6)	(2.1)	–22.2
Net trading income	—	—	—	n.m.
Equity-accounted companies	54.5	213.4	52.9	–2.9
TOTAL INCOME	**51.8**	**203.8**	**50.8**	**–1.9**
Labour costs	(1.4)	(5.5)	(1.4)	n.m.
Administrative expenses	(0.7)	(2.6)	(0.6)	–14.3
OPERATING COSTS	**(2.1)**	**(8.1)**	**(2.0)**	**–4.8**
Provisions for other financial assets	—	(12.2)	—	n.m.
PROFIT (LOSS) BEFORE TAX	**49.7**	**183.5**	**48.8**	–1.8
Income tax	(0.1)	1.0	1.8	n.m.
NET PROFIT	**49.6**	**184.5**	**50.6**	**+2.0**

	30/9/09	30/6/10	30/9/10	Chg.
	€m	€m	€m	%
AFS securities	121.5	114.8	127.9	+11.4
Equity investments	2,282.6	2,892.2	2,869.9	+25.7

The share of the investee companies' profits attributable to the Group was largely flat versus last year, at €50.6m (30/9/09: €49.6m), with all the investments contributing: Assicurazioni Generali contributed €46.3m (€58.9m), RCS MediaGroup €3m (minus €3.5m) and Telco €3.7m (€0.6m).

Retail and private banking

	3 mths to 30/9/09	12 mths to 30/6/10	3 mths to 30/9/10	Y.o.Y. chg.
	€m	€m	€m	%
Profit-and-loss figures				
Net interest income	119.4	525.7	145.0	+21.4
Net trading income	28.2	79.2	28.3	+0.4
Net fee and commission income	59.6	240.0	58.6	–1.7
Equity-accounted companies	(0.1)	(0.3)	—	n.m.
TOTAL INCOME	**207.1**	**844.6**	**231.9**	**+12.0**
Labour costs	(41.8)	(182.5)	(43.6)	+4.3
Administrative expenses	(70.8)	(322.2)	(71.5)	+1.0
OPERATING COSTS	**(112.6)**	**(504.7)**	**(115.1)**	**+2.2**
Loan loss provisions	(92.9)	(360.8)	(87.3)	–6.0
Provisions for other financial assets	(0.3)	(1.9)	(0.3)	—
Other gains (losses)	5.5	5.2	—	n.m.
PROFIT (LOSS) BEFORE TAX	**6.8**	**(17.6)**	**29.2**	**n.m.**
Income tax	(3.5)	(14.0)	(14.2)	n.m.
NET PROFIT	**3.3**	**(31.6)**	**15.0**	**n.m.**
Cost/income ratio %	54.4	59.8	49.6	

	30/9/09	30/6/10	30/9/10
	€m	€m	€m
Treasury funds	3,367.6	4,086.8	4,590.6
AFS securities	2,966.2	2,571.8	2,421.3
Fixed assets (HTM & LR)	1,021.6	2,507.4	2,693.7
Equity investments	0.5	1.4	—
Loans and advances to customers	12,048.2	12,563.9	12,603.6
Funding	(18,620.8)	(20,999.9)	(21,633.4)

This division earned a profit of €15m during the three months, up appreciably on the €3.3m reported at the same stage last year, driven by 21.4% growth in net interest income, from €119.4m to €145m, primarily as a result of the lower cost of funding. Loan loss provisions declined from €92.9m to €87.3m, bearing out the favourable trend which began last year.

Turning now to the individual sectors, consumer credit reported an improved profit of €12.7m (30/9/09: €3m), reflecting higher total income (up from €152m to €165.1m) as well as lower provisioning (down from €87.2m to €79.6m). Total income generated by the Group's retail banking operations increased from €29.3m to €40m, due in part to the upturn in net interest income, which rose from €2.6m to €14.1m. The net loss of €4.6m incurred by this segment was less than half that posted at the same time last year (€11.5m). The contribution from private banking declined, from €11.8m to €6.9m, due solely to the absence of extraordinary items, which last year added €5.5m to the result. Total income generated by this segment was stable at €26.8m (€25.8m), as were costs (€19.5m, compared with €19.1m).

As for the balance-sheet data, loans and advances to customers were flat versus the balance-sheet date, at €12.6bn, €8.4bn of which from consumer credit and €3.6bn mortgage lending. CheBanca! customer deposits rose from €9.6bn to €10.1bn, while assets under management totalled €11.8bn (€11.7bn), €5.6bn (€5.7bn) of which for CMB and €6.2bn (€6bn) for Banca Esperia.

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

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	(19.7)	(11.6)	(12.3)	(43.6)
Administrative expenses	(38.4)	(25.9)	(7.2)	(71.5)
OPERATING COSTS	**(58.1)**	**(37.5)**	**(19.5)**	**(115.1)**
Loan loss provisions	(79.6)	(7.7)	—	(87.3)
Provisions for other financial assets	—	—	(0.3)	(0.3)
Other gains (losses)	—	—	—	—
PROFIT (LOSS) BEFORE TAX	**27.4**	**(5.2)**	**7.0**	**29.2**
Income tax	(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
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

Retail and Private Banking 30 September 2009	Consumer credit	Retail banking	Private banking	Total
	€m	€m	€m	€m
Net interest income	110.2	2.6	6.6	119.4
Net trading income	—	25.2	3.0	28.2
Net fee and commission income	41.9	1.5	16.2	59.6
Equity-accounted companies	(0.1)	—	—	(0.1)
TOTAL INCOME	**152.0**	**29.3**	**25.8**	**207.1**
Labour costs	(18.7)	(11.2)	(11.9)	(41.8)
Administrative expenses	(36.1)	(27.5)	(7.2)	(70.8)
OPERATING COSTS	**(54.8)**	**(38.7)**	**(19.1)**	**(112.6)**
Loan loss provisions	(87.2)	(5.7)	—	(92.9)
Other financial assets	—	—	(0.3)	(0.3)
Other gains (losses)	—	—	5.5	5.5
PROFIT (LOSS) BEFORE TAX	**10.0**	**(15.1)**	**11.9**	**6.8**
Income tax	(7.0)	3.6	(0.1)	(3.5)
NET PROFIT	**3.0**	**(11.5)**	**11.8**	**3.3**
Cost/income ratio %	36.1	n.m.	74.0	54.4
Equity investments	0.5	—	—	0.5
Other financial assets	424.8	4,931.0	1,999.6	7,355.4
Loans and advances to customers	8,047.3	3,320.3	680.6	12,048.2
New loans	883.2	213.7	—	1,096.9
No. of branches	146	55	—	201
No. of staff	1,283	783	344	2,410

Private banking 30 September 2010	CMB	Banca Esperia 50%	Others	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
TOTAL INCOME	**17.9**	**7.3**	**1.6**	**26.8**
Labour costs	(6.6)	(4.9)	(0.8)	(12.3)
Administrative expenses	(4.6)	(2.4)	(0.2)	(7.2)
OPERATING COSTS	**(11.2)**	**(7.3)**	**(1.0)**	**(19.5)**
Provisions for other financial assets	(0.3)	—	—	(0.3)
Other gains (losses)	—	—	—	—
PROFIT (LOSS) BEFORE TAX	**6.4**	**—**	**0.6**	**7.0**
Income tax	—	—	(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 fiduciary basis	N/A	N/A	1,523.1	1,523.1

Private banking 30 September 2009	CMB	Banca Esperia 50%	Altre	Total PB
	€m	€m	€m	€m
Net interest income	6.2	0.3	0.1	6.6
Net trading income	2.6	0.2	0.2	3.0
Net fee and commission income	9.4	5.3	1.5	16.2
TOTAL INCOME	**18.2**	**5.8**	**1.8**	**25.8**
Labour costs	(6.8)	(3.9)	(1.2)	(11.9)
Administrative expenses	(4.8)	(2.0)	(0.4)	(7.2)
OPERATING COSTS	**(11.6)**	**(5.9)**	**(1.6)**	**(19.1)**
Provisions for other financial assets	(0.3)	—	—	(0.3)
Other gains (losses)	5.4	—	0.1	5.5
PROFIT (LOSS) BEFORE TAX	**11.7**	**(0.1)**	**0.3**	**11.9**
Income tax	—	—	(0.1)	(0.1)
NET PROFIT	**11.7**	**(0.1)**	**0.2**	**11.8**
Assets under management	5,977.0	4,955.0	—	10,932.0
Securities held on a fiduciary basis	N/A	N/A	1,064.0	1,064.0

* * *

Outlook

The guidance issued in the annual report for the year ended 30 June 2010 has been borne out by the results for the three months under review. Core revenues should benefit from the increase in net interest income. Costs should continue to grow in line with the previous year, while the favourable trend in loan loss provisions should be confirmed. The value of the securities and equity investment portfolios will remain closely linked to stock market trends.

Milan, 28 October 2010

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 2010 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.

During the year Technostart S.p.A. exited the Group's area of consolidation, having been put into liquidation, while full control was acquired of Ducati Financial Services S.r.l.

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

		Registered office	Type of relationship[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 liquidation	Rome	1	A.1.1	100.00	100.00
3.	PRUDENTIA FIDUCIARIA S.p.A	Milan	1	A.1.1	100.00	100.00
4.	SETECI - Società 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.1.7	0.06	0.06
8.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.95	99.95
9.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
10.	CMB ASSET MANANGEMENT 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.	DUCATI FINANCIAL SERVICES S.p.A.	Milan	1	A.1.15	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. If no market prices are available, valuation methods and models are used based on market-derived data, e.g. valuations of listed instruments with similar features, discounted cash flow analysis, option price calculation methods, or valuations used in comparable transactions. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost. If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in 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 comprise equities held for non-trading purposes which do not qualify as controlling interests, investments in associates or jointly-controlled operations.

AFS assets are initially recognized at fair value, which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes are recognized in a separate 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 value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over one half or for longer than eighteen 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.

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 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.

All of these categories are stated at cost. Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through 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 continue to be attributable to the Group. A corresponding amount is then entered as a liability to offset any amounts received.

The main forms of activity currently carried out by the 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 on an equity basis).

Tax assets and liabilities

Income taxes are recorded in the profit and loss account 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.

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

The stock option scheme operated on behalf of Group staff members and Directors is treated as a component of labour costs. The fair value of the options is measured and recognized in net equity at the grant date using an option pricing method adjusted to reflect historical series for previous financial years. The value thus determined is taken to 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)*

	Assets	IAS-compliant 30/9/09	IAS-compliant 30/6/10	IAS-compliant 30/9/10
10.	Cash and cash equivalents	26.1	26.8	33.2
20.	Financial assets held for trading	14,860.0	16,332.2	16,715.9
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	7,341.6	6,825.8	8,117.8
50.	Financial assets held to maturity	578.4	720.7	726.2
60.	Due from banks	5,230.8	5,380.5	3,322.3
	of which:			
	other trading items	*4,209.7*	*4,739.3*	*2,693.5*
	fixed financial assets	*199.7*	—	—
	other items	*5.0*	*2.8*	*1.4*
70.	Due from customers	38,973.4	39,924.7	39,012.4
	of which:			
	other trading items	*4,235.2*	*5,868.4*	*4,357.1*
	fixed financial assets	*755.9*	*734.7*	*729.6*
	other items	*93.3*	*76.7*	*96.0*
80.	Hedge derivatives	1,811.0	2,046.6	2,054.6
	of which:			
	funding hedge derivatives	*1,800.2*	*2,045.5*	*2,053.3*
	lending hedge derivatives	*0.5*	*0.9*	*0.5*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	2,749.0	3,348.0	3,313.1
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	315.9	320.0	319.0
130.	Intangible assets	444.9	442.6	441.1
	of which:			
	goodwill	*365.9*	*365.9*	*365.9*
140.	Tax assets	803.1	914.3	872.4
	a) current	*293.4*	*290.9*	*298.5*
	b) advance	*509.7*	*623.4*	*573.9*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	131.5	219.0	359.5
	of which:			
	other trading items	*17.8*	*24.7*	*30.8*
	TOTAL ASSETS	**73,265.7**	**76,501.2**	**75,287.5**

* **Figures in €m**

The balance sheet provided on page 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.

	Liabilities and net equity	IAS-compliant 30/9/09	IAS-compliant 30/6/10	IAS-compliant 30/9/10
10.	Due to banks	10,083.5	9,730.7	8,090.5
	of which:			
	other trading items	*4,416.1*	*3,778.9*	*2,063.8*
	other liabilities	*0.4*	*0.4*	*0.5*
20.	Due to customers	13,236.3	14,889.1	14,240.2
	of which:			
	other trading items	*2,070.4*	*2,171.2*	*1,150.4*
	other liabilities	*12.2*	*10.3*	*9.7*
30.	Debt securities in issue	36,895.9	36,665.5	35,847.0
40.	Trading liabilities	4,250.9	6,065.2	7,877.8
50.	Liabilities recognized at fair value	—	—	—
60.	Hedge derivatives	1,109.4	758.8	688.0
	of which:			
	funding hedge derivatives	*897.6*	*573.3*	*537.3*
	lending hedge derivatives	*24.0*	*79.8*	*62.1*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	755.1	633.2	692.6
	a) current	*393.3*	*318.4*	*377.0*
	b) deferred	*361.8*	*314.8*	*315.6*
90.	Value adjustments to financial liabilities subject to general hedging	—	—	—
100.	Other liabilities	487.9	726.7	827.9
	of which:			
	adjustments to loans and receivables	*66.1*	*102.9*	*81.6*
110.	Staff severance indemnity provision	26.5	27.3	27.4
120.	Provisions	156.4	156.3	156.1
	a) post-retirement and similar benefits	—	—	—
	b) other provisions	*156.4*	*156.3*	*156.1*
130.	Technical reserves	—	13.9	22.1
140.	Valuation reserves	31.8	55.3	48.5
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	3,591.5	3,938.4	4,199.5
180.	Share premium reserve	2,119.5	2,119.9	2,119.9
190.	Share capital	430.5	430.6	430.6
200.	Treasury shares	(213.8)	(213.8)	(213.8)
210.	Net equity attributable to minorities	103.7	103.3	105.6
220.	Profit (loss) for the period	200.6	400.8	127.6
	TOTAL LIABILITIES AND NET EQUITY	**73,265.7**	**76,501.2**	**75,287.5**

CONSOLIDATED PROFIT AND LOSS ACCOUNT (IAS/IFRS-compliant)*

		3 mths to 30/9/09	12 mths to 30/6/10	3 mths to 30/9/10
10.	Interest and similar income	719.4	2,820.2	705.3
20.	Interest and similar expense	(482.3)	(1,764.9)	(426.6)
30.	**Net interest income**	**237.1**	**1,055.3**	**278.7**
40.	Fee and commission income	133.2	499.1	104.6
50.	Fee and commission expense	(11.4)	(37.7)	(10.5)
60.	**Net fee and commission income**	**121.8**	**461.4**	**94.1**
70.	Dividends and similar income	5.6	68.4	7.3
80.	Net trading income	131.8	(59.7)	41.8
90.	Net hedging income (expense)	1.8	(15.7)	(0.1)
100.	Gain (loss) on disposal of:	104.0	222.6	14.1
	a) loans and receivables	—	—	—
	b) AFS securities	*98.4*	*198.9*	*1.8*
	c) financial assets held to maturity	—	—	—
	d) financial liabilities	*5.6*	*23.7*	*12.3*
120.	**Total income**	**602.1**	**1,732.3**	**435.9**
130.	Value adjustments for impairment to	(214.2)	(666.9)	(113.4)
	a) loans and receivables	*(117.1)*	*(461.3)*	*(106.9)*
	b) AFS securities	*(73.4)*	*(150.0)*	*(1.1)*
	c) financial assets held to maturity	*0.6*	*(1.0)*	*0.4*
	d) financial liabilities	*(24.3)*	*(54.6)*	*(5.8)*
140.	**Net income from financial operations**	**387.9**	**1,065.4**	**322.5**
150.	Net premium income	—	1.0	1.9
160.	Income less expense from insurance operations	—	(0.4)	(0.6)
170.	**Net income from financial and insurance operations**	**387.9**	**1,066.0**	**323.8**
180.	Administrative expenses:	(182.6)	(779.3)	(189.3)
	a) labour costs	*(96.0)*	*(379.6)*	*(99.3)*
	b) other administrative expenses	*(86.6)*	*(399.7)*	*(90.0)*
190.	Net transfers to provisions for risks and liabilities	—	3.8	—
200.	Net adjustments to property, plant and equipment	(4.1)	(17.7)	(4.4)
210.	Net adjustments to intangible assets	(4.9)	(22.4)	(6.0)
	of which: goodwill	—	—	—
220.	Other operating income (expense)	37.9	119.4	29.3
230.	**Operating costs**	**(153.7)**	**(696.2)**	**(170.4)**
240.	Profit (loss) on equity-accounted companies	53.1	213.5	43.8
270.	Profit (loss) on disposal of investments	—	—	0.1
280.	**Pre-tax profit (loss) on ordinary activities**	**287.3**	**583.3**	**197.3**
290.	Income tax for the period on ordinary activities	(85.6)	(181.2)	(68.1)
300.	**Profit (loss) after tax on ordinary activities**	**201.7**	**402.1**	**129.2**
310.	Gain (loss) after tax on current assets being sold	—	—	—
320.	**Net profit (loss) for the period**	**201.7**	**402.1**	**129.2**
330.	Profit (loss) for the period attributable to minorities	(1.1)	(1.3)	(1.6)
340.	**Net profit (loss) for the period attributable to Mediobanca**	**200.6**	**400.8**	**127.6**

* **Figures in €m**

The profit and loss account shown on page 7 reflects the following restatements:

— *Net interest income* includes the totals reported under Heading 90 and margins on swaps reported under Heading 80 amounting to minus €135.6m as at 30 June 2010, minus €16.4m as at 30 September 2010, and minus €23.5m as at 30 September 2009, net of interest expense on securities lending transactions amounting to minus €0.6m as at 30 June 2010 and minus €0.2m as at 30 September 2009, and interest income on securities lending transactions of €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 €47.9m as at 30 June 2010, €11.6m as at 30 September 2010and €9.7m as at 30 September 2009, 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