MEDIOBANCA

Annual Accounts and Report
as at 30 June 2020

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,616,723.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK.
PARENT COMPANY OF THE MEDIOBANCA BANKING GROUP.
REGISTERED AS A BANKING GROUP

Annual Accounts and Reports as at 30 June 2020

www.mediobanca.com

translation from the Italian original which remains the definitive version

BOARD OF DIRECTORS

			Term expires
	Renato Pagliaro	Chairman	2020
*	Maurizia Angelo Comneno	Deputy Chairman	2020
	Alberto Pecci	Deputy Chairman	2020
*	Alberto Nagel	Chief Executive Officer	2020
*	Francesco Saverio Vinci	General Manager	2020
	Marie Bolloré	Director	2020
	Maurizio Carfagna	Director	2020
	Maurizio Costa	Director	2020
	Angela Gamba	Director	2020
	Valérie Hortefeux	Director	2020
	Maximo Ibarra	Director	2020
	Alberto Lupoi	Director	2020
	Elisabetta Magistretti	Director	2020
	Massimo Tononi	Director	2020
*	Gabriele Villa	Director	2020

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Natale Freddi	Chairman	2020
Francesco Di Carlo	Standing Auditor	2020
Laura Gualtieri	Standing Auditor	2020
Alessandro Trotter	Alternate Auditor	2020
Barbara Negri	Alternate Auditor	2020
Stefano Sarubbi	Alternate Auditor	2020

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Massimo Bertolini	Secretary of the Board of Directors
Emanuele Flappini	Head of Company Financial Reporting

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REVIEW OF GROUP OPERATIONS

The twelve months under review reflect the unprecedented shock caused by the Covid-19 epidemic, which caused the leading global economies to stall rapidly and enter recession.

Stock markets lost more than 30% in March 2020 compared to the start of the year, before gradually recovering by-end June.

The most recent estimates for 2020 suggest global GDP will fall on average by 6.5%, Eurozone GDP by 9.2%, and Italian GDP by 11.6%, with the expectation that growth could resume from as early as 2021, but uncertainty over when end-2019 levels will be recovered.

Prompt intervention by the main central banks and extraordinary fiscal policy measures implemented by the governments of individual countries and by the European Union through the Next Generation EU recovery facility helped markets remain under control.

The initiatives promoted by the Italian government, with the "Cura Italia", "Liquidità" and "Rilancio" decrees, have helped business's production capacity and household spending to recover, with clear benefits not only to the cost of risk, but also to business volumes in terms of new loans. The set of measures adopted will start to affect public finance indicators as from this year, increasing public borrowing substantially, but in this Italy is in fundamentally the same situation as all the other main global economies.

The Mediobanca Group went into this severe crisis scenario better placed than the 2008 and 2011 crises: more solid capital position (CET1 ratio near all-time highs), lower exposure to leverage lending, government bonds and trading activities, higher average corporate loan book rating, householder risk (mortgage lending and consumer credit) reflecting continuous improvement over the years, and strongly reduced exposure to equity compared to 2011.

The Covid-19 crisis is only in part reflected in the Group's accounts for the twelve months, which were helped by the solid results posted by the Group in the first eight months of the year, plus the healthy trend recorded in June 2020, Net profit totalled €600.4m, 27% lower than last year (€823m), with just €132.8m added in 2H (vs €467.6m in 1H) but strongly impacted by various one-off items (including the RAM goodwill impairment charge). Revenues were unchanged at €2.5bn, and operating efficiency remained healthy (cost/income ratio 47.3%); profitability too continued to reflect satisfactory levels (ROAC for banking activities above 10%, ROTE 7%, which rises to 10% net of the one-off items), on a significantly improved capital position (CET1 ratio 16%). The results, as mentioned, reflect a series of one-off items, attributable in particular to the increase in the cost of risk deriving from recalculation of the expected loss based on the new macroeconomic scenario (which is particularly severe for 2020[1]), plus the impairment charge to the RAM investment (approx. €65m) which became necessary following the sharp contraction in the company's profitability as a result of redemptions by institutional clients and the reduced growth prospects.

In view of the most recent ECB recommendations, the Board has decided not to propose a dividend for the financial year under review. For the coming years, however, if the gradual recovery expectations for the world's economies are confirmed, the Group may resume its dividend policy and its capital optimization plans, with a target annual CET1 ratio level of 13.5%, to be achieved *inter alia* through share buybacks and net of the capital used to strengthen the business lines.

Revenues for the twelve months remained at last year's levels at €2,513m (30/6/19: €2,524.7m) following the reduction posted in the last four months. The main income items performed as follows:

– Net interest income was up 3.3% (from €1,395.6m to €1,442.2m), on higher contributions from Consumer Banking (up 5.5%, from €898.8m to €948m) and Wealth Management (up 4.2%, from €260.2m to €271m), while Corporate and Investment Banking effectively matched last year's performance with €271.4m (30/6/19: €272.7m);

– Net fee and commission income rose by 3.1%, from €611.2m to €630.2m, on a good performance by Wealth Management (fees up 9%, from €280.9m to

[1] The internal scenario estimates an 11.6% reduction in Italian GDP in 2020, with a recovery of 0.8% in 2021 and of 5.2% in 2022; these figures are -9.2%, +0.1% and +4.7% respectively for the Eurozone, and -10.8%, +7.6% and +6.0% for the United States, the other two main geographies for the Mediobanca Group.

€306.1m) which now accounts for virtually half the Group's total; Corporate and Investment Banking's contribution was virtually unchanged from last year, at €225.8m (€227.6m), following the consolidation of Messier Maris et Associés for the full twelve months (adding €33.8m), which was largely responsible for the impressive growth in fees earned from advisory business (up 28.4%, from €87.5m to €112.4m);

– Net treasury income fell from €196.7m to €136.3m, on reduced contributions from activities with CMS clients of €86m (€122m) and the proprietary portfolio (trading and banking book), reflecting the sharp market correction which was only in part made up by end-June 2020; the Covid-19 impact may be quantified at approx. €45m, mostly due to the effects of postponement or cancellation of 2019 dividends on equity derivative valuations;[2]

– The equity-accounted companies' contribution to net profit decreased from €321.2m to €304.3m, with the 4Q contribution of €54.8m reflecting the profits delivered by Assicurazioni Generali in 1Q 2020.

The increase in costs (up 2.3%, from €1,161.9m to €1,188.9m), chiefly reflects the consolidation of Messier Maris et Associés (up €18.8m, €14m of which in labour costs), enhancement of the commercial network in Wealth Management (up €14m), and the Group's IT initiatives. The heading also includes extraordinary expenses linked to the Covid-19 emergency totalling €3.8m; while €2.6m has also been donated to charitable initiatives.

Loan loss provisions were nearly 70% higher than last year (up from €222.6m to €374.9m), translating to a cost of risk for the Group of 82 bps (vs 52 bps last year); the increase was concentrated in 4Q (cost of risk up to 141 bps), due to the deterioration in households' risk profile, and the worsening macroeconomic scenario. The Covid-19 effect can be estimated at €113m, around 30% of the total provisioning taken for the twelve months. The performance in Consumer Banking reflects the operating difficulties encountered in credit recovery and collection activities during the months of April and May in particular, plus a prudent valuation of the share of the portfolio involved in the moratoria: the increase in provisioning (up 36.5%, from €237.8m to €324.7m, €63.9m of which Covid-related) is reflected in the upward trend in the cost of risk (from 185 bps to 247 bps, with a high of 361 bps recorded in 4Q). Corporate and Investment Banking charged writedowns of €20m (compared with net writebacks of €36.2m last year),

[2] The profits reported by the company as at 31 March 2020 have been increased by the writebacks subsequently recorded at end-June, as the share written down in the quarterly accounts was subsequently reversed at the interim reporting date; the difference in profit (of which Mediobanca's pro rata share is approx. €40m) has been taken through the valuation reserves.

due to provisioning being recalculated on the basis of the new macroeconomic scenario for the wholesale portfolio (impact quantifiable as €37m). The increase in provisioning in Wealth Management was smaller in absolute terms, with adjustments increasing from €11.8m to €20.5m, concentrated in CheBanca! (up 41.6%, from €13.7m to €19.4m, €4.4m of which Covid-related).

Other charges include the increase in estimated losses on banking book securities, reflecting the new scenario, and taking account of the recent downgrade of Italian sovereign debt (provisions up €1.3m to €8.8m, €7.5m of which in 4Q). The heading also includes value adjustments for holdings in funds, which reflect negative adjustments at the year-end totalling €11.7m, better than at 9M (total charges €20m), for the two main seed capital investments (RAM and Cairn) in particular.

The contributions to the resolution funds were also higher than last year (from €53.5m to €59.7m), with the ordinary payment to the Single Resolution Fund increasing from €26.8m to €37.2m. This reflects the increase in deposits at system level, plus the extraordinary contribution to the national resolution system of €11.1m (€9.1m). Other charges also include non-recurring costs totalling €8,5m in connection with the fine handed down to Compass by the antitrust authority,[3] and the restructuring plans in leasing operations.

The results for the twelve months also reflect impairment charges taken in respect of the goodwill on RAM, which has been reduced to €64.6m on prudential grounds, in line with the valuation of the company following the reduction in profitability recorded in the first months of 2020 as a result of redemptions on some of the main funds managed. The impact on profit and loss is €65.1m, representing the difference between the effects of the goodwill impairment (€96.9m) less the writeback due to the lower valuation of the liabilities to buy out the minority interest (€31.8m).

* * *

Total assets rose from €78.2bn to €78.9bn, as a result of higher customer loans (up 5.2%), with a consequent increase in funding (up 6.9%) in part offset by the reduction in treasury volumes; the main items reflect the following trends:

[3] The Italian antitrust authority charged Compass with engaging in improper commercial practices in the distribution of insurance products bundled with loans. Compass is convinced that it has conducted itself properly in its relations with clients, and accordingly has challenged the ruling, appealing to the Lazio regional court to overthrow it.

– Customer loans grew from €44.4bn to €46.7bn in the twelve months, chiefly due to the contribution from Wealth Management which was up 16.1%, from €11.4bn to €13.2bn - including CheBanca! mortgage loans (up 14%) – as did that of Corporate and Investment Banking (up 4.4%, from €17.9bn to €18.6bn), on higher volumes in the large corporate segment; Consumer Banking returned to near the levels seen at the start of the year, down just 1.4% (from €13.2bn to €13bn), after recording an all-time high of €13.8bn at end-February 2020, due to the sharp downturn in new loans during the months of April and May which was recovered partly in June;
– Funding grew from €51.4bn to €54.9bn, mainly as a result of increased recourse to T-LTRO facilities (up from €4.3bn to €5.7bn, including €3bn for T-LTRO III), and higher Private Banking deposits (up from €7.4bn to €8.5bn); the debt security funding component grew slightly, from €18.5bn to €18.8bn, on €4.6bn in new issues, €500m of which in 4Q; the cost of funding remains virtually unchanged during the year at 80 bps;
– Banking book securities were up 1.9% (from €6.7bn to €6.8bn), with the sovereign debt security component equal to €4.7bn, €3.3bn of which domestic; net treasury assets increased from €5.3bn to €6.1bn, with an increasing liquidity component (ECB deposits just over €3bn).

Wealth Management TFAs totalled €63.6bn, €2.2bn higher than last year despite the €1bn negative market effect (roughly half the loss recorded at end-March 2020 was recovered in 4Q). Deposits grew from €22.4bn to €23.8bn, and AUA/AUM totalled €39.8bn, also higher than last year (€39bn). There was clear growth in assets managed in both the Affluent segment (€27.8bn, up €2.4bn in 12M) and Private Banking (up €2bn, €1.3bn of which generated by Mediobanca Private Banking), which offset the less certain trend in institutional asset management (€9.6bn, versus €11.8bn), as a result of lower valuations and substantial outflows from RAM and Mediobanca Asset Management.

The capital ratios – calculated in accordance with the most recent versions of both the CRR and the Bank of Italy's circular no. 285[4] – remain at high levels, comfortably above both the original targets and the limits set by the

[4] The most recent update to Bank of Italy circular no. 285 has amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the "Danish Compromise") are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group's investment in Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

regulations. The Common Equity Tier 1 ratio reached a record high of 16.13%, 200 bps higher than last year (14.09%): contributing factors include the higher percentage of retained earnings for the year used as capital (adding 130 bps), net of the goodwill impairment charges which do not affect the capital ratios, the 35% weighting of salary-backed finance exposures being brought forward (adding 22 bps), and the lower deductions for the Assicurazioni Generali investment (adding 50 bps) as a result of the different treatment applied for related parties. In view of the positive trend in the capital ratios and the low impact of Covid-related effects, at present the Group has decided not to take up the option of using the additional phase-in measures (or "prudential filters") introduced by the regulator in recent months to neutralize the effect of the impairment charges taken under IFRS 9 and changes in the valuation reserves for government securities.

The CET1 ratio, fully loaded without the Danish Compromise, i.e. with the Assicurazioni Generali investment deducted in full (minus 145 bps) and full application of the IFRS 9 FTA effect (minus 15 bps), is equal to 14.5% (30/6/19: 12.83%).

The total capital ratio increased in the twelve months, from 17.46% to 18.82% (17.55% fully loaded).

The divisional performances for the year were as follows:

– Wealth Management confirmed its growth trend, with net profit improving by 12.9%, from €71.2m to €80.4m, and revenues climbing 6.7%, to €583.8m, with ROAC of 19% (vs 15% last year). Fee income rose by 9% (from €280.9m to €306.1m), the division now accounting for virtually half the Group's total, with the non-recurring component below 5%. The solidity of the business model allowed profitability to be maintained even in 4Q, when a net profit of €13.9m was earned on NNM of €1.3bn, with no significant outflows from Affluent and Private clients, and with the markets recovering (the negative effect as at end-March 2020 had been more than halved). Total Financial Assets (TFAs) amounted to €63.6bn, with deposits of €23.8bn (€22.4bn last year) and AUM totalling €39.8bn, up approx. €800m despite the institutional outflows and the market effect referred to above (leading to a total outflow of €1bn for the twelve months);
– Consumer Banking delivered top-line growth of 4.3%, from €1,026.9m to €1,070.6m, with a cost/income ratio of 28.3% due to an outstanding

performance in the first eight months of the year, while the last four months were impacted by the sharp fall in new loans (down by as much as 80% in April) and higher loan losses which in the end totalled €324.7m (up 36.5%), taking the cost of risk to just under 250 bps. Accordingly, net profit fell from €336.4m to €296.6m, but the division remains the most profitable in the Group, with ROAC of 29% (30%), reflecting *inter alia* the lower capital requirement for salary-backed exposures;

– Corporate and Investment Banking: this division's performance reflects the sharp market correction recorded at end-March (only in part recovered by end-June) plus adaptation to the new macroeconomic scenario which penalizes expected loss on Wholesale Banking loans in particular. Net profit was down by almost one-third, from €265.8m to €180.7m, with ROAC declining to 10% (11.5% net of the Covid-19 effect on loan loss provisions). Revenues were down 8.3%, due solely to lower net treasury income of €77.9m (€126.8m), while net interest income and fees both remained near last year's levels, at €271.4m and €225.8m respectively; provisions for other financial assets (loans and securities) totalled €23.5m, considerably worse than the €37.1m net writebacks last year, and reflecting €42.5m in Covid-related charges;

– Principal Investing: this division posted a net profit for the twelve months of €295m, lower than the €314.2m reported last year due to a reduced contribution from the equity-accounted Assicurazioni Generali investment of €303.7m (€320m), plus higher writedowns to holdings in funds recognized at fair value (€10.9m, vs €3.3m last year);

– The net loss posted by Holding Functions increased from €167.5m to €183.7m, due to the reduced contribution from banking book securities to total income (already evident in 1H) and higher payments to the resolution funds (up from €53.5m to €59.7m); operating costs decreased from €177.6m to €172.8m.

* * *

As well as approval of the Group's new strategic plan (for details of which see the press release issued on 12 November 2019), other significant events that took place during the twelve months under review were as follows:

– In October 2020 an agreement was reached with the Italian authority Agenzia delle Entrate regarding the dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International SA (based in Luxembourg) in the financial years from 2012-13 to 2016-17. The agreement entailed extra costs of €21m plus interest (but no fines). At the same time, Mediobanca agreed on a new funds transfer pricing methodology with the tax authority that should minimize tax risk in the future. The Bank also took the opportunity to voluntarily release profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, when the Italian transparency tax mechanism was not yet operative for companies headquartered in countries with favourable tax regimes (blacklisted countries). The impact on earnings was largely absorbed by amounts released from the provision for risks and charges resulting from the analysis of the tax risk subsequent to the agreement being finalized; Mediobanca International SA has submitted an application to the Luxembourg tax authority to recover the higher taxes paid on the taxable which the Italian revenue authority has now allocated to Italy;

- The results of the supervisory review and evaluation process carried out by the ECB (the "SREP 2019 Decision") which confirmed the quantitative indicators set the previous year: the authority has asked Mediobanca to maintain a Pillar 2 Requirement ("P2R") of 1.25%, one of the lowest in Italy; with application of Article 105 of CRD V being brought forward, the minimum CET1 ratio to be maintained on a consolidated basis reduces from 8.25% to 7.94%,[5] while the Overall Capital Requirement ("OCR") is unchanged at 11.75%;
- Following the "Lexitor" ruling by the European Court of Justice,[6] on 4 December 2019 the Bank of Italy issued new operating guidelines to all financial intermediaries on the early repayment of loans to consumers (including salary-backed finance). Starting from 5 December 2019, if a loan is repaid early, the client is reimbursed the expenses incurred when the loan was taken out (including any fee paid for brokerage activity) pro rata to the duration of the contract. Given that Compass and Futuro have always included these components in the amortized cost of the individual transactions, and they therefore pass through profit and loss only at the point when the early repayment is actually made, the new arrangements have no impact on the previous accounting treatment, but will affect future earnings (the impact for the first seven months of not recording income from early repayments may be estimated at around €11m);

[5] This calculation does not include the countercyclical capital buffer or the Pillar 2 Guidance.

[6] Court of Justice of the European Union, 11 September 2019, case C-383/18.

- In December 2020, Compass was fined by the Italian antitrust authority (AGCM) for unfair commercial practices in breach of Article 24 and Article 25 letter a) of the Italian consumer protection code for the alleged forced bundling of finance and insurance products unrelated to the loans being granted; an appeal has been made against this ruling and is pending with the Lazio regional court. In April 2020, the AGCM found that the measures adopted by Compass were insufficient to prevent the alleged practice from spreading, and so launched a non-compliance procedure which should be complete by mid-September 2020;
- On 30 April 2020 Compass and the Trinugraha consortium mutually agreed to terminate the agreement signed in August 2018 for the acquisition of a 19.9% stake in BFI Finance Indonesia ("BFI"). Once the current economic and financial crisis has passed, Compass will resume the process of assessing options in markets with positive macroeconomic scenarios;
- The share buyback scheme launched in November 2018 ended on 25 March 2020 having reached the limit of 3% of the company's share capital, i.e. 26,611,288 shares. The purchases were made exclusively on the Mercato Telematico Azionario, and within the limits of distributable earnings and available reserves;
- On 23 January 2020, the Group made its first senior non-preferred issue (maturing in five years, interest rate 1.125%), which enabled the funding plan for the year to be completed, and so strengthened its MREL position;
- A Crisis Unit was established to tackle the healthcare emergency, chaired by the Group General Manager, with the objective of ensuring the Group's operations while safeguarding the health and safety of staff and clients; working from home was encouraged, working hours were reduced at the retail branches (which remained open during the lockdown period but were operative basically by appointment only), and a specific healthcare policy was adopted;
- To address the economic consequences of Covid-19, the Group participated in the initiatives adopted by the Italian government and category associations to support households and businesses; it moved quickly to incorporate the provisions contained in the recent "Cura Italia" and "Liquidità" decrees; and it took up the measures introduced by the Italian Banking Association (ABI) and the other category associations (in particular consumer credit and mortgage association Assofin), as well as implementing initiatives specific to the Group itself. As at end-June 2020, the Group had granted moratoria

in an amount of approx. €2.6bn, around half of which in Consumer Banking, one-quarter in leasing, and one-quarter in mortgage lending; neither the moratoria permitted by law nor the private initiatives implemented in accordance with the EBA guidelines have resulted in forbearance measures being introduced, so the automatic mechanisms introduced by IFRS 9 for significant increases in credit risk have not been triggered;[7]

– In this year, which will be remembered above all for the outbreak of the Covid-19 pandemic, the Group has continued to focus its attention on the communities in which it operates and their institutions. During phase 1 of the emergency, a total of €1.1m was donated to the region of Lombardy, the Milan municipality fund for mutual assistance, and the Luigi Sacco Hospital also in Milan (this sum includes contributions made by the Group's own staff). These first initiatives were soon followed by others: CheBanca! donated the equivalent of 1x1,000 for new funds deposited in tied deposit accounts in the month of April to help in the emergency. The first €300,000 was donated to the "Hope" non-profit association to buy ventilators, portable ultrasound machines, and PPE. During June, a further €950,000 was donated to three solidarity initiatives selected by the Group CSR Committee: the "Sempre con Voi" fund to support the families of doctors and healthcare workers who lost their lives fighting Covid-19; the mutual assistance fund of the city of Bergamo, and non-profit organization "Mission Bambini" which provides IT equipment to children in need. These donations also reflect the decision on the part of management, directors and statutory auditors to forego or reduce their salaries.[8] Compagnie Monégasque de Banque has also donated €100,000 to the *Centre Hospitalier Princesse Grace* (CHPG), for the acquisition of biological material to perform testing and swab testing, medical equipment and PPE.

* * *

[7] Under IFRS 9, stage 2 consists of exposures which, while not impaired, have nonetheless experienced a significant deterioration in terms of credit risk since the initial recognition date, whereas stage 3 consists of exposures which are non-performing under the regulatory definition.

[8] Chairman Renato Pagliaro, Chief Executive Officer Alberto Nagel and Group General Manager Francesco Saverio Vinci all waived the emoluments due to them in respect of their positions as Board members, and committed to donating 30 percent of their fixed salaries for May-December 2020 to initiatives linked to the emergency. The statutory auditors of Mediobanca have also elected to support the initiatives, waiving 20% of their annual emoluments.

Developments in capital markets

The twelve months under review saw a relatively positive performance by the world economy until February 2020, when the Covid-19 pandemic unleashed a global economic crisis comparable to the one caused by World War II. From July 2019 to February 2020, global growth had slowed before stabilizing at around 3%, chiefly due to the international trade tensions between the United States and China.

In the second half of 2019 stock market prices continued to increase (S&P500 gained 9.0% in the quarter, the Eurostoxx 600 7.2%, and the Nikkei 8.9%), and credit spreads narrowed to near the lows of 2010 (the iTraxx Europe went from 51 bps to 44 bps, and the US high grade CDS narrowed from 52 bps to 45 bps), while the absolute levels of rates first fell down then increased (the 10Y Treasury fell from 2.00% to 1.66% in 2019 third quarter and then rose up to 1.92% in the last one, the 10Y Bund went from -0.36% to -0.57% in third quarter and then increased to -0.18% in the last three month), consistent with the perception of an improvement in the overall scenario.

The markets continued to operate in conditions of basic economic stability and monetary stimulus, until the first cases of Covid-19 began to appear in Europe and Japan at the end of February, transforming the disease into a global pandemic, and causing markets to see the effects of prolonged lockdown on production.

Risk aversion soared to levels similar to those seen during the 2008 crisis;

– The MSCI World index staged a 34.1% decline between 19 February (the high for the period) and 23 March 2020 (the low for the period); the market correction then reduced to 23.8% by end-March, in the wake of the reaction from the policy makers;
– The US high grade CDS went from 44 bps on 19 February to 124 bps on 23 March, while the yield on 10Y US Treasury went from 1.57% (with the German Bund at -0.42%) to 0.79% (with the Bund at -0.37%) in the same period, closing the quarter at 0.67% (with the Bund at -0.47%);
– The volatility index for the S&P 500 went from 14.4 on 19 February to 61.6 on 23 March (recording a high on 16 March of 82.7, above the highest level seen during the 2008 crisis);

– Commodity prices saw widespread decreases; the impact on oil prices was especially profound, following the collapse at the start of March due to the decision by members of OPEC + Russia to abandon the quota system. After some excursions into negative territory (-$38 per barrel on 20 April), oil prices eventually stabilized at around $40 per barrel.

The economic activity of many countries effectively ground to a halt for several weeks in response to the pandemic, with an impact far greater than that of the 2008 crisis. The shock to the economy was tackled by a combination of monetary and fiscal policy. It was fiscal policy that proved essential in that it preserved the fabric of the economy, while the related monetary policy kept the cost of public borrowing down, preventing bankruptcies in the private sector, and avoiding forced sell-offs of financial assets. Overall the fiscal policy measures at the start of the second quarter amounted for the German economy to approx. 40% of its 2019 GDP, for the French economy to 27%, and for the Italian economy just under 49%. Similarly, the US and Japanese governments released financial support measures equal to approx. 14% and 21% of their respective GDP in the first half of 2020.

The contractions in GDP reported for 1Q 2020 were as follows: 1.25% in the United States, 3.6% in the Eurozone, 10% in China, and 0.6% in Japan; and in 2Q, 7.92%, 11.5%, 12.1% and 7.8% respectively.

The process of reopening commercial and industrial activities, combined with the strong impetus provided by economic policy, drove a recovery in the final quarter of the financial year, the solidity of which has still to be seen. Excluding China, which was already recovering by March, the PMIs give an indication of the recovery from the lows recorded in April (when the PMI Composite was 27 in the United States, 13.6 in the Eurozone, 53.4 in China, 25.8 in Japan) continuing until August (PMI Composite 54.7 in the United States, 51.6 in the Eurozone, 54.5 in China, and 44.9 in Japan). Risk assets benefited from the improvement in confidence in the manufacturing sector, with valuations rising during the period (the MSCI World index climbed 22.5% from early May to end-August, while the US investment grade credit default swap declined from 91 bps to 66 bps and the Itraxx Europe from 85 bps to 55 bps in the same period).

* * *

Turning to the European economy, in the second half of 2019 the European economic cycle weakened. Average growth in the Euro area decreased from 0.35% quarter-on-quarter in 1H to 0.15% QoQ in 2H. Various factors contributed to this slowdown, including the long automotive industry's long transformation process, the ongoing uncertainty over the execution of Brexit (which could lead to the United Kingdom departing the European Union with no deal, i.e. with trade agreements having to be conducted based on the World Trade Organization rules), and the uncertainties over the US-China tensions.

The economic slowdown was accompanied by an ongoing and material reduction in inflation estimates, leading the ECB to relax financial conditions in line with the conduct adopted in other jurisdictions as well. Less expensive terms of finance globally stabilized both economic activity and inflation prospects, and consolidated the improving performance of risky assets seen in 4Q.

The impact of the pandemic caused the Eurostoxx600 index to contract by approx. 35% between 26 February and 23 March; the same index then rebounded by some 14% in the remaining six trading days to the end of the month. The fall in prices involved many financial assets, including high-yield credits which lost 20% from 19 February to 23 March before closing the month down 15.8%.

All European governments combined extraordinary public health measures with programmes to support the economy, mostly taking the form of direct expenses, tax payment suspensions, support for employment (furlough schemes), and state guarantees for bank loans.

The initial fiscal response mitigated the economic crisis only in part. GDP for the Euro area shrank by 3.6% in 1Q 2020, and the need for additional support was rapidly acknowledged.

The ECB released a series of measures between the start of March and early June, making the intervention more effective. These included temporary measures making it more advantageous for the banking system to lend to Eurozone corporates (through changes to the Targeted Long Term Refinancing Operations III programme), and those to preserve the transmission of monetary policy stimuli through purchases of assets temporarily departing from the ECB's customary share of national capital (through the Pandemic Emergency Purchase Programme, or PEPP).

But it is on the fiscal policy front that the most radical action has been seen. Since end-April an EU governance innovation process has been launched, which superseded the principle whereby joint finance is granted in return for economic reforms in the beneficiary country, introducing the concept of financial subsidiarity between countries. The most innovative step has been "Next Generation EU", which in a nutshell consists of €360bn in subsidized loans and €390bn in grants to finance public expenditure in proportion to the damage caused by Covid-19 on member states. For the first time inter-governmental fiscal transfers are allowed, not tied to any conditions whatsoever, and the joint EU debt issuance is possible. Prompt public spending action has contained the impact of the pandemic on the European economic fabric, limiting it to the fully justified cost of a pronounced and widespread deterioration of public finances.

The European Commission is estimating an overall reduction in GDP of 8.5% for the Euro area in 2020, with public borrowing at 102.7% of GDP. For Italy the contraction in GDP rises to 10.4% (6.8% for the primary balance, i.e. net of interest expense on debt), with public borrowing at 155.7% of GDP. For France the contraction is 9.9% (8.4% for the primary balance) with borrowing at 116.5%; for Germany 7.7% (6.3%) and 75.6% respectively; and for Spain 10.1% (7.7%) and 115.6% respectively..

Despite the deterioration, the progress made in the direction of greater fiscal integration reassured the market of the desire to continue with the European project, and created interest in the assets even before the new public finance arrangements had been finalized.

In the period from May to end-August:

– European government bond spreads narrowed relative to the German curve, taking them back to not far from pre-Covid 19 levels (the spread on 10Y Italian debt narrowed by approx. 65 bps to 170 bps at end-June before reaching 150 bps by end-August; while the spread on 10Y Spanish debt tightened by around 48 bps to 92 bps at end-June before reaching 80 bps by end-August);
– The domestic currency rallied (the EUR/USD exchange rate rose by approx. 2% to 1.12 at end-June to reach 1.19 at end-August);

- Stock market prices increased more or less in line with global prices (in the two months to end-June, Eurostoxx600 gained some 7% to 360, reaching 364 at end-August);
- The high-yield credit index had gained 4.9% by end-June to reach 322; and gained a further 3.2% to reach 333 at end-August.

* * *

In line with Europe, the Italian economy saw GDP grow at a very modest rate in the first half of 2019 (the average quarterly change in 1H was just 0.16% QoQ, below the 0.35% recorded by the Eurozone), coupled with stagnant industrial output levels, and a less negative propensity to invest on the part of industrials (which, in the Bank of Italy's figures, went from -28.5% in 4Q 2018 to -16.8% at the end of 1H 2019). The unanticipated government crisis at the start of August 2019 caused a sudden increase of 240 bps in the spread on 10Y Italian versus German debt, which then normalized at 140 bps following the more conciliatory stance taken by the new government to the European institutions. At the same time, the Italian equity index was moving in line with the European and global indexes, suggesting that market sentiment was still largely favourable towards Italian risk until end-October. For the remainder of 2019 the Italian economic performance, like that of the Eurozone and of Europe in general, benefited from the ECB monetary policy actions, indirectly from those initiated by the Fed in 3Q, and from the multi-phased agreement proposal tabled by the United States and China to resolve the trade disputes.

Italian stock market prices, in line with those globally, rose until the violent reaction caused by Covid-19 beginning to manifest itself outside of China began to felt.

The impact of the Covid-19 containment measures on the Italian economy hit particularly hard:

- The average quarterly industrial production figures was down 8.4% from 4Q 2019 to 1Q 2020, with social distancing and lockdown measures broadly applied only from end-March; the same indicator showed a 17.6% QoQ reduction in 2Q 2020, making an overall reduction of 17% from 1H 2019 to 1H 2020;

- There was a 5.4% QoQ reduction in GDP in 1Q 2020 and the 12.4% reduction in 2Q, that compare with 3.6% and 12.1% respectively for the Eurozone;
- The household consumer spending index went from average quarterly growth of 0.2% YoY in 1Q to a 0.2% YoY reduction in 2Q, with the index edging down from 102.5 at end-2019 to 102.4 at end-June 2020, after having reached 102.6 in March 2020.

At the microeconomic level, the largest non-financial companies in the share index saw a 25.3% YoY reduction in sales in 1H 2020 (of which 13.8% YoY in 1Q and 37.8% YoY in 2Q), and a 6.9% reduction in net operating profit as a percentage of sales during the same period (for the energy/utilities sector this ratio rose by 2.1% to 17.7%, while in manufacturing there was a 8.4% decrease to -0.5%, in services a 12.3% fall to 9.9%, and in oil and gas a 16.7% reduction to -2.4%).

Their financial structure also changed materially as a result of the dual nature of the pandemic, triggering a shock in both supply and demand, causing businesses to draw down credit lines that had already been granted to finance production activities given the reduction in revenues.

The tapping of existing credit lines is justified by the increase in credit risk that Covid-19 has entailed for Italy and for Europe in general:

– The iTraxx Europe index rose from 42 bps on 19 February to 116 bps on 23 March, before falling to 67 bps at end-June, and more slowly to 54 bps at end-August;

– The debt/equity ratio for the companies considered rose to 137.1%, from 114.9% at December 2019 (an increase of 22.2% in six months), driven by the increase in borrowing (up 9.7%) as well as the reduction in net equity (down 8.1%).

The companies' financial structure should gradually normalize in time as credit risk retreats slowly but gradually.

The prospects for the Italian economy remain complex. External growth factors typically involve the performance of the country's commercial partners, plus the good functioning of the global value chains in which the domestic Italian manufacturing sector plays an important part. Internal factors consist of structural reforms (justice, the public administration, measures to address tax evasion, etc.) on which policy makers have been focusing their attention for some time. The principle of closer integration in fiscal policies underpinning the Next Generation EU agreement is certainly the most significant change induced by the pandemic, and it is an opportunity that Italy cannot afford to pass up.

* * *

After growth in 2019 at a similar pace to the previous year, in the first six months of 2020, following the outbreak of the Covid-19 pandemic, consumer credit flows were down 29.6% on the same period last year, with a total of €23.6bn in new loans for the period.

The worst affected segments were loans to support householders' projects: personal loans were down 39.8% on the first six months of 2019, followed by vehicle credit (down 27.9%) and salary-backed finance (down 24.9%). The reductions were less pronounced for other special purpose loans (down 23.0%) and credit cards (down 19.5%). The most recent figures for the month of June 2020 show a strong upturn in vehicle credit (22.0% higher than in June 2019) and other special purpose loans (14.4% higher), whereas the other forms continue to remain in negative territory, albeit at lower levels than in the previous two months.

This performance should be interpreted in the context of a national emergency situation in which household spending collapsed dramatically, affecting all spending items with the exception of food; consumer confidence plunged to the lowest levels seen since December 2013, in the economic and future component particularly.

	2016		2017		2018		2019		1H 2020	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	13,687	22.6	8,619	14.7	5,861	9.9	6,371	9.7	2,331	9.7
Personal loans	20,137	33.2	22,441	38.2	24,499	41.1	26,123	39.6	8,476	35.3
Specific purpose loans	4,075	6.7	3,782	6.4	4,778	8.0	5,363	8.1	1,911	8.0
Credit cards	17,472	28.8	18,759	32.0	19,064	32.0	22,238	33.7	8,979	37.4
Salary-backed finance	5,221	8.6	5,103	8.7	5,339	9.0	5,801	8.8	2,295	9.6
	60,592	100.0	58,704	100.0	59,541	100.0	65,896	100.0	23,992	100.0

In 2019, the Italian real estate sector continued its recovery of recent years, albeit at a slower pace, with the number of properties sold rising to over 600,000, up 4.3%. By contrast, in 1Q 2020 the sector was impacted negatively by the outbreak of Covid-19, recording 117,000 property sales, down 15.5% on the same period in 2019.

The mortgage lending market for house purchases by households recorded new loans of €48.9bn, 3% lower than the €50.4bn posted the previous year.

The Italian leasing market in 2019 consolidated the volumes reported in previous years, closing at €27.9bn, down 3.3% on 2018; overall 698,000 new leases were executed, down 1.7% on the previous year. In the first six months of 2020 there was a down turn with 239,000 new contracts (down 37.2% on the corresponding period in 2019), and approx. €9.6bn financed (down 32.5% on the corresponding period in 2019) as a result of the deteriorating economic situation over all due to the Covid-19 pandemic.

	2017		**2018**		**2019**		**1H 2020**	
New loans	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**
Automotive	13,371	50.2	15,722	52.8	14,132	50.6	4,929	51.2
Plant and equipment	8,993	33.8	9,426	31.7	9,426	33.7	3,207	33.3
Property	3,742	14.0	4,110	13.8	3,805	13.6	1,233	12.8
Shipping	522	2.0	516	1.7	579	2.1	261	2.7
	26,628	100.0	29,774	100.0	27,942	100.0	9,630	100.0

Source: Dataforce data compiled by Assilea.

Consolidated profit-and-loss/balance-sheet data

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations.

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT

(€m)

	12 mths ended 30 June 2019	12 mths ended 30 June 2020	Chg. (%)
Profit-and-loss data			
Net interest income	1,395.6	1,442.2	3.3
Net treasury income	196.7	136.3	-30.7
Net fee and commission income	611.2	630.2	3.1
Equity-accounted companies	321.2	304.3	-5.3
Total income	**2,524.7**	**2,513.0**	**-0.5**
Labour costs	(581.7)	(599.3)	3.0
Administrative expenses	(580.2)	(589.6)	1.6
Operating costs	**(1,161.9)**	**(1,188.9)**	**2.3**
Loan loss provisions	(222.6)	(374.9)	68.4
Provisions for other financial assets	(2.1)	(20.5)	n.m.
Other income (losses)	(54.0)	(133.4)	n.m.
Profit before tax	**1,084.1**	**795.3**	**-26.6**
Income tax for the period	(256.5)	(191.1)	-25.5
Minority interest	(4.6)	(3.8)	-17.4
Net profit	**823.0**	**600.4**	**-27.0**
Net profit adjusted *	**823.0**	**665.5**	**-19.1**
Gross operating profit from banking activities	***812.9***	***640.7***	***-21.2***

* Adjusted net profit does not include the RAM impairment charge (net effect €65.1m).

CONSOLIDATED BALANCE SHEET

		(€m)
	30/6/19	**30/6/20**
Assets		
Financial assets held for trading	9,765.7	8,818.6
Treasury financial assets and cash	10,170.2	9,257.0
Banking book securities	6,695.9	6,824.5
Customer loans	44,393.7	46,685.1
Equity Investments	3,980.3	4,009.7
Tangible and intangible assets	1,187.6	1,311.8
Other assets	2,051.3	2,043.0
Total assets	**78,244.7**	**78,949.7**
Liabilities and net equity		
Funding	51,393.2	54,917.0
Treasury financial liabilities	6,565.6	3,988.0
Financial liabilities held for trading	8,027.8	7,956.9
Other liabilities	2,168.9	2,190.3
Provisions	190.3	157.4
Net equity	8,986.2	9,048.2
Minority interests	89.7	91.5
Profit for the period	823.0	600.4
Total liabilities and net equity	**78,244.7**	**78,949.7**
Tier 1 capital	*6,524.4*	*7,745.0*
Regulatory capital	*8,085.6*	*9,041.1*
Risk-weighted assets	*46,309.9*	*48,030.5*
Tier 1 capital/risk-weightes assets	*14.09%*	*16.13%*
Regulatory capita/risk-weighted assets	*17.46%*	*18.82%*
No. of shares in issue (million)	*887.2*	*887.2*

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

(€m)

12 mths ended 30/6/20	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	271.0	948.0	271.4	(7.1)	(55.0)	1,442.2
Net treasury income	6.7	—	77.9	15.6	37.5	136.3
Net fee and commission income	306.1	122.6	225.8	—	10.6	630.2
Equity-accounted companies	—	—	—	304.3	—	304.3
Total income	**583.8**	**1,070.6**	**575.1**	**312.8**	**(6.9)**	**2,513.0**
Labour costs	(236.5)	(102.0)	(141.0)	(3.3)	(116.5)	(599.3)
Administrative expenses	(214.3)	(201.2)	(135.2)	(1.0)	(56.3)	(589.6)
Operating costs	**(450.8)**	**(303.2)**	**(276.2)**	**(4.3)**	**(172.8)**	**(1,188.9)**
Loan loss provisions	(20.5)	(324.7)	(20.0)	—	(9.7)	(374.9)
Provisions for other financial assets	(0.5)	—	(3.5)	(10.9)	(5.6)	(20.5)
Other income (losses)	1.8	(4.7)	—	—	(64.3)	(133.4)
Profit before tax	**113.8**	**438.0**	**275.4**	**297.6**	**(259.3)**	**795.3**
Income tax for the period	(32.6)	(141.4)	(92.4)	(2.6)	76.3	(191.1)
Minority interest	(0.8)	—	(2.3)	—	(0.7)	(3.8)
Net profit	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**600.4**
Net profit adjusted	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**665.5**
Cost/income ratio (%)	*77.2*	*28.3*	*48.0*	*n.m.*	*n.m.*	*47.3*
Balance-sheet data						
Loans and advances to customers	13,183.6	13,037.4	18,644.2	—	1,819.9	46,685.1
Risk-weighted assets	4,951.7	11,800.8	20,027.7	8,121.9	3,128.4	48,030.5
No. of staff	2,021	1,441	630	11	817	4,920

Notes:

1) Divisions comprise:
- Wealth Management (WM): this division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and Compagnie Monégasque de Banque private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- Consumer Banking (CB): this division provides retail clients with the full range of consumer credit products, from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Corporate and Investment Banking (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris et Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which includes SelmaBipiemme Leasing, MIS, Spafid Connect and other minor companies, plus the following Group functions: Treasury and ALM, operations, support and control, plus the senior management of Mediobanca S.p.A.; for further details please refer to p. 74.

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €3.5m), and, this year, the net impact of the RAM goodwill impairment charges taken through profit and loss (€65.1m) and not allocated to any business line.

(€m)

12 mths ended 30/06/19	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	1,395.6
Net treasury income	6.2	—	126.8	18.3	45.0	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	611.2
Equity-accounted companies	—	—	—	321.2	—	321.2
Total income	**547.3**	**1,026.9**	**627.1**	**332.4**	**5.3**	**2,524.7**
Labour costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**(1,161.9)**
Loan loss provisions	(11.8)	(237.8)	36.2	—	(9.0)	(222.6)
Provisions for other financial assets	0.3	—	0.9	(3.3)	0.1	(2.1)
Other income (losses)	0.6	—	—	—	(54.8)	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(256.5)
Minority interest	(2.5)	—	—	—	(2.1)	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**823.0**
Cost/income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*46.0*
Balance-sheet data						
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Risk-weighted assets	4,533.8	12,564.1	20,065.8	5,641.6	3,504.7	46,309.9
No. of staff	1,936	1,427	621	11	810	4,805

Balance sheet

The Group's total assets increased by 1%, from €78.2bn to €78.9bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 53.2%, showed the following trends for the twelve months under review (comparative data as at 30 June 2019).

Funding – this item grew from €51.4bn to €54.9bn, an increase of 6.9%, in all components but mainly as a result of increased recourse to the T-LTRO facilities (up from €4.3bn to €5.7bn, including €3bn for T-LTRO III), and higher Private Banking deposits (up from €7.4bn to €8.5bn), with growth concentrated in 4Q due to clients' propensity to hold more liquid assets). The debt security funding component was virtually unchanged at €18.8bn, on €4.6bn in new issues, €1.4bn of which secured (ABS consumer and covered bond), €500m in senior non-preferred securities, and €166m in capital-guaranteed certificates, against redemptions totalling €4.2bn and €200m in net buybacks on the market; placements in 4Q reached almost €500m. Including CheBanca! deposits (€15.3bn), Wealth Management continues to account for 40% of the Group's funding, contributing to the stability of the average cost of funding (approx. 80 bps).

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	18,531.3	36%	18,751.0	34%	1.2%
CheBanca! retail funding	15,032.0	29%	15,276.7	28%	1.6%
Private Banking deposits	7,417.6	14%	8,530.7	16%	15.0%
Interbank funding (+CD/CP)	5,484.4	11%	5,166.8	9%	-5.8%
LTRO	4,322.4	9%	5,660.8	10%	31.0%
Other funding	605.5	1%	1,531.0	3%	n.m.
Total funding	**51,393.2**	**100%**	**54,917.0**	**100%**	**6.9%**

Loans and advances to customers – customer loans rose by 5.2% from €44.4bn to €46.7bn, due to an increase in Wealth Management (up 16.1%, from €11.4bn to €13.2bn), which includes CheBanca! mortgage loans (up 14%, from €9bn to €10.2bn) and loans attributable to Compagnie Monégasque de Banque (up 51%, from €1.2bn to €1.8bn). Growth in CIB (up 4.4%, from €17.9bn to €18.6bn) was due to higher volumes in Wholesale Banking (up from €15.6bn to €16.5bn), as a result of increased recourse by clients to drawdowns on revolving lines (€1.3bn in the last six months), against a slight reduction in Specialty

Finance (from €2.3bn to €2.1bn). Consumer Banking reported a sharp downturn in the last four months, with the loan stock reducing from €13.2bn to €13bn, after recording an all-time high of €13.8bn at end-February 2020.

During the twelve months under review there was growth in new loans in Wholesale Banking (from €5.8bn to €5.9bn) and mortgage lending (from €1.7bn to €2.2bn, albeit declining in 4Q), but a reduction in Consumer Banking (down 13%, from €7.4bn to €6.4bn), with volumes in 4Q barely one-eighth of those seen in previous quarters (with a low of 80% recorded in April). Turnover in factoring rose from €6.6bn to €7.4bn, while new business in leasing was stationary at €290m.

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	17,865.3	40%	18,644.2	40%	4.4%
Consumer loans	13,223.0	30%	13,037.4	28%	-1.4%
Wealth Management	11,353.8	26%	13,183.6	28%	16.1%
Holding Functions (leasing)	1,951.6	4%	1,819.9	4%	-6.7%
Total loans and advances to customers	**44,393.7**	**100%**	**46,685.1**	**100%**	**5.2%**

(€m)

	30/6/20			
	Stage1	*Stage2*	*Stage3*	Totale
Corporate & Investment Banking	17,229.8	739.4	675.0	18,644.2
Consumer Banking	11,282.9	1,430.3	324.2	13,037.4
Wealth Management	12,328.9	740.0	114.7	13,183.6
Holding Functions (leasing)	1,579.0	122.0	118.9	1,819.9
Total loans and advances to customers	**42,420.6**	**3,031.7**	**1,232.8**	**46,685.1**
As % of total	90.9%	6.5%	2.6%	100.0%

	30/6/19		30/6/20	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Corporate & Investment Banking	394.7	41.2%	316.4	41.6%
Consumer Banking	189.0	74.4%	324.2	68.1%
Wealth Management	110.5	44.3%	114.7	45.9%
Holding Functions (leasing)	111.8	35.9%	118.9	35.8%
Total net non-performing loans*	**806.0**	**54.8%**	**874.2**	**55.3%**
– of which: bad loans	*79.8*		*78.4*	
As % of total loans and advances	**1.8%**		**1.9%**	
As % of gross total loans and advances	**3.9%**		**4.1%**	

* Excluding NPLs purchased by MBCredit Solutions.

Gross non-performing loans (NPLs)[9] were up 10%, from €1,782.3m to €1,954.2m, and represent 4.1% (3.9%) of total loans.[10] Over 90% of the increase is due to Consumer Banking, which, in addition to the one-time effect of certain positions being reclassified from performing to non-performing due to the new definition of default adopted in September 2019, also reflects the impact of the standstill in repayments and credit recovery. Similarly, net NPLs also increased, from €806m to €874.2m, and in relative terms were virtually unchanged at 1.8% of the total loan book, as a result of the higher provisioning (coverage ratio up from 54.8% to 55.3%); particularly noteworthy in this respect is the reduction in provisioning in CIB (from €394.7m to €316.4m), after two material UTP positions were reclassified as performing. Net bad debts declined to €78.4m (€79.8m), and account for 0.17% of total loans (30/6/19: 0.18%), with a coverage ratio of 81.6% (79.7%). NPLs do not include the assets acquired by MBCredit Solutions, which decreased from €368.6m to €358.6m in the twelve months due to a prudent approach being adopted for new acquisitions (NPLs worth a nominal amount of €0.3bn were acquired, involving an outlay of €35.5m).

Conversely, there was an increase in Stage 2, i.e. positions which are beginning to show evidence of some deterioration in credit standing, from €2,676m to €3,032m, but these remain at very low levels (6.5% of total loans); Consumer Banking in particular saw growth of 26% (from €1,136.1m to €1,430.3m), due to prudent valuation of the items covered by moratoria, thus raising the coverage ratio for all performing loans from 3% to 3.2%.

[9] Since the reporting at 30 September 2019, the Mediobanca Group has adopted a new definition of default for the AIRB segments, on a voluntary basis and subject to receiving authorization from the ECB. The new definition is fully aligned with the EBA Guidelines (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the European Central Bank of 21 November 2018. The new regulations govern the classification of credit operations as being in default based on stricter criteria for transactions with unpaid instalments or which are overdrawn on an ongoing basis, "overdue or overdrawn" shares, and mechanisms for exiting default status.

[10] The Finrep gross NPL ratio (calculated without acquired NPLs) remains unchanged at 3.4%; for further details please see Part E of the Notes to the Accounts

(€m)

Moratoria (Gross book value)	Granted until 30/6/20	Expired[1]	Residual until 30/6/20	% Loans and advances to customers[2]	of which Stage1
Corporate and Investment Banking	5.5	—	5.5	—	4.1
Consumer Banking	1,333.3	745.5	587.8	4.2%	223.1
Wealth Management	602.2	0.8	601.4	4.5%	492.2
Leasing (holding function)	661.2	—	661.2	34.8%	567.8
Total Moratoria for Covid-19	**2,602.2**	**746.3**	**1,855.9**	**3.9%**	**1,287.2**
- of which Decreto Cura Italia	45.2%		63.3%		
- of which industry-wide initiatives	39.6%		28.8%		
- of which individual initiative[3]	15.2%		7.9%		

[1] Moratoria paid off, i.e. those for which the payment suspension terms have ended and the normal repayment schedule has resumed.

[2] Covid-related moratoria outstanding as a percentage of gross customer loans at 30 June 2020.

[3] Moratoria granted on a voluntary basis at the Bank's own initiative.

In response to the economic crisis generated by the medical emergency, the Group has implemented numerous measures to assist its clients. Overall the Group has granted moratoria in respect of loans totalling approx. €2.6bn (more than 133,000 clients), roughly half of which in Consumer Banking and the remainder split equally between leasing and mortgage lending. Of these, a total of €1.9bn were outstanding at 30 June 2020 (just under 4% of the Group's total customer loans, over 90% of which continue to be classified as Stage 1); and concessions totalling €745m expired in Consumer Banking (where on average deferrals of two months were granted; indeed, almost 95% of the concessions granted to Compass clients will expire in the next quarter). Preliminary analysis shows that some 85% of clients have resumed their repayment schedule, while 9% have applied for a short-term extension to the moratorium, and the remainder are in difficulties. The good performance has continued since the reporting date too, with even higher repayment resumption rates.

Investment holdings[11] – this item was virtually unchanged at €4bn, €3.2bn consisting of the investment in Assicurazioni Generali, €141.6m in HTC&S shares (listed and unlisted), and €663.4m in holdings in funds, 65.7% invested as seed capital in new funds launched by the Group's product factories.

The book value of the Assicurazioni Generali investment (12.9% of the company's share capital) decreased from €3,219.3m to €3,163.4m, following profit for the period totalling €303.7m, which was more than offset by the decrease in the valuation reserves (€221.7m), the dividend collected (€101.4m),

[11] This heading brings together investments covered by IAS 28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) recognized at fair value through profit and loss.

and value adjustments taken in respect of the other reserves (€36.3m, chiefly due to application of IAS 29). The Group's pro rata share in the profits and valuation reserves of the investee company in 4Q differs from the figures reported by Assicurazioni General in its financial statements as at 31 March 2020, due to the valuation of AFS equities and funds subject to recycling.[12]

Investments in seed capital grew from €413.5m to €435.7m, following net outlays of €33m, much of which was made up by fair value adjustments at the reporting date (€12.5m, approximately half the charges taken at 31 March 2020); other holdings in funds (mostly private equity) increased from €168.4m to €227.8m, as a result of new net investments totalling €57.3m against gains of €2m.

(€m)

	30/6/19		30/6/20	
	Book value	**HTC&S reserve**	**Book value**	**HTC&S reserve**
IAS28 investments	3,259.8	N/A	3,204.7	N/A
Listed shares	102.6	52.6	112.5	65.6
Other unlisted shares	36.0	12.2	29.1	5.3
Seed capital	413.5	—	435.7	—
Private equity	66.1	—	70.6	—
Other funds	102.3	—	157.1	—
Total equity holdings	**3,980.3**	**64.8**	**4,009.7**	**70.9**

The Group's investment in Assicurazioni Generali at 30 June 2020 had a stock market value of €2,730.6m (slightly lower than its book value). However, the investment passed the impairment test, based on a value in use calculated in accordance with the Group's policy which was higher than the investment's current book value.

(€m)

	% share capital	30/6/19	30/6/20
Assicurazioni Generali	12.88	3,219.3	3,163.4
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	40.5	41.3
Total IAS28 investments		**3,259.8**	**3,204.7**

[12] As stated by the General group, *inter alia* in its financial statements as at 31 March 2020, which do not constitute interim statements pursuant to IAS 34, the writedowns charged at that date did not reflect a definitive change in the book value of the investments, which value was recalculated subsequently. Investments measured at fair value by the Generali group reflected €655m in charges in respect of AFS shares and holdings in funds as at 31 March 2020, which had reduced by as much as €313m by end-2Q 2020. The difference to earnings (Mediobanca's pro rata share approx. €40m) has been taken through the valuation reserves.

Banking book securities[13]

	30/6/19		30/6/20	
	(€m)	%	(€m)	%
Hold to Collect	2,892.0	43%	3,285.4	48%
Hold to Collect & Sell	3,748.2	56%	3,485.9	51%
Other (Mandatorily measured at FV)	55.7	1%	53.2	1%
Total banking book securities	**6,695.9**	**100%**	**6,824.5**	**100%**

This heading totalled €6.8bn, basically unchanged from last year (30/6/19: €6.7bn), with the portfolio split equally between securities classified as Hold to Collect (fixed assets) and Hold to Collect & Sell (available for sale). During the year under review there were purchases of €5.2bn (concentrated in Italian government securities classified as Hold to Collect & Sell), against disposals and redemptions for roughly the same amount (€5.1bn), generating gains of €51.6m. The OCI reserve fell from €36.2m to €13.1m, chiefly due to the sales referred to above, plus downward adjustments of €6.3m to reflect fair value at the balance-sheet date.

Sovereign debt securities account for roughly three-quarters of the total (€4.7bn), more than half of which (€3.3bn) Italian, with a duration of four years.

Unrealized gains on the Hold to Collect securities recognized at cost were unchanged at €52m.

	30/6/19			30/6/20		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,088.6	1,161.3	4.8	1,512.5	1,740.0	2.6
Foreign government bonds	644.9	1,701.8	5.0	621.9	873.7	-0.4
Bond issued by financial institutions	710.9	663.3	15.6	687.8	613.2	8.3
Corporate bonds	294.3	221.8	10.8	262.0	259.0	2.6
Asset Backet Securities (ABS)	153.3	—	—	201.2	—	—
Total banking book securities	**2,892.0**	**3,748.2**	**36.2**	**3,285.4**	**3,485.9**	**13.1**

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

Net treasury assets – these increased from €5,342.5m to €6,130.7m, on higher ECB deposits of €3.1bn (€632.1m), against reductions in liquid assets (from €3bn to €2.2bn) and outright positions. The balance of trading instruments halved from €1,737.9m to €861.6m, reflecting growth in the issued certificates component (from €864.4m to €1,368.9m), against a reduction in investments in equities (from €2.6bn to €1.8bn).

(€m)

	30/6/19	30/6/20	Chg.
Financial assets held for trading	9,765.7	8,818.6	-9.7%
Treasury financial assets and cash	10,170.2	9,257.0	-9.0%
Financial liabilities held for trading	(8,027.8)	(7,956.9)	-0.9%
Treasury financial liabilities	(6,565.6)	(3,988.0)	-39.3%
Net treasury assets	**5,342.5**	**6,130.7**	**14.8%**

(€m)

	30/6/19	30/6/20	Chg.
Equities	2,620.4	1,807.2	-31.0%
Bond securities	66.3	564.8	n.m.
Derivative contract valuations	(91.3)	(145.4)	59.3%
Certificates	(864.4)	(1,368.9)	58.4%
Trading loans	6.9	3.9	-43.5%
Financial instruments held for trading	**1,737.9**	**861.6**	**-50.4%**

(€m)

	30/6/19	30/6/20	Chg.
Cash and current accounts	878.1	2,073.7	n.m.
Cash available at ECB	632.1	3,101.4	n.m.
Deposits	2,094.4	94.0	n.m.
Net treasury	**3,604.6**	**5,269.1**	**46.2%**

(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Italian government bonds	2,356.9	(2,126.9)	1,274.8	(1,109.3)
Foreign government bonds	1,041.5	(2,021.0)	606.2	(1,828.4)
Bond issued by financial institutions	563.0	—	1,258.6	—
Corporate bonds	161.4	—	333.9	—
Asset Backet Securities (ABS)	91.4	—	29.0	—
Equities	2,770.1	(149.7)	2,032.2	(225.0)
Total securities	**6,984.3**	**(4,297.6)**	**5,534.7**	**(3,162.7)**

(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	819.1	(650.5)	696.9	(587.7)
Foreign exchange	383.2	(258.0)	217.5	(256.0)
Interest rate options/futures	10.4	(20.5)	43.6	(10.5)
Equity swaps e options	1,071.4	(1,387.0)	2,134.7	(2,325.0)
Credit derivatives (others)	490.5	(549.9)	187.2	(246.1)
Derivative contract valuations	**2,774.6**	**(2,865.9)**	**3,279.9**	**(3,425.3)**

(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Securities lending/repos deposits	6,360.8	(4,005.1)	3,134.7	(2,596.1)
Stock lending deposits	672.3	(948.9)	324.4	(318.7)
Other deposits	1,626.8	(1,611.5)	626.0	(1,076.3)
Deposits	**8,659.9**	**(6,565.5)**	**4,085.1**	**(3,991.1)**

Tangible and intangible assets – this item increased from €1,187.6m to €1,311.8m, reflecting the growth in tangible assets as a result of the new IFRS 16 first-time adoption.[14] This has resulted in €205m being added to the value in use for leasing contracts and property rentals. The twelve-month performance includes a €96.9m impairment charge taken in respect of the goodwill on RAM, new leasing contracts amounting to €30.9m, new tangible assets acquired for €13.8m, and new software purchases totalling €27.1m.

[14] For further details on first-time adoption of IFRS 16, please see Part A of the Notes to the Accounts.

Depreciation and amortization charges for the twelve months amounted to €83.8m, €38.6m by way of values in use under IFRS 16, €15m for tangible assets and €30.2m for intangible assets. Impairment to goodwill on RAM (which has been cut to €64.6m) reflects the impact at the year-end; for further details, please refer to Section 10 of the Notes to the Accounts, which also contains the results of the Purchase Price Allocation (PPA) process for Messier Maris et Associés (where the higher brand value and new client list have reduced the goodwill originally recognized).

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Land and properties	256.7	22%	447.8	34%	74.4%
- of which: core	*181.8*	*15%*	*179.8*	*14%*	*-1.1%*
buildings RoU ex IFRS16	*N/A*	*N/A*	*196.1*	*15%*	*n.m.*
Other tangible assets	29.1	3%	47.9	4%	64.6%
- of which: RoU ex IFRS16	*N/A*	*N/A*	*11.8*	*1%*	*n.m.*
Goodwill	772.4	65%	666.5	51%	-13.7%
Other intangible assets	129.4	10%	149.6	11%	15.6%
Total tangible and intangible assets	**1,187.6**	**100%**	**1,311.8**	**100%**	**10.5%**

(€m)

Transaction	**30/6/19**	**30/6/20**
Compass-Linea	365.9	365.9
Spafid	9.0	9.0
Cairn Capital	41.4	40.7
MB Private Banking	52.1	52.1
RAM	155.0	64.6
Messier Maris et Associés	149.0	134.2
Total Goodwill	**772.4**	**666.5**

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

	Squ. M	Book value (€m)	30/6/20
			Book value per squ. m(€m)
Milan:			
- Piazzetta Enrico Cuccia n. 1 *	9,318	14.5	1.6
- Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari n. 6 *	13,390	62.7	4.7
- Foro Buonaparte n. 10 *	2,926	9.0	3.1
- Via Siusi n. 1-7	22,608	25.0	1.1
Rome **	1,790	8.0	4.5
Vicenza	4,239	4.8	1.1
Luxembourg	442	3.7	8.4
Monaco	4,576	47.9	10.5
Other minor properties	3,637	1.4	0.4
Total	**62,926**	**177.0**	

* Following revision to the respective land register plans.

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

Investment properties were worth €64.3m (30/6/19: €74.9m), following depreciation charges of €1.9m, while "Tangible asset inventories" (in accordance with IAS 2) totalled €7.6m, and include assets collected under leasing agreements; no new properties were acquired during the period.

Provisions[15] – these fell from €190.3m to €157.4m, and consist of provisions set aside to meet commitments and guarantees (which rose from €10.5m to €14m), the staff severance and post-retirement provisions (which were stable at €30.4m), and provisions for risks and charges (down from €150.1m to €113m). The latter item regards withdrawals made in particular by Mediobanca (€23.5m, due to recalculation of the tax risk following settlement of the dispute pending which involved Mediobanca International) and CheBanca! (€12m, to cover the most recent strategic projects, plus staff exits following the Barclays acquisitions); while provisions for the twelve months (€12.1m) mostly relate to pending litigations and staff management. The balance of €113m is split between Mediobanca (down from €96.2m to €71.4m), CheBanca! (down from

[15] This heading includes provisions for risks and charges, the staff severance indemnity and post-retirement benefit provisions, plus provisions set aside to meet commitments to disburse funds and financial guarantees issued.

€32.9m to €19.4m), SelmaBipiemme (virtually unchanged at €10m), Compagnie Monégasque de Banque (down from €4.5m to €3.8m), and Compass Banca (€3.2m, versus €2.3m last year).

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	10.5	6%	14.0	9%	33.3%
Provisions for risks and charges	150.1	79%	113.0	72%	-24.7%
Staff severance indemnity provision	29.7	15%	30.4	19%	2.4%
of which: staff severance provision discount	*3.7*	—	*4.4*	—	*18.9%*
Total provision	**190.3**	**100%**	**157.4**	**100%**	**-17.3%**

Net equity - net equity decreased in the twelve months under review, from €9,809.2m to €9,648.6m, chiefly due to reductions in the valuation reserves (down €222.8m), distribution of the 2019 dividend (€408.5m), and completion of the share buyback (€105.5m), all of which were only partly offset by the profit for the year (€600.4m). In particular the valuation reserves (which declined from €597.5m to €374.7m) reflect the lower contribution from equity-accounting the Assicurazioni Generali investment (down from €560.6m to €341.7m), in line with the figure reported at end-March 2020, with the other Group items substantially stable; the decrease in financial assets recognized at fair value through OCI (from €84.6m to €71.5m) was offset by the reduction in the liability on the cash flow hedge reserve (from €41.2m to €30.6m).

The share buyback scheme ended on 25 March 2020,[16] having reached the limit of 3% of the company's share capital, i.e. 26.6 million shares, after 13 million shares were purchased (for an outlay of €105.5m); in November 2019, a total of 1.7 million of these shares were used in connection with the performance share scheme.

[16] Under the resolution adopted by shareholders at the annual general meeting held in October 2018, buybacks could be made up to 3% of the company's share capital, for a total of 26.6 million shares.

(€m)

	30/6/19	30/6/20	Chg.
Share capital	443.6	443.6	n.m.
Other reserves	7,945.1	8,229.9	3.6%
Valuation reserves	597.5	374.7	-37.3%
- of which: Other Comprehensive Income	*84.6*	*71.5*	*-15.5%*
cash flow hedge	*(41.2)*	*(30.6)*	*-25.7%*
equity investments	*560.6*	*341.7*	*-39,0%*
Profit for the period	823.0	600.4	-27,0%
Total Group net equity	**9,809.2**	**9,648.6**	**-1.6%**

The Group's OCI reserve involves equities worth €71.5m, following the tax effect of €9.4m, made up of equities (€67.8m) and bonds and other debt securities (€13.1m), including Italian sovereign debt securities of €2.6m.

(€m)

	30/6/19	30/6/20	Chg.
Equity shares	64.8	67.8	4.6%
Bonds	36.2	13.1	-63.8%
of which: Italian government bonds	*4.8*	*2.6*	*-45.8%*
Tax effect	(16.4)	(9.4)	-42.7%
Total OCI reserve	**84.6**	**71.5**	**-15.5%**

Profit and loss account

Net interest income – net interest income was up 3.3% (from €1,395.6m to €1,442.2m), on higher average volumes in Consumer Banking (up 5.5%), helped by an outstanding performance in the first eight months of the year (with customer loans reaching a high of €13.8bn), thus offsetting the sharp reduction in new business in April and May 2020, part of which had been recovered by end-June. Wealth Management also performed well, with net interest income up 4.2% (from €260.2m to €271m) on higher mortgage volumes (up €1.2bn) and Private Banking loans (up €596.7m). Corporate and Investment Banking matched last year's performance with €271.4m (30/6/19: €272.7m), the reduction in profits being offset by the higher volumes. Conversely, net interest expense posted by the Holding Functions division increased from €47.1m to €55m, due to a poor performance in leasing (net interest expense totalling €2.8m), plus the substantial liquidity position. The Group's cost of funding remained stable at 80 bps. Net interest income was virtually unchanged in 4Q, confirming the loan book's healthy diversification.

(€m)

	30/6/19	30/6/20	Chg.
Consumer Banking	898.8	948.0	5.5%
Wealth Management	260.2	271.0	4.2%
Corporate and Investment Banking	272.7	271.4	-0.5%
Holding Functions and other (including intercompany)	(36.1)	(48.2)	33.5%
Not interest income	**1,395.6**	**1,442.2**	**3.3%**

Net treasury income – net treasury income totalled €136.3m, some 31% lower than last year (€196.7m), reflecting the market correction at end-March, only part of which was made up in 4Q.[17] The reduction in net treasury income from CIB operations reflects the performance in activities with CMS clients, which this year added just €86m (down 30%, from €127m), and was almost entirely due to the effects of the postponement or cancellation of 2019 dividends on the valuation of equity derivatives hedging the certificates issued, and the increase in the loss on the proprietary trading portfolio which this year totalled €7.7m (as compared with €1m last year), despite recovering to add €9.5m in 4Q. Treasury Management (Holding Functions) contributed positively, adding €37.5m but still lower than last year (€45m); the total includes gains realized on

[17] The Covid-related effect can be estimated at €45m (€55m in 9M).

banking book securities of €51m, part of which was offset by the performance of the ALM proxy hedge portfolio. Income contributed by Principal Investing decreased from €18.3m to €15.6m, €9.3m of which from funds (€7.3m of which attributable to Cairn).

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Corporate Investment Banking	126.8	77.9	-38.6%
Principal Investing	18.3	15.6	-14.8%
Holding Functions	45.0	37.5	-16.7%
Other (including Intercompany)	6.6	5.3	-19.7%
Net treasury income	**196.7**	**136.3**	**-30.7%**

Net fee and commission income – net fees grew from €611.2m to €630.2m, on a good performance in Wealth Management (up 9%, from €280.9m to €306.1m), with CIB stable (fees down from €227.6m to €225.8m, €33.8m of which due to MMA being consolidated for the full twelve months), and Consumer Banking decreasing slightly (down from €128.1m to €122.6m), reflecting the reduced insurance component following the reduction in new loans. Wealth Management posted significant growth in management and upfront fees (up 8.4%, from €306.3m to €332.1m, €81.7m in 4Q) as well as the return of performance fees which added €13.2m (almost all of which in 1H); the Wealth Management division now contributes 50% of the Group’s total fee income. Corporate and Investment Banking delivered a healthy recovery in investment banking activity, where fee income increased from €178.6m to €191.2m, adding €45.4m in 4Q, and offsetting the reduction in Specialty Finance which posted fees of €34.6m (€49m) due to the lower extra collections on the NPLs acquired.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Wealth Management	280.9	306.1	9.0%
Corporate & Investment Banking	227.6	225.8	-0.8%
Consumer Banking	128.1	122.6	-4.3%
Holding Functions and other (including intercompany)	(25.4)	(24.3)	-4.3%
Net fee and commission income	**611.2**	**630.2**	**3.1%**

Equity-accounted companies - the equity-accounted companies’ contribution to net profit decreased from €321.2m to €304.3m, reflecting in particular earnings by

Assicurazioni Generali (which decreased from €320m to €303.7m), with €54.8m contributed in 4Q, calculated based on the company's results as at 31 March 2020, and adjusted to factor in writebacks of approx. €40m pro rata (on a pro forma basis) credited in the three months ended 30 June 2020 for shares and funds subject to recycling[18]. The investment in the IEO contributed €607,000 (€1.2m).

Operating costs – these rose by 2.3%, from €1,161.9m to €1,188.9m, helped, compared to 1H (when costs rose by 5.3%), by the Covid-related measures:

- Labour costs rose by 3%, from €581.7m to €599.3m, reflecting the consolidation of MMA for the full-year (which increased costs by €14m) and strengthening the commercial network, in Wealth Management especially (adding €14.7m), but also the lower variable remuneration component, where the saving in some areas (such as investment banking was substantial; in this connection it should be noted that members of the governing bodies of Mediobanca have waived some of their compensation, for a total amount of €640,000, which they have donated to charitable initiatives supported by the Group;
- Administrative expenses rose by 1.6%, from €580.2m to €589.6m, with a slowdown in 4Q on spending on projects, travel, events and marketing; the heading includes Covid-related expenses totalling €3.8m (including payments to agents in Consumer Banking), and €2.6m in donations to charitable initiatives.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Labour costs	581.7	599.3	3.0%
of which: directors	*9.8*	*10.7*	*9.2%*
stock option and performance share schemes	*12.0*	*12.6*	5.0%
Sundry operating costs and expenses	580.2	589.6	1.6%
of which: depreciations and amortizations (incl. IFRS16)	*43.0*	*83.8*	*n.m.*
administrative expenses	*533.0*	*504.8*	*-5.3%*
Operating costs	**1,161.9**	**1,188.9**	**2.3%**

[18] Assicurazioni Generali continues to apply IAS 39, which requires that negative valuation reserves for the AFS portfolio above a given amount be recycled through profit and loss. The definitive impact is calculated on a half-yearly basis, so the writedowns charged at end-March 2020 were adjusted in the interim financial statements to reflect the writebacks credited the following quarter. Mediobanca has chosen to record the impact through profit and loss net of this effect, which has been maintained in the valuation reserves.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Legal, tax and professional services	10.5	10.3	-1.9%
Other consultancy expenses	48.8	35.1	-28.1%
Credit recovery activities	55.6	57.2	2.9%
Marketing and communication	42.3	37.2	-12.1%
Rent and property maintenance*	53.2	21.4	-59.8%
EDP	125.9	132.3	5.1%
Financial information subscriptions	41.0	44.7	9.0%
Bank services, collection and payment commissions	21.6	24.2	12.0%
Operating expenses	63.6	65.0	2.2%
Other labour costs	22.5	14.7	-34.7%
Other costs	25.8	35.8	38.8%
Direct and indirect taxes	22.2	26.9	21.2%
Total administrative expenses	**533.0**	**504.8**	**-5.3%**
Depreciations and amortizations ex IFRS16	—	38.6	*n.m.*

* The reduction for 30 June 2020 involves the effects of IFRS 16 first-time adoption, adding additional depreciation charges of €38.6m.

Overheads rose by less than 2% (from €580.2m to €589.6m), €6.4m of which attributable to Messier Maris et Associés and including the Covid-related effects (€6.3m in contributions to agents, health and safety work, and donations to charity). The reduction in property rental and maintenance charges was offset by the higher depreciation as a result of IFRS 16 first-time adoption, but with no material impact on profit and loss. In the twelve months under review there were substantial savings in expenses on consultants and marketing, due to the slowdown in project activities principally at Mediobanca S.p.A. and CheBanca!, whereas spending on IT increased (info-providers and data processing), as did banking and collection charges (including credit recovery costs).

Loan loss provisions – this item increased from €222.6m to €374.9m, with a steep rise in the cost of risk (CoR 82 bps, compared with 52 bps and despite having reached a record low in 2Q of 39 bps); the Covid-19 effect can be estimated at approx. €113m. The division most affected was Consumer Banking, where provisioning rose by 36.5%, from €237.8m to €324.7m, at a cost of risk of 247 bps (361 bps in 4Q, after peaking in April and May, much of which had reduced by end-June); the Covid-related effect for the division was €63.9m. CIB charged writedowns of €20m, despite two material UTP positions in Wholesale Banking being reclassified as performing (€60m); the €33m writedowns charged in 4Q reflect the hedges on the performing loan book being recalculated based on parameters adapted to reflect the new macroeconomic scenario (Covid-related impact €40.4m). Provisioning in Wealth Management rose from €11.8m to €20.5m, chiefly for CheBanca! mortgages, for which the Covid-related effect can be estimated at €4.4m. Leasing set aside just under €10m, at a CoR of 51 bps.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Corporate & Investment Banking	(36.2)	20.0	n.m.
Consumer Banking	237.8	324.7	36.5%
Wealth Management	11.8	20.5	73.7%
Holding Functions (leasing)	9.2	9.7	5.4%
Loan loss provisions	**222.6**	**374.9**	**68.4%**
Cost of risk (bps)	**52**	**82**	**57.7%**

Provisions for other financial assets[19] – The valuations of other financial assets mandatorily recognized at fair value (investments in Group funds - seed capital and other private equity and real estate funds) were negative this year, at €11.7m (compared with €0.8m last year), but recovering strongly in 4Q (€20.1m, i.e. roughly half the losses recorded at end-March). A total of €8.8m was set aside in respect of bonds classified as Hold to Collect and Hold to Collect & Sell, a sharp increase on the €1.3m provided last year, due to the impact of 4Q (€7.5m) when the performance also reflected the downgrade in Italian sovereign debt.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20
Hold-to-Collect securities	0.5	4.0
Hold-to-Collect & Sell securities	0.8	4.8
Financial assets mandatorily FVTPL[1]	0.8	11.7
Provisions for other financial assets	**2.1**	**20.5**

[1] These are funds recognized at fair value.

Other gains (losses) – this heading brings together the Group's one-off items, including contributions to the resolution and deposit protection funds (EU and national), which for FY 2019-20 rose from €53.5m to €59.7m, plus non-

[19] Under IFRS 9, the impairment process applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the "Hold to Collect" model) and to all bonds recognized at fair value through other comprehensive income (the "Hold to Collect and Sell" model).

recurring costs which include the RAM impairment charge (€65.1m), the fine handed down to Compass by the Italian antitrust authority (€4.7m), and the leasing restructuring costs (€4.5m). The impact due to RAM represents the balance between the reduction in goodwill (€96.9m) as a result of the value in use calculation, and the gain arising on the valuation of the liability to minority shareholders (€31.8m), calculated based on the presumable realization value which has been estimated to be lower than the value in use.

Income tax – income tax for the period totalled €191.1m, at an effective tax rate of 24%, slightly higher than last year (23.7%). The item does not include the effects of the dispute over funds transfer pricing rate applied between Mediobanca and Mediobanca International SA, virtually all of which was absorbed by provisions being released.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions, Spafid Connect and Futuro. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

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

WEALTH MANAGEMENT

This division brings together all asset administration and management services offered to the following client segments:

– Affluent & Premier (CheBanca!);

– Private Banking (Mediobanca Private Banking and Compagnie Monégasque de Banque[20]).

The division also includes the product factories (Mediobanca SGR, Cairn Capital, RAM Active Investment and Mediobanca Management Company) grouped as asset management, plus the fiduciary activities performed by Spafid, Spafid Family Office SIM and Spafid Trust.

[20] On 22 July, at the Board of Directors' proposal, the shareholders of Compagnie Monégasque de Banque S.A. gathered in extraordinary general meeting approved an amendment to the company's Articles of Association changing its name from "Compagnie Monégasque de Banque" to "CMB Monaco".

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	260.2	271.0	4.2
Net trading income	6.2	6.7	8.1
Net fee and commission income	280.9	306.1	9.0
Total income	**547.3**	**583.8**	**6.7**
Labour costs	(221.8)	(236.5)	6.6
Administrative expenses	(212.2)	(214.3)	1.0
Operating costs	**(434.0)**	**(450.8)**	**3.9**
Loan loss provisions	(11.8)	(20.5)	73.7
Provisions for other financial assets	0.3	(0.5)	n.m.
Other income (losses)	0.6	1.8	n.m.
Profit before tax	**102.4**	**113.8**	**11.1**
Income tax for the period	(28.7)	(32.6)	13.6
Minority interest	(2.5)	(0.8)	-68.0
Net profit	**71.2**	**80.4**	**12.9**
Cost/income ratio (%)	*79.3*	*77.2*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	11,353.8	13,183.6
of which:		
CheBanca! mortgage loans	*9,001.9*	*10,235.0*
Private Banking	*2,351.9*	*2,948.6*
New loans	1,782.6	2,173.2
Risk-weighted assets	4,533.8	4,951.7
ROAC	15%	19%
No. of staff	1,936	2,021

	30/6/19	30/6/20
Commercial data		
Relationship managers	445	454
Financial advisors	335	414
No. of branches/agencies CheBanca!	180	192
Private Banker	127	132

Despite the entirely unfavourable, Covid-related scenario, the Wealth Management division again posted improving results, confirmed in 4Q with net new money of €1.3bn, and largely resilient recurring fees.

During the twelve months under review, the Wealth Management division has continued on the growth path mapped out in the Strategic Plan, enhancing its distribution structure, in particular CheBanca! now has 454 Affluent and

Premier relationship managers (vs 445 last year) and 414 Financial Advisors (335), who provide their services from a total of 192 branches and POS.

Banking activity effectively supported by use of remote channels (some 98% of transactions have been executed digitally in recent months), as too is advisory activity in asset management, where client interaction via telephone and video link has intensified with the Group's experts in financial products and markets, who have provided support in their investment decisions which is even more crucial in highly volatile environment.

Net new money raised since the start of the year amounts to €3.2bn (€2bn of which in AUM/AUA), with a growing trend in the two half-years (€2bn in NNM in 2H, €1.3bn in AUM/AUA, most of which, however, was offset by the outflows from institutional clients), confirming the strength of the Affluent and Private distribution model even in challenging market phases, unlike the institutional channel where inflows are more dependent on market performance. Approx. €2.6bn is attributable to CheBanca! (€2.3bn AUM/AUA, split equally between the FAs and proprietary networks), €1.8bn of which in 2H (half of which consisting of AUM/AUA). Private Banking contributed €2.3bn (€1.3bn in high quality assets), with an impressive contribution in 2H (€1.4bn) albeit concentrated in deposits.

The product offering for clients has been enriched further, with:

– Dedicated placement of the Mediobanca Defensive Allocation and Mediobanca Diversified Credit Portfolio funds managed by Mediobanca SGR (with total funding of €70m raised between April and the start of July);
– Inclusion of new portfolio management lines in Mediobanca Private Banking, with management delegated to Mediobanca SGR, on specific themes meeting the growing demand for investments in sectors delivering strong growth in the post-Covid scenario (new health care, tech and top global companies lines), plus launch of new lines for Affluent clients distributed by CheBanca!;
– Placement of funds of funds in private markets, giving subscribers an opportunity to invest directly in the real economy, and enabling diversification both in management and asset classes (Mediobanca Private Markets third vintage), and direct investment in trophy assets in the real estate sector, with a medium-/long-term investment time horizon (second round of fund focusing on prestigious real estate assets);

- Positive performances by Cairn Capital's credit funds, which outperformed their benchmarks, and good takeup for the Strata UCITS (dedicated primarily to Group clients) and for Cairn European Loan (addressed to the institutional market);
- Launch of the Group's first eco-sustainable fund, RAM Stable Climate Equity, which, along with RAM Diversified Alpha, aim to leverage on market opportunities in a volatile scenario such as the present one.

Wealth Management delivered significant top-line growth in the twelve months, with revenues up 6.7%, from €547.3m to €583.8m, a performance which remains impressive (up 5%) even net of performance fees (€13.2m, compared with €2.9m last year); 4Q, despite being penalized by lower average volumes, nonetheless saw distribution revenues substantially in line with the previous quarters; the contribution from the product factories declined, with performance affected by the outflows reported by RAM. The cost/income ratio improved from 79.3% to 77.2%, despite the substantial growth in the workforce (up 10%). ROAC increased from 15% to 19%, in line with the strategic objectives.

Customer loans in Wealth Management totalled €13.2bn (€11.4bn), with the mortgage component increasing from €9bn to €10.2bn, on new loans of €2.2bn which remain higher than last year (€1.8bn) despite the slowdown in 4Q (€0.4bn, vs a quarterly average of €0.6bn); the share attributable to Private Banking totalled €2.9bn (€2.4bn) following a healthy contribution from Compagnie Monégasque de Banque (up from €1.2bn to €1.8bn). Gross NPLs remain low at 1.6% of total loans, or €211.9m (€198.6m), and chiefly regard CheBanca! mortgage loans (where NPLs totalled €194.9m, or 1.9% of total loans); net NPLs in mortgage lending represent less than 1% of total loans (or €114.7m, €46.4m of which were bad debts), with a coverage ratio of 45.9% (60.5% of bad debts).

Moratoria conceded involved almost exclusively CheBanca! clients, under both the legislation introduced (Article 54 of the "Cura Italia" decree) and category initiatives. As at 30 June 2020, the moratoria granted (more than 80% of the 6,258 applications received) involved a total gross exposure of €601m (approx. 6% of the loan stock), of which €35.7m were prudentially reclassified as Stage 2, and €4.6m as Stage 3; around half the concessions thus made will resume repayment by the year-end, and the remainder in the first six months of 2021. Barely any applications were received in the Private Banking segment (three clients involving a total amount of €1.2m).

Total Financial Assets (TFAs) amounted to €63.6bn, and were split equally between the Affluent segment (€27.8bn) and Private Banking (€26.4bn); following the downturn in March (€60.2bn, reflecting €4bn in lower valuations), TFAs returned to end-December level (€63.7bn).

AUM/AUA, the higher profitability products, came in at €39.8bn, recovering from March 2020 (€37.8bn) but some €2bn lower than at end-December 2019 (€41.8bn) due chiefly to the market effect which halved the outflow (from €4bn to €2bn). NNM for the twelve months totalled €3.2bn, representing the difference between net inflows in the Affluent segment (€2.6bn) and in Private Banking (€2.3bn), and outflows from institutional clients reported by the product factories (€1.6bn); the good performance by Cairn Capital (€0.8bn inflows) was more than offset by RAM (outflows of €1.4bn) and by Mediobanca Asset Management (€1bn). NNM in 4Q totalled €1.3bn, representing the balance between inflows in Affluent and Private (€0.9bn and €1.2bn respectively) and outflows in Asset Management (€0.7bn); growth in managed assets continues in the Affluent segment, whereas in Private Banking liquidity tends to prevail.

Asset management products placed internally to the Group totalled €9.6bn.

Net TFAs	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	25,366	26,465	27,781	9.5%	5.0%
Private Banking	24,392	25,968	26,373	8.1%	1.6%
Asset Management	20,336	21,374	19,000	-6.6%	-11.1%
Intercompany	(8,681)	(10,091)	(9,571)	10.3%	-5.1%
Wealth Management	**61,414**	**63,716**	**63,582**	**3.5%**	**-0.2%**

Deposits	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	15,032	14,460	15,277	1.6%	5.6%
Private Banking	7,417	7,446	8,531	15.0%	14.6%
Asset Management	—	—	—	n.m.	n.m.
Wealth Management	**22,450**	**21,906**	**23,807**	**6.0%**	**8.7%**

AUM/AUA	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	10,334	12,005	12,504	21.0%	4.2%
Private Banking	16,975	18,522	17,842	5.1%	-3.7%
Asset Management	20,336	21,374	19,000	-6.6%	-11.1%
Intercompany	(8,681)	(10,091)	(9,571)	10.3%	-5.1%
Wealth Management	**38,964**	**41,811**	**39,775**	**2.1%**	**-4.9%**

Net New Money	30/6/19	2019-2020				30/6/20
	12 mths	1Q	2Q	3Q	4Q	12 mths
Affluent Banking	2,635	290	506	853	909	2,557
Private Banking	3,034	710	173	261	1,166	2,310
Asset Management	(352)	(689)	295	(498)	(739)	(1,631)
Wealth Management	**5,316**	**310**	**974**	**616**	**1,335**	**3,236**

The division posted a net profit of €80.4m,[21] 12.9% higher than last year (€71.2m) and in line with the Strategic Plan expectations, despite the 4Q performance (€13.9m) being below that of the previous quarters due to the sharp reduction in TFAs at end-March and the higher loan loss provisions taken in mortgage lending (with a Covid-related effect in the region of €4.4m).

The division's good performance for the twelve months is reflected in ROAC, which increased from 15% to 19%; and the cost/income ratio continues to improve, falling from 79.3% to 77.2%.

[21] The individual companies' contributions to divisional net profit were as follows: CheBanca! €31.9m, MBPB €15.9m, Compagnie Monégasque de Banque €26.1m, RAM €2.5m, and MBSGR (including Mediobanca Management Company) €9.2m; the Spafid group's results reflect substantial breakeven, while Cairn Capital again posted a loss (of €3.1m).

(€m)

Revenues	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Affluent	297.1	317.4	6.8%
Private Banking	159.1	186.7	17.3%
Asset Management	77.0	71.7	-6.9%
Other	14.1	8.0	-43.3%
Total revenues	**547.3**	**583.8**	**6.7%**

The main income items performed as follows:

- Net interest income rose by 4.2% (from €260.2m to €271m), with positive contributions from the Affluent segment (up 1.7%, from €210.6m to €214.1m) and Private Banking (up 14.7%) with the contribution of Compagnie Monégasque de Banque in particular growing (from €40.5m to €45m);
- Fee income climbed by 9% (from €280.9m to €306.1m), with significant growth posted in management fees (up 8.4%, from €306.3m to €332.1m), before commissions credited back to FAs (up from €28.3 to €39.2m); the contribution of performance fees remains low – albeit far higher than last year – at €13.2m (€2.9m). The Affluent segment rose by 18.9% (from €85.7m to €101.9m), and Private Banking by 19.6% (from €103.8m to €124.1m), while there was a 6.7% reduction in asset management (from €77.3m to €72.1m) due exclusively to the decline reported by RAM.

(€m)

Commissions - segment	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Affluent	85.7	101.9	18.9%
Private Banking	103.8	124.1	19.6%
Asset Management	77.3	72.1	-6.7%
Other	14.1	8.0	-43.3%
Total commissions	**280.9**	**306.1**	**9.0%**

(€m)

Commissions - nature	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Management fees	306.3	332.1	8.4%
- of which: upfront fees	*28.0*	*33.5*	*19.6%*
Performance Fees	2.9	13.2	n.m.
Negative fees	(28.3)	(39.2)	38.5%
Total commissions	**280.9**	**306.1**	**9.0%**

– Operating costs were up 3.9% (from €434m to €450.8m), due to strengthening of the distribution network (Affluent and Compagnie Monégasque de Banque) which was reflected in the higher labour costs (up from €221.8m to €236.5m) and only marginally in administrative expenses, which were basically unchanged at €214.3m, as a result of the postponement of certain major projects.

(€m)

Costs	**12 mths ended 30/06/19**	**12 mths ended 30/6/20**	**Chg. %**
Affluent Banking	(236.3)	(249.8)	5.7%
Private Banking	(118.8)	(131.1)	10.4%
Asset Management	(64.7)	(61.4)	-5.1%
Other	(14.2)	(8.5)	-40.1%
Total costs	**(434.0)**	**(450.8)**	**3.9%**

Loan loss provisions of €20.5m (€11.8m) are largely attributable to mortgage lending activity, and rose as a result of the Covid-19 effect referred to above; some writebacks in Private Banking last year were not repeated this year.

Other profits include non-recurrent items attributable to Spafid and the other product factories.

CONSUMER BANKING

This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance (Compass Banca and Futuro). The division also includes Compass RE, which reinsures risks linked to insurance policies sold to clients, and the newly-incorporated Compass Rent, which allows customers to hire assets, in particular second-hand vehicles.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	898.8	948.0	5.5
Net fee and commission income	128.1	122.6	-4.3
Total income	**1,026.9**	**1.070.6**	**4.3**
Labour costs	(99.4)	(102.0)	2.6
Administrative expenses	(194.1)	(201.2)	3.7
Operating costs	**(293.5)**	**(303.2)**	**3.3**
Loan loss provisions	(237.8)	(324.7)	36.5
Other income (losses)	—	(4.7)	n.m.
Profit before tax	**495.6**	**438.0**	**-11.6**
Income tax for the period	(159.2)	(141.4)	-11.2
Net profit	**336.4**	**296.6**	**-11.8**
Cost/income ratio (%)	*28.6*	*28.3*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	13,223.0	13,037.4
- of which:		
Personal loans	*7,393.0*	*7,101.2*
Salary-backed finance	*2,039.3*	*1,983.6*
New loans	7,350.0	6,380.8
Risk-weighted assets	12,564.1	11,800.8
ROAC	30%	27%
No. of staff	1,427	1,441

	30/6/19	30/6/20
Commercial data		
Branches (Consumer Banking)	172	172
Agencies (Consumer Banking)	27	41

The Italian consumer credit market suffered a brusque slowdown post Covid-19, with new loans down 29.6% in the early months of 2020 compared to the same period last year, wiping out the 5.7% growth posted in 2019; new loans totalled €24bn, with all segments suffering: special purpose loans down 23%, credit cards down 19.5%, salary-backed finance down 24.9%, and personal loans down 39.8%.

Compass underperformed the market in this period, reporting a 35.3% reduction, on account of its product mix being more geared towards personal loans (which fell by 46.2%) and in particular towards the indirect channels, in part offset by the lower impact on special purpose loans (down 21.5%, as opposed to 25.8%).

Various initiatives were implemented during the year, aimed primarily at enhancing the "direct" distribution channels, through:

– Launch of "Compass Quinto", a new network of agencies specializing in salary-backed finance under the Compass own brand; as a result of the rebranding of the Equilon agencies, a total of 48 Compass Quinto agencies are already in operation;
– Strengthening geographical coverage at national level, with the opening of 14 new agencies under the Compass brand (in addition to the existing 27 agencies and 172 own branches), with a direct distribution network of 908 FTEs;
– Consolidation of market share in special purpose loans, the main channel for acquiring new customers, by developing partnerships with large-scale organized distribution (telephony and electronics in particular), and developing agreements managed locally by the geographical network;
– Development of the internet channel, which during lockdown in particular reported a 20% increase versus last year (€319m, vs €265m), equal to an impressive almost 18% of personal loans through the direct channel.

At end-June 2020 net loans outstanding totalled €13bn, slightly lower than last year (€13.2bn); 54% consist of personal loans, while the salary-backed finance stock was approx. €2bn.

Compass posted a 13.2% reduction in new loans for the twelve months, declining from €7.4bn to €6.4bn, reflecting the medical crisis in 4Q which as a result contributed only one-eighth of the year's total, with the low point recorded in April (down 80%).

Gross NPLs increased from €737.7m at end-June 2019 to €1,015.7m, and increased in relative terms as a percentage of the loan book to 7.2% (5.2%). Similarly, net NPLs rose to €324.2m (€189m), account for 2.5% (1.4%) of the total loan book, and show a coverage ratio of 68.1% reflecting the recent additions compared to last year (74.4%). Net bad loans totalled €14.6m (€13.7m), account for 0.1% of total loans (stable), and reflect a coverage ratio of 94.6% (94.3%); disposals in 3M amounted to €30m, bringing the twelve-month total to €181.4m.

Moratoria were granted in respect of loans worth a total outstanding €1.3bn (€1bn under the Assofin initiatives, and the remainder under voluntary initiatives by Compass itself); of these, roughly half were still in force at 30 June 2020, the majority of which will expire by the end of the next quarter. Although 85% of the accounts for which moratoria were granted have resumed making regular repayments, the remainder (€587.8m) have nonetheless been classified especially prudently, with only 38% classified as performing Stage 1, 59% classified as Stage 2, and the other 3% as impaired (Stage 3).

Careful and prudent classification to Stage 2, the gross balance of which rose during the twelve months from €1,393m to €1,691.7m (approx. 12% of the total loan book), translates to higher loan loss provisions and an increase in the coverage ratio for the performing portfolio, which rises from 3% to 3.2%.

The division reported a net profit of €296.6m (vs €336.4m last year), on revenues of €1,070.6m (up 4.3%) with the cost/income ratio remaining at 28.3%. The 11.8% reduction in net profit reflects a one-off provision taken in 2H (€4.7m, to cover the fine handed down by the Italian antitrust authority), and the increase in the cost of risk (from 185 bps to 247 bps) due to the higher loan loss provisions taken since March 2020. ROAC came in at 27% (30%).

The main income items performed as follows in the twelve months:

– Net interest income was up 5.5% (from €898.8m to €948m), driven by average volumes (up 5.5%), with the high recorded allowing the sharp reduction in new loans from mid-March to be absorbed; the last four months of the financial year also reflect a reduction in profitability linked to the different business mix, which was in part offset by the lower cost of funding;

– Net fee and commission income was down 4.3%, from €128.1m to €122.6m, due to lower volumes in new loans, affecting the insurance component (€60.7m, compared with €73.2m last year,[22] only part of which was absorbed by the lower fees on amounts credited back to commercial partners;

– Operating costs rose by 3.3%, from €293.5m to €303.2m, due to the IT component and credit recovery expenses (an activity which is vital in the current scenario), against lower marketing expenses (with the advertising campaign having been suspended); Covid-related expenses totalled €2.7m, and chiefly regard payments to agents;

– Loan loss provisions were up 36.5%, from €237.8m to €324.7m, €120.6m of which in 3Q; the Covid-related impact may be estimated at €64m (approx. three-quarters of the total annual increase).

[22] Since 1 May 2020, following the non-compliance proceeding brought by the Italian antitrust authority, the sale of unrelated insurance products bundled with personal loans has been discontinued.

CORPORATE AND INVESTMENT BANKING

This division provides services to corporate customers in the following areas:

- Wholesale Banking: lending, capital market activities and advisory services, and trading – client and proprietary – performed by Mediobanca, Mediobanca International, Mediobanca Securities and Messier Maris et Associés);
- Specialty Finance: factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions and the newly-incorporated MBContact Solutions.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	272.7	271.4	-0.5
Net treasury income	126.8	77.9	-38.6
Net fee and commission income	227.6	225.8	-0.8
Total income	**627.1**	**575.1**	**-8.3**
Labour costs	(139.4)	(141.0)	1.1
Administrative expenses	(129.9)	(135.2)	4.1
Operating costs	**(269.3)**	**(276.2)**	**2.6**
Loan loss provisions	36.2	(20.0)	n.m.
Provisions for other financial assets	0.9	(3.5)	n.m.
Other income (losses)	—	—	n.m.
Profit before tax	**394.9**	**275.4**	**-30.3**
Income tax for the period	(129.1)	(92.4)	(28.4)
Minority interest	—	(2.3)	n.m.
Net profit	**265.8**	**180.7**	**-32.0**
Cost/income ratio (%)	*42.9*	*48.0*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	17,865.3	18,644.2
of which: Corporate	*15,560.8*	*16,521.7*
Factoring	*1,935.4*	*1,763.7*
Credit Management - NPLs	*369.1*	*358.8*
Corporate new loans	5,777.3	5,949.9
Factoring turnover	6,578.5	7,422.6
NPLs purchased	117.9	35.5
Risk-weighted assets	20,065.8	20,027.7
ROAC	15%	10%
No. of staff	621	630
Front Office Wholesale	297	302

M&A activity was affected in 4Q by the post-Covid-19 containment measures, with the deal value on the Bank's three core markets - Italy, Spain and France – half that in 3Q; in particular, acquisitions by corporates plunged by 75%, while the flow of transactions with private equity funds remained positive. In view of this performance, the first half of 2020 saw a reduction of 16% (compared with a 15% reduction for the twelve months of 2019).

The ECM market picked up in the second quarter of 2020, with capital increases and convertible issues up more than 50% in the Group's three core geographies; while only Italy showed positive figures for the entire six-month period (up 29%). The DCM market showed greater resilience, posting growth for the twelve months of 9% (confirmed in 3Q), with the investment grade segment contributing positively (up 32%) and offsetting the weak performance in high yield and securitization.

Lending activity also recovered in the three months ended 30 June 2020, up 36%, with new deals focused on investment grade clients and extraordinary transactions.

Customer loans rose in the year, from €17.9bn to €18.6bn, with the Large Corporate segment contributing well with €16.5bn (€15.6bn), which offset the reduction in Specialty Finance (down from €2.3bn to €2.1bn), due in particular to the reduction in ordinary factoring to €1.4bn (vs €1.5bn last year and €2bn at end-December 2019). In Lending and Structured Finance, new loans in the twelve months totalled €5.9bn (the majority with counterparties ranked as investment grade), against redemptions totalling €5bn (€1.9bn of which early redemptions) mostly with crossover clients; drawdowns on revolving lines have intensified in the last four months (for working capital facilities in particular), for a total amount of €1.3bn in the six months, or 40% of the new loans for the six months. Factoring posted a 13% increase in turnover from €6.6bn to €7.4bn, with a good performance by ordinary factoring activities offsetting the reduction in instalment factoring (down 21.8%, from €317.7m to €248.3m). Acquisitions of NPL portfolios were very low (with a nominal amount of €0.3bn, involving an outlay of €35.5m), reflected in the reduction in the stock of NPLs (from €368.6m to €358.6m), with a nominal value of €5.4bn.

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Italy	10,188.5	57%	10,215.6	55%	0.3%
France	1,558.9	9%	1,426.4	8%	-8.5%
Spain	941.2	5%	1,011.8	5%	7.5%
Germany	904.8	5%	1,509.0	8%	66.8%
U.K.	1,131.3	6%	1,257.5	7%	11.2%
Other non resident	3,140.6	18%	3,223.9	17%	2.7%
Total loans and advances to customers CIB	**17,865.3**	**100%**	**18,644.2**	**100%**	**4.4%**
- of which: Specialty Finance	*2,304.5*	*13%*	*2,122.6*	*11%*	*-7.9%*

Asset quality remains at high levels: gross NPLs (not including the NPLs acquired) decreased from €671.7m to €541.5m, after two material UTP positions (gross exposure €108.6m) returned to performing status, against three decidedly smaller exposures acquiring non-performing status (involving a total amount of €39.4m); in relative terms they were equal to 2.9% of the total CIB loan book (3.8%). Net NPLs decreased from €394.7m to €316.4m, declining from 2.3% to 1.7% of the loan book, with a coverage ratio of 41.6% (41.2%).

The Covid-related impact remains low, concentrated in certain specific sectors, and involving counterparties with no problems in terms of liquidity. As at end-June 2020, around thirty waiver applications had been received, only five of which to defer payments (involving a total amount by way of principal and interest of €12m), whereas all the others were for financial covenants in the light of the lower turnover expected for 2020 as a consequence of lockdown. Given the temporary nature of the issues, and having ascertained that there are no structural problems with the counterparties' liquidity, the majority of the waivers granted have not been classified as forbearance measures, meaning that only four positions have been reclassified as stage 2, the balance of which for CIB positions at end-June was €739.4m (i.e. 4% of the total loan book), some 5% lower than at the same time last year.

The market volatility and uncertainties over the future as a result of the medical crisis affected trading activity and loan loss provisioning, the effect of which was only in part offset by the consolidation of Messier Maris et Associés.[23] Net profit therefore decreased from €265.8m to €180.7m,[24] €25.5m of which was generated in 4Q (compared with €11.1m in 3Q); ROAC came in at 10%, and the cost/income ratio rose to 48%.

[23] MMA's contribution for the twelve months (rather than 3M last year) was as follows: revenues €33.8m (€5.3m), and costs €24.2m (€5.4m), €17.8m of which labour costs (€3.8m).

[24] The various divisions' contributions break down as follows: Wholesale Banking €155.3m (of which MMA €4.6m); MBCredit Solutions €10.4m, and MBFACTA €15m.

The 8.3% reduction in revenues, from €627.1m to €575.1m, was mainly due to the decrease in net trading income from €126.8m to €77.9m, following a lower contribution from activities with CMS clients of €85.6m (€127.3m), reflecting the effect of 2019 dividend payments being postponed on the valuations of derivatives used to hedge the certificates issued. The proprietary portfolio reflected a net loss of €7.7m for the twelve months, despite the €9.5m recovery posted in 4Q from the lows recorded at end-March. Net interest income remained at €271.4m (down just 0.5%) despite the large corporate loans being less profitable, due to the higher contribution of securities (trading portfolio and CMS alternative investments); Specialty Finance fell slightly due to lower NPL volumes (-4.5%). Fee income was virtually stable at €225.8m (€227.6m), with the full consolidation of MMA (which contributed fees of €33.8m in 12M, compared to €5.3m in 3M last year) offsetting the widespread reduction in other areas, in particular Lending (down from €43.3m to €37.8m due to the decline in acquisition finance), and Specialty Finance, down from €49m to €34.6m, due to the lower contribution from NPL activities; the 4Q contribution was stable at €52m, roughly half of which was due to the resumption of advisory and M&A activities.

Revenues	**12 mths ended 30/06/19**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market	30.4	22.9	-24.6%
Lending	208.9	191.0	-8.6%
Advisory M&A	87.5	112.4	28.4%
Trading Prop	12.5	11.3	-9.6%
Market, sales and other gains	155.7	123.6	-20.6%
Specialty Finance	132.2	113.9	-13.8%
Total Revenues	**627.1**	**575.1**	**-8.3%**

Commissions	**12 mths ended 30/06/19**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market, Sales and other gains	47.8	41.0	-14.2%
Lending	43.3	37.8	-12.7%
Advisory M&A	87.5	112.4	28.4%
Specialty Finance	49.0	34.6	-29.4%
Total CIB Commissions	**227.6**	**225.8**	**-0.8%**

Operating costs rose from €269.3m to €276.2m, split equally between labour and other costs. The year-end figures reflect the consolidation of Messier Maris et Associés (€24.2m), net of which costs would reduce by 6.4%. In particular, the increase in labour costs (up 1.1%, from €139.4m to €141m) includes €17.8m from MMA, offsetting the substantial reduction in the variable component; administrative expenses (up 4.1%, from €129.9m to €135.2m) include €6.4m from MMA and higher credit recovery expenses for NPL activity in Specialty Finance.

Net provisions for financial assets (loans and banking book securities) total €23.5m, compared with €37.1m in net writebacks last year. Provisioning for Specialty Finance decreased from €26.5m to €24.5m in order to take account of the lower extra collections on NPLs. The Wholesale Banking portfolio saw the writebacks on to two UTP positions reclassified as performing (approx. €60m) wiped out by the higher provisioning for performing loans due to the worsening macroeconomic scenario (the Covid-related effect being equal to €37m) and impairment for the period (i.e. positions reclassified to Stage 2 and Stage 3) totalling €26m.

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg.
CIB	62.7	4.5	n.m.
Specialty Finance	(26.5)	(24.5)	-7.5%
Other financial assets	0.9	(3.5)	n.m.
Total	**37.1**	**(23.5)**	**n.m.**

* * *

With reference to M&A activities, a total of over seventy deals was completed during the year, roughly one-quarter of which by Messier Maris et Associés. These include in particular acting as financial advisor to Total in its acquisition of assets in Spain, and to PSA in the merger with FCA (for which it has already been paid an announcement fee this year). By industry, significant contributions were made by Consumer & Luxury (six deals, including acting as financial advisor in the sale of Supermercati Italiani), FIG (11 deals, including the strategic partnership between Prelios and Intesa Sanpaolo to manage UTP receivables, the sale by Piraeus Bank of its subsidiary Piraeus Bulgaria, the agreement between Crédit Agricole and Banco BPM in the consumer credit sector, and the renegotiation of the agreement between Intrum and Intesa regarding the acquisition of a portfolio of NPLs), real estate, where seven deals were completed (including as advisor to Castello SGR in the disposal of assets to the Oaktree fund, and the acquisition of a property in Via Santa Margherita in Milan from Kryalos through a club deal in private banking), and energy, where five deals were completed (including as advisor to Snam in its acquisition of a 49% stake in OLT, and assisting DAAM in its disposal of Spanish company Arenales). Coverage of the financial sponsor sector also remained stable, with a total of twelve deals completed, eight of which with large corporate clients (these include: Bain Capital on the acquisition of non-performing loans from MPS and of a computer engineering company), and four with Italian mid-corporate clients (including assisting Clessidra in acquiring L&S). Also in the mid-corporate area, more than ten deals were concluded in support of disposals processes and funds investing in Italian companies (some of the main deals include Laminam, CBG Acciai and AMF).

With reference to capital markets activity, the Bank has managed over sixty placements concentrated in Italy, Spain/Portugal, France, Austria and the United Kingdom, with leading roles in deals involving Banco Santander, Unicaja Banco, Banco Bilbao, Unicredit, Banco BPM, Banca IFIS, MPS, Cassa Depositi e Prestiti, Deutsche Bank, Raiffesen Bank, Virgin Media, Italgas, Iren, Compagnie de Financement Foncier, EDP, SNAM, Ziggo and Amplifon, and in some of the largest domestic ECM transactions, such as the ABOs by Cellnex, Hera, Nexi and Unieuro, and the capital increase by Juventus.

PRINCIPAL INVESTING

The Principal Investing (PI) division administers the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali in particular.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Other incomes	11.2	8.5	-24.1
Equity-accounted companies	321.2	304.3	-5.3
Total income	**332.4**	**312.8**	**-5.9**
Labour costs	(3.9)	(3.3)	-15.4
Administrative expenses	(1.2)	(1.0)	-16.7
Operating costs	**(5.1)**	**(4.3)**	**-15.7**
Net loss provisions	(3.3)	(10.9)	n.m.
Other income (losses)	—	—	n.m.
Profit before tax	**324.0**	**297.6**	**-8.1**
Income tax for the period	(9.8)	(2.6)	-73.5
Net profit	**314.2**	**295.0**	**-6.1**

	30/6/19	30/6/20
Balance-sheet data		
Banking book equity securities	656.7	673.9
IAS28 investments	3,259.8	3,204.6
Risk-weighted assets	5,641.6	8,121.9

The division posted a net profit for the twelve months down from €314.2m to €295m, on equity method valuations totalling €304.3m (30/6/19: €321.2m), and dividends and other income collected on holdings in shares and funds amounting to €15.6m (€18.3m). The sharp price correction in the various asset classes is reflected in the value adjustments to holdings in funds, in particular seed capital invested in equity products (RAM) and credit products (Cairn Capital); overall a writedown of €12.3m was charged (compared with €6.5m last year), following the substantial writebacks credited in 4Q totalling €18.7m (equal to roughly half the net loss posted for the previous quarter).

The book value of the Assicurazioni Generali investment decreased from €3,219.3m to €3,163.4m, on earnings of €303.7m, decreases in the valuation reserves totalling €221.7m, and the reduction following collection of the first tranche of the 2019 dividend (€101.4m).[25] The Group's pro rata share in the profits and valuation reserves of the investee company in 4Q differ from the figures reported by Assicurazioni General in its financial statements as at 31 March 2020, due to the share of the writebacks recorded in 2Q 2020 in respect of AFS shares and funds subject to recycling.[26]

As for the banking book securities, positions held in funds increased from €520.4m to €534.8m, reflecting the valuations referred to above and net investments totalling €25.1m; holdings in equities increased from €136.3m to €139.1m, to reflect alignment with stock market prices at end-June 2020, taken directly through the net equity valuation reserves.

[25] On 30 April 2020, the shareholders of Assicurazioni Generali gathered in general meeting approved a dividend of €0.96 split in two tranches: one of €0.50 per share, paid in May 2020; and one of €0.46 per share, payable by the year-end subject to the Board verifying *inter alia* that the limits set in the group's Risk Appetite Framework are met as at 30 September 2020, and further subject to all supervisory instructions and guidance on payment of dividends in force at the time being complied with.

[26] The pro rata share of the profits as at 31 March 2020 reported by the company have been adjusted to include the writebacks on AFS shares and funds recorded at end-June 2020, as the writedowns charged in 1Q are revised at the end of the first half of the financial year.

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The Holding Functions comprises SelmaBipiemme Leasing, MIS, Spafid Connect,[27] Ricerche e Studi and Prominvestment, and all costs relating to central Group functions (including Group treasury and ALM with the aim of optimizing funding and liquidity management on a consolidated basis, including the securities held as part of the banking book[28]), operations, support units (Planning and Control, Corporate Affairs, Investor Relations, etc.), senior management and the control units (Risk Management, Group Audit and Compliance) for the part not allocated to the business lines.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	(47.1)	(55.0)	16.8
Net trading income	45.0	37.5	-16.7
Net fee and commission income	7.4	10.6	43.2
Total income	**5.3**	**(6.9)**	**n.m.**
Labour costs	(117.1)	(116.5)	-0.5
Administrative expenses	(60.5)	(56.3)	-6.9
Operating costs	**(177.6)**	**(172.8)**	**-2.7**
Loan loss provisions	(9.0)	(9.7)	7.8
Provisions for other financial assets	0.1	(5.6)	n.m.
Other income (losses)	(54.8)	(64.3)	17.3
Profit before tax	**(236.0)**	**(259.3)**	**9.9**
Income tax for the period	70.6	76.3	8.1
Minority interest	(2.1)	(0.7)	-66.7
Net profit	**(167.5)**	**(183.7)**	**9.7**

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	1,951.6	1,819.9
Banking book securities	5,550.5	5,611.5
No. of staff	810	817 [29]
Risk-weighted assets	3,504.7	3,128.4

The net loss increased from €167.5m to €183.7m, due to the lower contribution to the banking book securities (approx. €13m in lower interest receivable and gains on disposals, plus the increase in provisioning) and the higher payments to the resolution funds (up 11.5%, from €53.5m to €59.7m). Overall the net interest expense incurred by the division increased from €47.1m to €55m, while net treasury income declined from €45m to €37.5m. Operating costs decreased from

[27] As from 1 January 2019, following the sale of the Market Connect business unit.

[28] Group Treasury finances the individual business areas' operations, applying the funds transfer pricing (FTP) rate based on the relevant curves, with varying spreads applied depending on the expiries agreed for the respective use of funds.

[29] The 817 staff are divided as follows: 119 in Selmabipiemme Leasing and 8 in the other non-core companies; 31 in group Treasury and ALM; 127 at MIS, 209 in operations, 171 in support functions, 145 in control functions and 7 in management (senior management and their assistants), with the cost of approximately 224 FTE charged back to the business lines.

€177.6m to €172.8m, due to lower functioning costs for leasing (down €4m), plus central costs contributing just over 9% of Group total costs.

The areas of operation performed as follows:

– Treasury management: the net loss increased from €54.7m to €63.1m, on higher net interest expense of €92.1m (€87.4m) and lower trading income of €37.5m (€45.1m); the reduction in net interest income is due to the lower returns on assets as a result of the reduction in interest rates and the substantial liquidity position maintained in order to keep the LCR and NSFR ratios above the internal targets set in a phase of high uncertainty and market volatility; the cost of funding remained stable at 81 bps due to increased use of less expensive sources (T-LTRO and Wealth Management deposits), given that the annual debt security funding plan had been completed by mid-March 2020 (including the first non-preferred senior issue to support the already substantial MREL buffer); while net trading income, given the fact that gains on the banking book were virtually unchanged at €51m (€55m) reflects the negative fair values of the hedging strategies implemented in order to allow more active management of the segment, plus the effects of the provisioning for HTC and HTC&S securities (€6m, due to the downgrade of Italian sovereign debt and the new macroeconomic scenario under IFRS 9);

– Leasing operations show a sharp reduction in net profit, to €1m (€3.2m), due to extraordinary charges in connection with the staff restructuring plans (€4.5m), plus higher loan loss provisioning (up from €8.6m to €9.7m); the 7.3% reduction in revenues, from €42.3m to €39.2m, was largely offset by the reduction in operating costs, from €27m to €23m. Customer leases outstanding declined from €1,951.6m to €1,819.9m, on new business worth €290.4m (€433m last year). Gross NPLs rose from €174.3m to €185m, representing 9.8% (8.6%) of the total; similarly, net NPLs increased from €111.8m to €118.9m (up 6.4%), with a coverage ratio of 35.8% (35.9%). Net bad loans totalled €17.5m (€24.1m), and represent 1% (1.2%) of total loans, with a coverage ratio of 53.4% (46.8%). Much of the leasing book was affected by the moratoria granted under Article 56 of the "Cura Italia" decree, which allowed for deferral of half-yearly instalments. Applications in respect of leases worth an aggregate amount of €661.2m were granted (more than 90% of the 7,029 applications received), representing slightly over 35% of total leases; of these, almost 90% were for clients showing no deterioration in credit risk. The share of leases classified as Stage 2 increased from €120.1m to €122.1m in the year, €2.6m of which in the last four months; the coverage ratio for performing exposures (Stage 1 and Stage 2) rose to 0.7%.

* * *

The financial highlights for the other Group companies in the twelve months under review are shown below:

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	2.7	(2.5)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.7	(0.7)	—	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	33.8	(23.5)	—	7.4
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	1.2	(2.0)	—	(0.5)
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	12.9	(9.4)	(15.5)	(10.8)
MBFACTA	100%	Corporate and Investment Banking	51.3	(10.9)	(18.7)	14.6
MBCredit Solutions	100%	Corporate and Investment Banking	63.8	(42.8)	(5.3)	11.4
MB Contact Solutions	100%	Corporate and Investment Banking	—	—	—	—
Compass Banca	100%	Consumer Banking	983.8	(290.8)	(320.3)	245.5
Futuro	100%	Consumer Banking	41.7	(16.2)	(3.9)	14.6
Quarzo S.r.l.	90%	Consumer Banking	0.2	(0.2)	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	44.9	(0.8)	—	32.7
Compass Rent	100%	Consumer Banking	—	—	—	—
CheBanca!	100%	Wealth Management	318.4	(249.8)	(21.4)	22.4
Mediobanca Covered Bond	90%	Wealth Management	0.1	(0.1)	—	—
CMB Monaco	100%	Wealth Management	101.7	(69.3)	(0.6)	27.8
Spafid	100%	Wealth Management	8.7	(9.1)	(0.7)	—
Spafid Family Office SIM	100%	Wealth Management	1.4	(1.2)	—	0.1
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	16.0	(20.8)	—	(4.4)
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	—	—	—	—
RAM Active Investments (data in CHFm)*	89.3%	Wealth Management	22.7	(18.5)	—	3.0
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	3.0	(2.3)	—	0.6
Compagnie Monégasque de Gestion	100%	Wealth Management	5.6	(2.7)	—	2.0
Spafid Trust S.r.l.	100%	Wealth Management	0.6	(0.7)	—	(0.1)
Mediobanca SGR S.p.A.	100%	Wealth Management	25.6	(14.3)	—	8.0
Mediobanca Management Company S.A.	100%	Wealth Management	3.9	(2.2)	—	1.3
Mediobanca International Immobilière	100%	Holding Functions	0.2	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	Holding Functions	39.2	(27.4)	(9.7)	1.8
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	—	—	—	—
Mediobanca Innovation Services	100%	Holding Functions	0.1	(0.1)	—	(2.5)
Ricerche e Studi	100%	Holding Functions	2.3	(2.3)	—	—
Spafid Connect	100%	Holding Functions	2.4	(3.0)	(0.1)	(0.3)

* Taking into account the put-and-call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 124.

(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity[1]	No. of staff
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	7.0	—	5.7	5
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	11.3	10.0	0.9	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	—	—	—	36
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	0.4	—	(1.2)	5
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	6,428.6	4,912.6	341.5	19
MBFACTA	100%	Corporate and Investment Banking	1,838.9	1,765.8	151.8	35
MBCredit Solutions	100%	Corporate and Investment Banking	416.4	358.8	151.5	217
MB Contact Solutions	100%	Corporate and Investment Banking	0.6	—	0.5	—
Compass Banca	100%	Consumer Banking	13,029.6	11,461.0	1,919.1	1.370
Futuro	100%	Consumer Banking	1,617.7	1,576.4	144.3	69
Quarzo S.r.l.	90%	Consumer Banking	0.6	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	403.5	123.0	172.3	1
Compass Rent	100%	Consumer Banking	2.0	—	2.0	—
CheBanca!	100%	Wealth Management	23,466.1	10,235.0	505.4	1.429
Mediobanca Covered Bond	90%	Wealth Management	0.6	—	0.1	—
CMB Monaco	100%	Wealth Management	5,416.2	1,803.8	806.6	242
Spafid	100%	Wealth Management	57.3	—	46.5	48
Spafid Family Office SIM	100%	Wealth Management	1.8	—	0.9	3.0
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	14.4	—	9.3	54
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	0.1	—	0.1	—
RAM Active Investments (data in CHFm) *	89.3%	Wealth Management	30.1	—	24.3	38
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	9.6	—	3.6	7
Compagnie Monégasque de Gestion	100%	Wealth Management	4.5	—	-0.7	9
Spafid Trust S.r.l.	100%	Wealth Management	1.5	—	1.4	3
Mediobanca SGR S.p.A.	100%	Wealth Management	47.3	—	28.8	49
Mediobanca Management Company S.A.	100%	Wealth Management	13.5	—	6.8	6
Mediobanca International Immobilière	100%	Holding Functions	1.9	—	1.8	—
SelmaBipiemme Leasing	60%	Holding Functions	1,952.6	1,820.0	210.9	119
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.4	—	(0.6)	—
Mediobanca Innovation Services	100%	Holding Functions	93.1	—	37.5	127
Ricerche e Studi	100%	Holding Functions	1.9	—	0.1	14
Spafid Connect	100%	Holding Functions	10.0	—	7.3	7

[1] Does not include profit for the period.

* Taking into account the put-and-call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 124.

Finally, it should be noted that:

– On 29 April 2020, Compagnie Monégasque de Banque approved its consolidated financial statements for the twelve months ended 31 December 2019, which reflect a net profit of €13.3m, higher than last year (€12.3m), on higher revenues (up from €94m to €103m), only in part offset by the increase in costs which were up 12% (from €59m to €66.1m), reflecting the introduction of a new management team and enhancement of the commercial structure. Growth was recorded in both net interest income (up 14.6%, from €37.7m to €43.2m) and net fee income (up 4.8% from €58.3m to €61.1m), reflecting the increase in the asset headings: customer loans rose from €1,250m to €1,633m, deposits held with banks increased from €2,339m to €2,740m, and customer deposits grew from €3,257m to €3,952m; net AUM/AUA increased from €6.7bn to €7.5bn, taking TFAs up from €10bn to €11.4bn.

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2020 between companies forming part of the Mediobanca Group and related parties, and transactions undertaken between such parties during the financial year, are illustrated in Part H of the Notes to the Accounts, along with all the information required in terms of transparency pursuant to Consob resolution 17221 issued on 12 March 2010. All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing for parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company affected by this provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

In addition to the customary information on financial risks (credit, market, liquidity and operational risks), the Notes to the Accounts contain a description of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP self-assessment process required by the regulations in force.

In particular, this involves concentration risk versus Italian groups in the Group's corporate activities, financial risk on the banking book (primarily interest rate risk), strategic or business risk, risk deriving from exposure to volatility on financial markets for the equities held in the HTCS portfolio, and exposure to sovereign debt.

Consolidated non-financial statement

The Group publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Article 4 of Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures, in order to facilitate understanding of the Group's activities, performance, results and impact generated.

The Consolidated Non-Financial Statement is published annually (www.mediobanca.com, "Sustainability"), and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally-recognized standards in non-financial reporting.

Research

R&S has continued with its analysis of companies and capital markets as in the past. The company produced the forty-third edition of its Annual Directory (the last in the series), which includes analysis of leading Italian listed companies, a survey of local utilities operating in the largest Italian municipalities, examined both from an earnings/financial perspective, and in terms of the quality and efficiency provided by them, and a new edition of the leading international banks (also the last in the series).

Rating

As a result of the Covid-19 emergency, all the ratings agencies stepped up their monitoring of the various countries' growth prospects, which entailed major revisions for Europe and Italy in particular.

From as early as end-March 2020 some of the ratings agencies revised their outlook for the Italian banking sector to Negative, ahead of the half-yearly review of the sovereign debt rating, which in the end saw only Fitch downgrade Italy's rating from "BBB" to "BBB-" with stable outlook.

Given the cap mechanism in place on banks' ratings, the situation for Mediobanca is currently as follows: S&P Global rating confirmed as "BBB" for the long term and "A-2" for the short term with "negative" outlook (already assigned at end-2019); Moody's confirmed its rating as "Baa1" for the long term and "P-2" for the short term with "negative" outlook (previously "stable"); and Fitch Ratings, following its downgrade of Italian sovereign debt, cut its long-term rating by notch to "BBB-", its rating for long-term deposits to "BBB", and its rating for short-term debt to "F3" with stable outlook.

Outlook

The sharp reduction in new loans in the last four months of FY 2019-20 will affect the contribution made by Consumer Banking and Specialty Finance to next year's revenues. In this scenario, the Group has launched a series of initiatives to keep down the cost of funding and increase the proprietary portfolio's contribution, including through temporary use of the T-LTRO programme. The anticipated reduction in net interest income could be offset by growth in fees generated from Wealth Management, given the healthy growth in assets reported in 4Q which should continue next year, and from Corporate and Investment Banking, where the deal pipeline is decidedly robust. Furthermore, in the absence of any market corrections which are not foreseeable, the contribution from net trading income should return to the levels seen in previous years. Costs will continue to reflect the implementation of IT investment plans and the enhancement of the commercial network, in accordance with the guidelines of the 2019-23 Strategic Plan. The cost of risk is expected to normalize in the second half of the year, and so is expected to increase slightly on an annual basis, in Consumer Banking especially.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	Net profit (loss)
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,674,459	42,198
Net surplus over book value for consolidated companies	14,822	374,515
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	394	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	4,358,524	183,669
Dividends received during the period	—	
Total	**9,048,199**	**600,382**

Milan, 30 July 2020

THE BOARD OF DIRECTORS

DECLARATION BY HEAD
OF COMPANY FINANCIAL REPORTING

DECLARATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS as required by Article 81-ter of Consob resolution no. 11971 issued on 14 May 1999 as amended

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   - were adequate in view of the company's characteristics;
   - were effectively applied in the year ended 30 June 2020.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2020 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT frameworks).

3. It is further hereby declared that

   3.1 the consolidated financial statements:
   - has been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
   - corresponds to the data recorded in the company's books and account ledgers;
   - is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

   3.2 the review of operations contains reliable analysis of the Group's operating performance and results, and of the situation of Mediobanca S.p.A. and the group of companies comprised within its area of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

Milan, 16 September 2020

Chief Executive Officer	*Head of Company Financial Reporting*
Alberto Nagel	Emanuele Flappini

EXTERNAL AUDITORS' REPORT

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Mediobanca SpA

Consolidated Financial Statements as of 30 June 2020

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Mediobanca SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediobanca Group (the Group), which comprise the Consolidated Balance Sheet as of 30 June 2020, the Consolidated Profit and Loss Account, the Consolidated Comprehensive Profit and Loss Account, the Statement of Changes to Consolidated Net Equity, the Consolidated Cash Flow Statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Mediobanca SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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

Recoverable amount of intangible assets with an indefinite useful life arising from business combinations
 	
Notes to the accounts:
Part A- Accounting policies, Section 2 paragraph "A.2 Significant accounting policies – Intangible assets".
Part B – Notes to the Consolidated Balance Sheet, "Section 10, – Heading 100 - Intangible assets".
Part C – Notes to the Consolidated Profit and Loss Account, "Section 19, Heading 270 – Impairment charges to goodwill".
 	
As at 30 June 2020 the carrying amount of intangible assets with an indefinite useful life arising from business combinations amounted to Euro 748.6 million, Euro 666.5 million of which relating to goodwill and Euro 82 million related to trademarks.
 	
During the financial year, an impairment was charged for to Euro 96.9 million due to the partial impairment of the carrying amount of goodwill arising from the acquisition of the subsidiary RAM Active Investments S.A.
 	
The Directors are required to assess the recoverable amount of intangible assets with an indefinite useful life at least once a year through an impairment test. In accordance with IAS 36 this assessment is based on the comparison between the carrying amount and the higher of the fair value less costs of disposal and the value in use of each cash generating unit ("CGU") to which these intangible assets are allocated.
 	
The recoverable amount of each CGU was estimated by the Directors also with the support of independent third-party experts, by applying the Dividend Discount Model methodology, with excess capital version for capital-intensive CGUs.
 	
This valuation method, which is a consolidated
	In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate, we took into account the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following activities were performed also with the support of experts belonging to the PwC network:
	
	• Understanding and evaluation of the process and methodology adopted by the Directors to carry out the impairment tests of the cash generating units ("CGUs");
	• Verification that the valuation method adopted was in line with the requirements of IAS 36, taking account of the acknowledged practice, the distinctive characteristics of each CGU, as well as the recent communications from the Supervisory Authorities issued following the Covid-19 health emergency;
	• Verification of the completeness of the scope of the CGUs tested for impairment and, on a sample basis:
	  - Comparison of the forecast data prepared during the previous year with the actual data of the current year in relation to each CGU, in order to verify the reasonableness of the Directors' assumptions;
	  - Critical analysis of the reasonableness of the future projections revised by the Directors in light of the uncertainty linked to the Covid-19 health emergency;
	  - Assessment of the criteria to determine the main quantitative parameters (cost of capital, discount and growth rates) developed by the Directors also with the support of independent third party experts and used to perform impairment tests;

and acknowledged methodology consistent with the prevailing practice, requires the use of information, parameters and assumptions that result in a high degree of complexity of the estimation processes, with particular reference to the expected future cash flows.

For the current year the estimation process proved to be far more complex considering the exceptional macro-economic scenario due to the Covid-19 health emergency ; when deemed necessary, the Directors have therefore adjusted their estimates of cash flows projections.

For the reasons set out above, we considered the recoverable amount of intangible assets with an indefinite useful life arising from business combinations as a key audit matter for the audit of the consolidated financial statements of Mediobanca Group as at 30 June 2020.

- Verification of the accuracy of the impairment tests prepared by the Directors through an independent recalculation and comparison between the recoverable amount of each CGU with its carrying amount.
- Examination of the sensitivity analyses performed by the Directors on the main quantitative parameters, whose change could significantly impact the estimated recoverable amount;
- Verification of the appropriateness and completeness of disclosures provided by the Directors in the notes to the accounts as required by the International Financial Reporting Standards and the applicable regulatory framework, as well as the recent communications from the Supervisory Authorities issued in the aftermath of the Covid-19 health emergency.

Valuation of loans to customers measured at amortized cost

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

As of 30 June 2020 loans to customers were equal to Euro 47,225 million, corresponding to 94 per cent of line item "*40 b) Financial assets at amortized cost – due from customers",* equal to Euro 50,024 million and corresponding to 60 per cent of total assets in the consolidated financial statements.

Net losses on loans to customers charged in the year amounted to Euro 393.6 million.

We paid special attention to the measurement of

In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate to the circumstances, we also took account of the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following main activities were performed also with the support of experts belonging to the PwC network:

- Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software applications used;
- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of loans to customers and tests of operating effectiveness of those controls;
- Verification, on a sample basis, of the reasonableness of the policies,

the above assets in the course of our audit considering the materiality of the balance as well as the complexity of the measurement processes and methods.

Estimation processes require significant assumptions, aside from the verification of the SICR (Significant Increase in Credit Risk) and the allocation of the portfolios to the various risk stages (Staging), also when determining the hypotheses and inputs to the ECL (Expected Credit Loss) models and, in relation to assets measured individually (third stage), when estimating the expected future cash flows, the timing of those cash flows, and the realisable value of any collateral.

During the current year these estimation processes proved to be far more complex considering the exceptional nature of the present macro-economic scenario due to the Covid-19 health emergency which required, as also pointed out in the recent communications from the Supervisory Authorities and the standard setters, the update of the processes and methods to measure loans, with particular regard to the SICR determination, and the reasonableness of the forward looking information used when defining the expected macro-economic scenarios for the determination of the ECL.

procedures and models used to measure the SICR, for the stage allocation and for determining the ECL, on both a collective and individual basis. Special attention was paid to the parties which adopted and benefitted from measures in support of the economy, including government measures and those prompted by trade associations or by the Group (typically moratoria, waivers of covenants and rescheduling) following the Covid-19 health emergency;

- Understanding and verification of the criteria to determine the inputs used in the models for ECL calculation. Specifically, we verified the reasonableness of the estimates made by the Directors when defining the expected macro-economic scenarios with specific regard to the adjustments to the satellite model forecasts used to estimate the risk parameters such as the PD (Probability of Default) and the LGD (Loss Given Default), with a view to consider the increased risk in the current context linked to the Covid-19 health emergency. Specific tests were performed on the correct application of the credit conversion factors for off-balance sheet commitments and exposures;
- Verification of the correct application of the model defined for performing loans (first and second stage), of the completeness and accuracy of the data bases used in the ECL calculation and the accuracy of the calculation formulas of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification among performing loans (first and second stage) and among non-performing loans (third stage) based

	on the available information on the debtor's status and other available evidence, including from external sources. With specific regard to non-performing loans (third stage), specific analyses were conducted in relation to the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collaterals securing those exposures and the estimated timing of recovery; • Examination of the sensitivity analyses carried out by the Directors on the expected losses recorded at year-end compared with changes to the expected macro-economic scenario in the short/medium term; • Analysis of the results of the activities performed by the external auditors of the subsidiaries; • Verification of the completeness and adequacy of the disclosures provided in the notes to the accounts by the Directors in accordance with the requirements of the International Financial Reporting Standards and the regulatory framework as well as the recent communications issued the Supervisory Authorities and the standard setters following the Covid-19 health emergency.
Measurement of complex financial instruments (securities and derivatives) not quoted in active markets and measured at fair value on a recurring basis *Notes to the accounts:* *Part A – Accounting policies – A.2 Significant accounting policies and A.4 Information on fair value.* *Part B – Notes to the Consolidated Balance Sheet, Assets, Section 2, Section 3 and Section 5, and Liabilities, Section 1, Section 2, Section 3 and Section 4.* *Part C – Notes to the Consolidated Profit and Loss Account, Section 4, Section 5 and Section 7.*	In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, to address this key audit matter we performed the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software application used; • Understanding and evaluation of the design of relevant controls over the monitoring, classification and

Part E – Information on risks and related hedging policies – 1.2 Market risks.

As part of our audit we paid special attention to the analysis of the valuation models of complex financial instruments not quoted in active markets and measured at fair value on a recurring basis.

Certain types of securities and derivative instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

As of 30 June 2020 financial instruments measured at fair value on a recurring basis with fair value hierarchy levels 2 and 3 showed a positive fair value equal to Euro 4,321.6 million, corresponding to about 5.5 per cent of total assets in the balance sheet and a negative fair value equal to Euro 4,620.1 million, corresponding to about 6 per cent of total balance sheet liabilities.

This was considered as a key audit matter due to the materiality of the amount, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used, beside being numerous and different in relation to the type of instruments, require developing specific qualitative and quantitative assumptions that can bring significantly different results.

measurement of financial instruments with fair value hierarchy levels 2 and 3 and test of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and valuation models used by the Group to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness of the qualitative and quantitative assumptions made and inputs used, as well as the adjustments to certain parameters in order to reflect the use of updated macro-economic scenarios following the Covid-19 health emergency. These analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the consolidated financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Mediobanca SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 27 October 2012, the shareholders of Mediobanca SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 30 June 2013 to 30 June 2021.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Mediobanca Group as of 30 June 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Mediobanca Group as of 30 June 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediobanca SpA as of 30 June 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Mediobanca SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 1 October 2020

PricewaterhouseCoopers SpA

Signed by

Raffaella Preziosi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€ '000)

Assets	30/6/20	30/6/19
10. Cash and cash equivalents	3,219,951	738,362
20. Financial assets at fair value with impact taken to profit and loss	9,585,412	10,622,973
a) Financial assets held for trading	*8,818,590*	*9,765,653*
b) Financial assets designated at fair value	*51,002*	*51,976*
c) Other financial assets mandatorily at fair value	*715,820*	*805,344*
30. Financial assets at fair value with impact taken to comprehensive income	3,627,591	3,886,771
40. Financial assets at amortized cost	55,957,290	56,599,859
a) Due from banks	*5,932,944*	*7,961,932*
b) Due from customers	*50,024,346*	*48,637,927*
50. Hedging derivatives	464,718	412,234
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,204,702	3,259,777
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments [1]	495,772	285,849
100. Intangible assets	815,996	901,758
of which:		
goodwill	*666,536*	*772,427*
110. Tax assets	908,837	806,033
a) current	*251,337*	*146,550*
b) deferred	*657,500*	*659,483*
120. Assets classified as held for sale	—	22,168
130. Other assets	669,396	708,945
Total assets	**78,949,665**	**78,244,729**

[1] The increase is mainly due to the First Time Application of the IFRS16 "Leasing" accounting principle offset by the debt to the lessor recognized as financial liabilities measured at amortized cost.

(€ '000)

Liabilities and net equity	30/6/20	30/6/19
10. Financial liabilities at amortized cost	58,941,428	57,936,936
a) Due to banks	*12,810,330*	*13,870,858*
b) Due to customers	*26,373,214*	*23,987,882*
c) Debt securities in issue	*19,757,884*	*20,078,196*
20. Trading financial liabilities	7,956,935	8,027,751
30. Financial liabilities designated at fair value	216,020	55,859
40. Hedging derivatives	465,225	414,241
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	517,316	600,938
a) current	*191,868*	*281,766*
b) deferred	*325,448*	*319,172*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	798,069	948,958
90. Staff severance indemnity provision	27,862	27,808
100. Provisions	129,493	162,515
a) commitments and financial guarantees	*13,964*	*10,536*
b) post-employment and similar benefits	*2,573*	*1,840*
c) other provisions	*112,956*	*150,139*
110. Insurance reserves	157,244	170,838
120. Revaluation reserves	374,650	597,504
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,265,864	5,891,473
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,617	443,608
180. Treasury share (-)	(231,538)	(141,989)
190. Minority interests (+/-)	91,492	89,658
200. Profit/(loss) for the period (+/-)	600,382	823,025
Total liabilities and net equity	**78,949,665**	**78,244,729**

Consolidated Profit and Loss Account

(€ '000)

Items	30/6/20	30/6/19
10. Interest and similar income	1,943,892	1,885,990
of which: interest income calculated according to the effective interest method	*1,741,687*	*1,618,642*
20. Interest expense and similar charges	(502,197)	(481,792)
30. Net interest income	**1,441,695**	**1,404,198**
40. Fee and commission income	625,292	584,923
50. Fee and commission expense	(138,630)	(144,455)
60. Net fee and commission income	**486,662**	**440,468**
70. Dividends and similar income	87,425	105,803
80. Net trading income	(18,022)	(12,148)
90. Net hedging income (expense)	(4,787)	5,426
100. Gain (loss) on disposal/repurchase:	58,395	79,359
a) financial assets measured at amortized cost	*(2,672)*	*2,365*
b) financial assets valued at fair value with impact taken to comprehensive income	*60,421*	*66,799*
c) financial liabilities	*646*	*10,195*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	33,098	16,399
a) financial assets and liabilities designated at fair value	*2,331*	*(28)*
b) other financial assets mandatorily valued at fair value	*30,767*	*16,427*
120. Total income	**2,084,466**	**2,039,505**
130. Net writeoffs (writebacks) for credit risk:	(402,364)	(210,291)
a) financial assets measured at amortized cost	*(397,559)*	*(209,512)*
b) financial assets valued at fair value with impact taken to comprehensive income	*(4,805)*	*(779)*
140. Gains (losses) from contractual modifications without derecognition	(253)	(199)
150. Net income from financial operations	**1,681,849**	**1,829,015**
160. Premiums earned (net)	57,532	59,173
170. Other income (net) from insurance activities	(15,791)	(12,715)
180. Net profit from financial and insurance activities	**1,723,590**	**1,875,473**
190. Administrative expenses:	(1,235,439)	(1,233,763)
a) personnel costs	*(605,015)*	*(581,141)*
b) other administrative expenses	*(630,424)*	*(652,622)*
200. Net transfers to provisions:	13,720	(23)
a) commitments and financial guarantees	*(3,427)*	*3,707*
b) other sums set aside (net)	*17,147*	*(3,730)*
210. Net adjustments to tangible assets [1]	(53,551)	(13,890)
220. Net adjustments to intangible assets	(30,222)	(30,274)
230. Other operating income (expense)	189,407	163,891
240. Operating costs	**(1,116,085)**	**(1,114,059)**
250. Gain (loss) on equity investments	304,269	321,157
260. Net result from fair value valuation of tangible and intangible assets	—	—
270. Goodwill writeoffs	(96,900)	—
280. Gain (loss) on disposal of investments	59	166
290. Profit (loss) on ordinary activity before tax	**814,933**	**1,082,737**
300. Income tax for the year on ordinary activities	(213,504)	(256,529)
310. Profit (loss) on ordinary activities after tax	**601,429**	**826,208**
320. Gain (loss) on operating assets sold, net of tax	—	—
330. Net profit (loss) for the period	**601,429**	**826,208**
340. Net profit (loss) for the period attributabe to minorities	(1,047)	(3,183)
350. Net profit (loss) for the period attributable to Mediobanca	**600,382**	**823,025**

[1] Includes the effects of the accounting standard IFRS16 "Leasing" replacing the rental fees which until 30/6/19 were accounted for under "other administrative expenses".

Consolidated Comprehensive Profit and Loss Account

(€ '000)

		30/6/20	30/6/19
10.	Profit (Loss) for the period	601,429	826,208
	Other income items net of tax without passing through profit and loss	**656**	**(11,923)**
20.	Equity securities designated at fair value with impact taken to comprehensive income	3,148	10,928
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(1,724)	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(2,261)	(1,106)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	1,493	(21,745)
	Other income items net of tax passing through profit and loss	**(222,294)**	**(133,288)**
100.	Foreign investments hedges	(3,212)	(3,838)
110.	Exchange rate differences	5,475	3,706
120.	Cash flow hedges	11,212	(28,582)
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(15,390)	(23,179)
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	(220,379)	(81,395)
170.	**Total other income items, net of tax**	**(221,638)**	**(145,211)**
180.	**Comprehensive income (Heading 10 +170)**	**379,791**	**680,997**
190.	**Consolidated comprehensive income attributable to minorities**	**1,478**	**3,337**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**378,313**	**677,660**

Statement of Changes to Consolidated Net Equity

(€ '000)

	Total Group net equity at 30/6/2019	Modification of start-of-period amounts [1]	Amounts at 01/07/2019	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/20	Net equity attributable to the group at 30/6/20	Net equity attributable to the minorities at 30/6/20
				Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity						Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/20			
							New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares Derivatives	Stock options [2]					
Share capital:	460,237	—	460,237	—	—	—	9	—	—	—	—	—	—	—	460,246	443,617	16,629
a) ordinary shares	460,237	—	460,237	—	—	—	9	—	—	—	—	—	—	—	460,246	443,617	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	2,197,454	—	—	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	5,962,296	(513)	5,961,783	826,208	(408,549)	(35,893)	(9)	(15,979)	—	—	—	12,665	—	—	6,340,226	6,265,864	74,362
a) retained earnings	5,821,906	—	5,821,906	826,208	(408,549)	(36,678)	(9)	—	—	—	—	—	—	—	6,202,878	6,129,143	73,735
b) others	140,390	(513)	139,877	—	—	785	—	(15,979)	—	—	—	12,665	—	—	137,348	136,721	627
Valuation reserves	594,679	—	594,679	—	—	(785)	—	—	—	—	—	—	—	(221,638)	372,256	374,650	(2,394)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(141,989)	—	(141,989)	—	—	—	—	(89,549)	—	—	—	—	—	—	(231,538)	(231,538)	—
Profit (loss) for the period	826,208	—	826,208	(826,208)	—	—	—	—	—	—	—	—	—	601,429	601,429	600,382	1,047
Total net equity	9,898,885	(513)	9,898,372	—	(408,549)	(36,678)	—	(105,528)	—	—	—	12,665	—	379,791	9,740,073	X	X
Net equity attributable to the group	9,809,227	(513)	9,808,714	—	(408,549)	(37,034)	—	(105,528)	—	—	—	12,665	—	378,313	X	9,648,581	X
Net equity attributable to minorities	89,658	—	89,658	—	—	356	—	—	—	—	—	—	—	1,478	X	X	91,492

[1] Includes the effects of the first application of IFRS16 accounting standard deriving from sub-leasing contracts.

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

Statement of Changes to Consolidated Net Equity

(€ '000)

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

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

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

Consolidated Cash Flow Statement Direct Method

(€ '000)

	Amount 30/6/20	30/6/19
A. Cash flows from operating activity		
1. Operating activity	**251,860**	**195,892**
- interest received	1,838,280	1,723,804
- interest paid	(680,668)	(678,589)
- dividends and similar income	78,166	94,091
- net fees and commission income	207,441	153,751
- cash payments to employees	(469,204)	(444,184)
- net premium income	53,910	57,263
- other premium from insurance activity	(122,091)	(129,294)
- other expenses paid	(492,364)	(768,217)
- other income received	226,707	411,928
- income taxes paid	(388,317)	(224,661)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**5,234,187**	**(197,097)**
- financial assets held for trading	177,267	(813,289)
- financial assets valued at fair value	—	—
- financial assets mandatorily valued at fair value	122,730	(3,657)
- financial assets valued at fair value with impact taken to profit and loss	278,923	961,638
- financial assets valued at amortized cost	4,455,972	(1,307,743)
- other assets	199,295	965,954
3. Cash generated/absorbed by financial liabilities	**(2,544,716)**	**14,069**
- financial liabilities valued at amortized cost	(2,264,569)	(266,712)
- financial liabilities held for trading	(72,813)	257,002
- financial liabilities designated at fair value	160,878	—
- other liabilities	(368,212)	23,779
Net cash flow (outflow) from operating activities	**2,941,331**	**12,864**
B. Cash flows from investment activity		
1. Cash generated from:	**101,363**	**193,072**
- disposal of shareholdings	—	1,443
- dividends received in respect of equity investments	101,357	182,442
- disposals of tangible assets	6	192
- disposals of intangible assets	—	27
- disposals of subsidiaries or business units	—	8,968
2. Cash absorbed by:	**(48,774)**	**(25,747)**
- purchases of shareholdings	—	—
- purchases of tangible assets	(21,648)	(10,416)
- purchases of intangible assets	(27,126)	(15,331)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**52,589**	**167,325**
C. Cash flows from funding activity	**(512,331)**	**(679,828)**
- issuance/acquisition of treasury shares	(105,528)	(266,186)
- issuance/acquisition of capital instruments	—	(2,412)
- distribution of dividends and other purposes	(406,803)	(411,230)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(512,331)**	**(679,828)**
Net cash flow (outflow) during the period	**2,481,589**	**(499,639)**

Reconciliation of Movements in Cash Flow during the Period

(€ '000)

Accounting items	Amount	
	30/6/20	30/6/19
Cash and cash equivalents: balance at start of period	738,362	1,238,001
Total cash flow (ouflow) during the period	2,481,589	(499,639)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	3,219,951	738,362

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 June 2020 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 30 June 2020 have also been prepared on the basis of the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (sixth update issued on 30 November 2018), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.

SECTION 2

General principles

These consolidated financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive income statement;

– Statement of changes to net equity;

– Cash flow statement (direct method);

– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

IFRS 16 came into force on 1 January 2019. The new standard has been incorporated into the Group's accounting policies, and has been applied since 1 July 2019, for further details please see "New IFRS 16: Leasing" in this section. Certain other changes to the accounting standards have also been applied since 1 July 2019, none of which is of especial relevance to the Mediobanca Group, having been ratified by the European Commission in the course of 2018 and 2019. In particular the following regulations have come into force: Commission Regulation no. 2018/498 of 22 March 2018 – Amendments to IFRS 9 – *Prepayment features with negative compensation;* no. 2019/237 of 8 February 2019 – Amendments to IAS 28 – *Investments in associates and joint ventures*; no. 2019/402 of 13 March 2019 – Amendments to IAS 19 – *Employee benefits*; no. 2019/412 of 14 March 2019 on Amendments to IAS 12 – *Income taxes,* Amendments to IAS 23 – *Borrowing costs,* Amendments to IFRS 3 – *Business combinations,* Amendments to IFRS 11 – *Joint arrangements;* no. 2018/1595 of 23 October 2018 – *Adoption of IFRIC 23 – Uncertainty over income tax treatments,* which clarifies how to apply the booking and valuation criteria for tax laid down in IAS 12 "Income taxes" (for current and deferred tax assets and liabilities), in cases where there is uncertainty over how to account for income tax. According to IFRIC 23, the entity must assess if the taxation authority is likely to accept an uncertain tax treatment; if it is, it must establish a value for it, if not, in order to establish the taxable income (tax loss) and the other values required for tax purposes, it must apply either the most likely amount or expected value methods. The interpretation provides closer definition of the treatment of uncertainty, but for the Mediobanca Group this has not generated material changes from the approach already adopted.

It should also be noted that the Mediobanca Group has adopted the new definition of default, ahead of its coming to force, as from 30 September 2019; for further details reference is made to *"Part E – Section 3 – Non-performing credit exposures"*.

For purposes of full disclosure, it should be noted that the following regulations have been approved by the European Commission during the twelve months under review: Commission Regulation (EU) 2019/2075,[1] Commission Regulation (EU) 2019/2104[2] of 29 November 2019, Commission Regulation (EU) 2020/34[3] of 15 January 2020, and Commission Regulation (EU) 2020/551,[4] which provide explanations and clarifications of certain IAS and IFRS already in force. All these amendments and additions will be applied by the Mediobanca Group as from 1 July 2020.

Statements have also been made by the regulatory and supervisory authorities regarding the most correct way for applying the reporting standards in relation to the Covid-19 pandemic emergency. Some of the most significant of these statements, which for the most part were issued regarding the quarterly and half-yearly reporting, and hence apply to the annual financial statements as well, were as follows:

– Consob:
  Reminder no. 8/20 of 16 July 2020 and Reminder no. 6/20 of 9 April 2020 regarding: "*Covid 19 – Richiamo di attenzione sull'informativa finanziaria*", which draws the attention of members on the management and control bodies and heads of company financial reporting on the need to observe the principles underpinning the process of producing financing reporting in view of the impact which the effects of the pandemic could have with reference to business continuity, to application of IFRS 9 on financial assets, and to impairment testing;

– ESMA:
  Public Statement of 11 March 2020: "*ESMA recommends action by financial market participants for Covid-19 impact*". The statement discusses the issue of financial reporting, in connection with which certain guidelines are laid down regarding the conduct to be adopted with respect to the impact of the pandemic, in the following areas in particular: ongoing market disclosure, where issuers are reminded to disclose any relevant significant information concerning the impacts of Covid-19 on their fundamentals, economic prospects or financial situation

[1] Involves changes to the following standards: IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 37 – Provisions, contingent liabilities and contingent assets; IAS 38 – Intangible assets; IFRS 2 – Share-based payment; IFRS 3 – Business combinations; IFRS 6 – Exploration for and evaluation of mineral resources; IFRIC 12 – Service concession arrangements; IFRIC 19 – Extinguishing financial liabilities with equity instruments; IFRIC 20 – Stripping costs in the production phase of a surface mine; IFRIC 22 – Foreign currency transactions and advance consideration; SIC 32 – Intangible assets – website costs.

[2] Involves changes to the following standards: IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 10 – Events after the reporting period; IAS 34 – Interim financial reporting; IAS 37 – Provisions, contingent liabilities and contingent assets.

[3] Involves changes to the following standards IAS 39 – Financial instruments: recognition and measurement; IFRS 7 – Financial instruments: Disclosures; and IFRS 9 – Financial instruments.

[4] Involves changes to IFRS 3 – Business combinations.

as soon as possible, when such information is "relevant" and "significant", in accordance with their transparency obligations under the Market Abuse Regulation; in the area of financial reporting, issuers are reminded to guarantee maximum transparency on the actual and potential impacts of Covid-19 on their business activities, financial situation and economic performance, based on both a qualitative and quantitative assessment where possible. Disclosure is required to be made in the earliest available regular report (annual or interim, or quarterly if the company prepares quarterly reporting on a voluntary basis).

Public Statement of 25 March 2020 "*Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*", which deals with the accounting treatment of changes resulting from the introduction of support measures, and valuation of significant increases in credit risk (SICR), avoiding the automatic reclassification mechanisms instituted by IFRS 9,[5] expected credit loss estimation, public guarantees for issuers' exposures, and the issue of transparency in disclosures.

Public Statement of 20 May 2020 "Implications of the Covid-19 outbreak on the half-yearly financial reports" which recommends comply to the requirements of a transparent and consistent application of European rules, with a particular focus to International Accounting Standards, in drawing up interim financial reports that includes all the effects of the pandemic emergency.

– EBA:
Public Statement of 25 March 2020 "S*tatement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures*", compiled in conjunction and consistent with the equivalent document issued by ESMA.

Guidelines of 2 April 2020 and 25 June 2020: "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis":* the European Union (EU) and its member states, in order to minimize the economic impacts of the pandemic, have implemented a broad range of measures to support the real economy and the financial sector, including moratoria introduced by law for repayments of loans and granting borrowers various forms of relief on their outstanding obligations. Many member states have also introduced various forms of public guarantees to be applied to the new loans. The Guidelines provide a full overview of the measures adopted.

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

Guidelines of 2 June 2020: "*Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis*", on reporting and disclosure requirements to the public on measures applied in the light of the Covid-19 crisis.

- ECB:
  Press release issued on 20 March 2020*: "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus"*, containing indications on the classification and valuation of loans. The statement provides reassurance to banks regarding the fact that moratoria being granted does not necessarily constitute an automatic trigger for an exposure to be considered unlikely to pay, as in such cases payments are simply deferred by law, hence the calculation of the number of days is effectively discontinued for purposes of identifying the number of days past due once the moratoria have ended.

  Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "*IFRS 9 in the context of the coronavirus (Covid-19) pandemic*"; providing guidance on the use of forecasts in expected credit loss estimations for loans during the pandemic.

  Communication issued on 4 June 2020: "*Eurosystem staff macroeconomic projections for the euro area, June 2020*": this document contains guidance on the methods used to determine forecasts in order to estimate closing data for end-March and end-June, for which the anchor points must be the macroeconomic projections produced by the ECB staff. The specific scenario for Italy included in the baseline for the ECB projections, was published by the Bank of Italy in a document entitled *"Proiezioni macroeconomiche per l'economia italiana"* on 5 June 2020;

- IASB:
  Statement of 27 March 2020, "*IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic*", which explicitly supports the guidance provided by ESMA, the EBA and the ECB.

- IOSCO:
  Statement, 3 April 2020*: IOSCO "Statement on Application of Accounting Standards during the Covid-19 Outbreak"*: this statement draws attention to the importance of clear, reliable and transparent disclosure to provide investors with information that will help them to evaluate the impact of the pandemic on earnings and financial data. The statement acknowledges and

recommends the guidance issued by the IASB on *(i)* assessment of possible significant increases in credit risk, and *(ii)* the use of forward-looking information over the long period.

Statement, 29 May 2020: "*IOSCO Statement on Importance of Disclosure about Covid-19*", which further reiterates the guidelines on financial disclosure already referred to.

* * *

As stated in the press release issued on 31 July 2020, Mediobanca is committed to executing the strategic and operating priorities set out in its 2020-23 Strategic Plan, leveraging on the distinctive features of its business model and its proven track record of tackling crisis periods and turning problems into opportunities. In the uncertainty that still characterizes the reference macroeconomic scenario, the Group still has a robust capital position, with a CET1 ratio at all-time highs, and the expectations are currently for the operating scenario to normalize progressively by December 2020, to guarantee the strategic guidelines and objectives set in the 2019-23 Strategic Plan approved in November 2019.

New IFRS 16: Leasing

Regulatory provisions

On 1 July 2019 the new IFRS 16 on "Leasing" came into force, replacing IAS 17 and its respective interpretations,[6] as ratified by the European Commission under Regulation no. 1986/2017.

The standard introduces a change in the definition of leasing, whereby a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, meaning that long-term rental or hire contracts are also included.

The new standard also requires the lessee to represent the amount of the "right of use" for the asset covered by the leasing/rental agreement in its accounts

[6] IFRIC4 "determing whether an arrangement contains a lease" SIC15 "operating lease - incentives", and SIC27 "evaluating the subtance of transactions in the legal form of a lease".

as an asset, against the related liability in respect of the future instalments due on it discounted as at the reporting date. Thereafter the right of use is amortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing. As provided by the new standard, the Annual Report includes the additional disclosure in the specific section M. Thus there is no longer any distinction between the methods of accounting for operating and finance leases.

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

In implementing the new reporting standard, the Mediobanca Group has decided to:

– Use the “modified retrospective approach” at the FTA stage, which means recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption;
– Adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months (“short-term” or less calculated at FTA), contracts involving amounts of less than €5,000 (“low value”), and contracts for intangible assets;
– Not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question;
– If the original contract has been sub-leased to a counterparty, liability in respect of the original lease is balanced by an amount receivable from the subscriber rather than by the value in use;

The lease’s duration is estimated on the basis of the contract, experience acquired and information available at the date of first-time adoption regarding the exercise of options to extend or repay the lease early.

Effects of First Time Adoption (FTA)

Since the new principle has come into force and based on the transition choices that have been made, the Group's assets have increased by €205m, due to the right of use over properties, vehicles and other core goods being recognized under heading 90, "Property, plant and equipment".

This was matched by an equivalent increase in heading 10 "Financial liabilities recognized at amortized cost", representing the payment obligations in respect of future instalments on the leases.

As required by the reporting standard, sub-leasing contracts are recorded in heading 40 "Financial assets recognized at amortized cost" in an amount of approx. €5m; the difference between the instalment collected from the sale and the one paid in the leasing contract, approx. €500,000, was taken to Net equity.

A table reconciling the balance-sheet entries at 30 June 2019 pursuant to IAS 17 and at 1 July 2019 pursuant to IFRS 16 is shown below:

Items	30/6/19	Transition effects	IFRS 16 01/7/19
		IFRS16 impacts	
10 Cash and cash receivables	738,362	—	738,362
20 Financial assets valued at fair value with impact taken to profit and loss	10,622,973	—	10,622,973
a) trading financial assets	*9,765,653*	—	*9,765,653*
b) financial assets designated at fair value	*51,976*	—	*51,976*
c) financial assets mandatorily valued at fair value	*805,344*	—	*805,344*
30 Financial assets valued at fair value with impact taken to comprehensive income	3,886,771	—	3,886,771
40 Financial assets valued at amortized cost	56,599,859	4,754	56,604,613
50 Hedging derivatives	412,234	—	412,234
60 Adjustments to hedged financial assets (+/-)	—	—	—
70 Equity interests	3,259,777	—	3,259,777
80 Technical reserves of reinsurers	—	—	—
90 Tangible assets	285,849	205,346	491,195
100 Intangible assets	901,758	—	901,758
110 Tax assets	806,033	—	806,033
120 Held for sale financial assets	22,168	—	22,168
130 Other assets	708,945	(492)	708,454
Total assets	**78,244,729**	**209,608**	**78,454,337**

Items	30/6/19	Transition effects	IFRS 16 01/7/19
		IFRS16 impacts	
10. Financial liabilities valued at amortized cost	57,936,936	210,121	58,147,057
20. Trading financial liabilities	8,027,751	—	8,027,751
30. Financial liabilities designated at fair value	55,859	—	55,859
40. Hedging derivatives	414,241	—	414,241
50. Adjustments to hedged financial liabilities (+/-)	—	—	—
60. Tax liabilities	600,938	—	600,938
70. Liabilities associated to held for sale financial assets	—	—	—
80. Other liabilities	948,958	—	948,958
90. Staff severance payment	27,808	—	27,808
100. Provisions	162,515	—	162,515
110. Technical reserves	170,838	—	170,838
120. Evaluation reserves	597,504	—	597,504
130. Repayable shares	—	—	—
140. Equity instruments	—	—	—
150. Reserves	5,891,473	(513)	5,890,960
160. Share premiums	2,195,606	—	2,195,606
170. Share capital	443,608	—	443,608
180. Treasury shares (-)	(141,989)	—	(141,989)
190. Minority interests	89,658	—	89,658
200. Gain (loss) for the period	823,025	—	823,025
Total liabilities and net equity	**78,244,729**	**209,608**	**78,454,337**

The overall value in use (recognized to Property, plant and equipment) is €205.3m, made up as follows:

– Value in use of properties: €195.6m;

– Value in use of vehicles: €8.5m;

– Value in use of other assets: €1.2m.

The increase in assets also affects the RWAs with an approx. 6 bps impact on the capital ratios.

The table below shows a reconciliation of future commitments in respect of leases pursuant to IAS 17 with the liabilities recorded in respect of leases in the financial statements. The difference is due to the effect of discounting the amount payable at the marginal financing rate. As at the FTA date, the weighted average marginal financing rate used for liabilities in respect of leasing was 1.2%. The curve is revised on a regular monthly basis.

(€ '000)

Leasing-related commitments (ex IAS17)	Financial liabilities (ex IFRS16)	Difference
220,235	210,121	10,114

During the twelve months under review, Mediobanca continued to record new operating leases and contract renewals falling within the IFRS 16 scope of application by making use of the exemptions used in a FTA scenario.

Group project on interbank benchmark rates

Regulation (EU) 2016/1011 (the "Benchmarks Regulation", or "BMR)") has introduced new rules to avert the risks of manipulation and ensure the integrity and accuracy of the indices used as benchmarks for the valuation of financial instruments and contracts and to measure the performances of investment funds.

The BMR incorporates the guidelines of the Financial Stability Board (FSB-IOSCO) on the need to reform interbank rates in order to restore the integrity of these indicators following instances of market manipulation, and also applies to the interest rates most frequently used on markets, such as Euribor, Eonia and Libor ("critical benchmarks"), which, except for Euribor, will no longer be able to be used starting from 1 January 2022.

Euribor itself was reformed during 2019 regarding the quote mechanism and is now in line with the requisites set by the Regulation, requiring no further action from the European Money Markets Institute (EMMI). Euribor can therefore be used after 1 January 2022, hence the fair value hedges related to Euribor are considered not to be impacted by the reform.

For EONIA, by contrast, the reform is still in progress. At present, since 2 October 2019 EONIA has been complemented by a new unsecured overnight rate, the Euro Short-Term Rate (€STR), which will replace EONIA in full starting from 1 January 2022. On 27 July 2020, the London Clearing House was the first to use the new interest rate as the discount curve for IRS products. It will still be possible to calculate EONIA as €STR plus a fixed spread.

Under the reform of LIBOR rates, which is still in progress, the Financial Conduct Authority (FCA) will no longer require the banks in the panel to submit quotes from 1 January 2022, and the market is already moving towards alternative rates identified for the different currencies in which Libor is denominated.

However, the uncertainty caused by the lack of a single alternative parameter for the whole market, in particular in the valuation of the economic relationship between hedged item and hedging instrument, could lead to hedging arrangements being discontinued. To prevent this from happening, on 26 September 2019 IASB made some temporary exceptions to the regulations (chiefly regarding IFRS 9, IAS 39 and IFRS 7) that will remain in force until the reform of the benchmark indicators is complete. The exceptions mainly refer to the possibility, in valuing the economic relationship, of the benchmark used to determine the interest rate on the hedged or hedging instrument not being altered following the reform of the rates themselves, until the change itself has taken place. These exceptions have been incorporated by the European Union through Regulation (EU) 2020/34 of 15 January 2020 ("Regulation 34").

The Mediobanca Group has set up a working group to monitor the development of the interest rate reform, to supervise implementation for the Group as a whole, and to draw up all the operating procedures necessary for realization and application by year-end 2022. In particular, a Group assessment has been carried out to identify the financial products affected, the respective exposures, and the types of contract potentially requiring revision. Internal regulations have been drawn up to address scenarios in which the benchmark interest rates used by Mediobanca Group undergo material changes or are discontinued.

For the purposes of these financial statements, the Group has chosen to adopt Regulation 34 in advance, thereby doing away with the uncertainty of interpretation for certain hedge contracts indexed to underlying benchmark rates that are due to be replaced. These involve in particular IRS contracts with USD Libor as the underlying benchmark, taken out by Mediobanca S.p.A. to hedge bond issues, involving a notional amount of $2,050m.

SECTION 3

Area and methods of consolidation

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

Based on the combined provisions of IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities", the Group has proceeded to consolidate its subsidiaries on a line-by-line basis, and its associates and joint arrangements using the net equity method.

The following events in the twelve months should be noted:

– A capital increase by Cairn Capital Group Limited was completed in December 2019. Mediobanca subscribed for its own share plus other rights not taken up, increasing its equity investment in the Group company to 63.5%; certain of the call options in force have also been exercised, leading the overall equity investment to reach 70.93%;

– Activities in connection with the composition with creditors for Group company Prominvestment are progressing, as are those related to the liquidation of CMB Wealth;

– Two new companies have been incorporated: Compass Rent, 100%-owned by Compass Banca S.p.A., which rents out movable assets (second-hand vehicles in particular); and MBContact Solutions, 100%-owned by MBCredit Solutions, which operates in the phone collection segment on behalf of companies external to the Mediobanca Group.

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

Name	Registered office	Type of relationship [1]	Shareholding		% voting rights [2]
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 Line-by-line					
1. MEDIOBANCA - Banca di Credito finanziario S.p.A.	Milan	1	—	—	—
2. PROMINVESTMENT S.P.A. - under liquidation and arrangement with creditors	Milan	1	A.1.1	100.0	100.0
3. SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4. SPAFID CONNECT S.P.A.	Milan	1	A.1.5	100.0	100.0
5. MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
6. COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Montecarlo	1	A.1.1	100.0	100.0
7. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99.9	99.9
8. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.2	99.2
9. CMB WEALTH MANAGEMENT LIMITED - under liquidation	London	1	A.1.1	100.0	100.0
10. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.11	1.0	1.0
11. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
12. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
13. MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.11	100.0	100.0
14. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
15. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
16. RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
17. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
18. MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
19. QUARZO S.R.L.	Milan	1	A.1.11	90.0	90.0
20. FUTURO S.P.A	Milan	1	A.1.11	100.0	100.0
21. QUARZO CQS S.R.L.	Milan	1	A.1.20	90.0	90.0
22. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
23. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
24. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
25. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0(*)	70.9
26. CAIRN CAPITAL LIMITED	London	1	A.1.25	100.0	100.0
27. CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.25	100.0	100.0
28. CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.25	100.0	100.0
29. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
30. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
31. AMPLUS FINANCE (non operating)	London	1	A.1.25	100.0	100.0
32. SPAFID FAMILY OFFICE SIM S.P.A.	Milan	1	A.1.3	100.0	100.0
33. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
34. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
35. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
36. RAM ACTIVE INVESTMENTS S.A.	Geneve	1	A.1.1	89.3 (**)	69.0
37. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.36	100.0	100.0
38. MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0(***)	66.4
39. MESSIER MARIS & ASSOCIES LLC.	New York	1	A.1.38	100.0(***)	50.0
40. MBCONTACT SOLUTIONS S.R.L.	Milan	1	A.1.13	100.0	100.0
41. COMPASS RENT S.R.L.	Milan	1	A.1.11	100.0	100.0

* Taking into account the put-and-call option exercisable as from the third anniversary of the execution date of the transaction.

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

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

Legend

[1] Type of relationship:
1 = Majority of voting rights in ordinary AGMs.

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

2. Considerations and significant assumptions used to determine consolidation area

The area of consolidation is defined on the basis of IFRS 10, "Consolidated financial statements", which provides that control occurs when the following three conditions apply:

– When the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;
– When the investor has exposure, or rights, to variable returns from its involvement with the investee; and
– When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

Subsidiaries are consolidated on the line-by-line basis, which means that the carrying amount of the parent's investment and its share of the subsidiary's equity after minorities are eliminated against the addition of that company's assets and liabilities, income and expenses to the parent company's totals. Any surplus arising following allocation of asset and liability items to the subsidiary is recorded as goodwill. Intra-group balances, transactions, income and expenses are eliminated upon consolidation.

Investments in associates and joint arrangements are consolidated using the equity method. Associates are companies which are subject to dominant influence, a concept which is defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, etc.

The definition of joint arrangements used is that provided in IFRS 11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

Under the equity method of accounting, any changes in the net equity of the investee company since the acquisition date, including profits and losses, are included in the book value of the investment (originally recognized at cost). The gain or loss generated by the investment is recorded pro rata to the consolidated profit and loss account, along with any long-term reductions in value or reversals; while all other changes are taken through net equity.

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

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

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

The Group considers that no restrictions currently in force, under the terms of its Articles of Association, shareholders' agreements or external regulations, would prevent it or otherwise limit its ability to access its assets or settle its liabilities.

The Group also considers that no rights are in force to protect the interest of minority or third parties.

5. Other information

The reporting date for the consolidated financial statements is the date on which the parent company's financial year ends. In cases where Group companies have reporting periods ending on different dates, these companies are consolidated based on financial and earnings situations prepared as at the reporting date for the consolidated financial statements.

The financial statements of all subsidiaries have been drawn up based on the same accounting principles used at Group level.

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement referring to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, par. 33-34) provided that due account is taken of any material transactions or events that occur between said date and the reporting date for the financial statements. As mentioned above, Assicurazioni Generali, for its own consolidated financial statement, will apply the IFRS 9 accounting principle starting from 1st January 2023 together with the first time application of the new accounting principle IFRS 17 – Insurance contracts which will replace the existing IFRS 4 - Insurance Contracts. Assicurazioni Generali will therefore continue to apply IAS 39 until 1st January 2023. It should be noted that under this standard, the losses on the AFS equity portfolio recorded in the valuation reserves must be recognized, or "recycled", through profit and loss if certain quantitative or timing thresholds are exceeded considered evidence of impairment. The thresholds set internally by Assicurazioni Generali are a loss of over 30% compared to the acquisition value, and a prolonged loss, again relative to acquisition value, recorded for more than twelve months. Any accounting effects of such "recycling" on the interim financial situations – which are not prepared in accordance with IAS 34 – are not considered to be definitive, and if material, will be including among the subsequent events that require the reporting package to be amended.

SECTION 4

Events subsequent to the reporting date

On 22 July 2020, at the Board of Directors' proposal, the shareholders of Compagnie Monégasque de Banque gathered in extraordinary general meeting approved changes to the company's Articles of Association including changing the company's name to "CMB Monaco".

Reference is made to Part E – Credit Risk for an update on events since the year-end and for disclosure on the moratoria still in progress.

No events have taken place that would cause the results presented in the consolidated report for the twelve months ended 30 June 2020 to be amended.

SECTION 5

Other aspects

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

A.2 - Significant accounting policies

Financial assets recognized at fair value through profit and loss

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

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. This category comprises debt securities, equities, loans held for trading purposes, and the positive value of

[7] See Part A - Information on fair value on pp. 150-164.

derivatives held for trading including those embedded in complex instruments such as structured bonds (recorded separately).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost. In particular, after clarification from the IFRS Interpretation Committee, holdings in mutual funds are also classified in this category.[8]

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at amortize cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the respective headings.

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

[8] The IFRS Interpretation Committee's clarification rules out any possibility of such instruments being treated as equities.

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

Financial assets recognized at fair value through other comprehensive income

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

– The instruments are on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of these instruments;

– The contractual terms which pass the SPPI test.

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

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

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

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

Financial assets recognized at amortized cost

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

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

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

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IFRS 16 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

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

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

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

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

The business model is based on expected reasonable scenarios (without considering "worst case" or "stress case" scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.[9]

At initial recognition, the Group analyses contractual cash flows for the instruments to check whether the instrument, product or sub-product passes the SPPI test. In this connection, the Group has developed a standardized process for performing the test, which involves analysing the loans using a specific tool,

[9] These considerations are stated in the internal management policies, which reiterate the link between business model and accounting treatment, and introduce frequency and materiality thresholds for movements in portfolios of assets recognized at amortized cost.

developed internally, which is structured on the basis of decision-making trees, at the level of the individual financial instrument or product based on their different degrees of customization. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. When contractual cash flows for the instrument do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

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

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

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

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

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

– Stage1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;

– Stage2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from Stage1 to Stage2, the expected loss must be calculated for the outstanding life of the instrument;

– Stage3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to Stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. During the Covid-19 pandemic and in line with the guidance issued by the EBA, ECB, Consob and ESMA, the Mediobanca Group decided not to apply automatic reclassification mechanisms for moratoria granted as part of the support programmes approved by the law, category association agreements or equivalent voluntary initiatives adopted by the individual companies, as described in further depth in Part E of the Notes to the Accounts. Moreover, the Group only makes very limited use of the simplified low credit risk exemption approach.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, and interest is calculated later using an internal rate of return adapted to the circumstances.

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

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

The expected credit losses[10] are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default, the Group records an expected loss for the outstanding life of the instrument (similar to Stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

Derecognition of assets

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

[10] Reference is made to the section on Credit Quality in Part E of the Notes to the Accounts for an exhaustive analysis of the staging criteria and application of the forward-looking approach, including the adjustments made as a result of the Covid-19 situation.

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

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending. Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

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

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

Leasing (IFRS 16)

An agreement is classified as a leasing contract[11] (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains, a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods) – the "Right of Use" (RoU) – for an agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

[11] Leases in which the Group is lessor are divided into financial and operating leases. A lease is defined as a financial lease if all the risks and benefits typically associated with ownership are transferred to the lessee. Such leases are accounted for by the financial method, which involves a receivable being booked as an asset for an amount equal to the amount of the lease, net of the instalments on principal expired and paid by the lessee, and the interest receivable being taken through profit and loss.

Right of use is recorded among "Tangible assets", and is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under "Financial liabilities recognized at amortized cost", is equal to the discounted value of the payments due in respect of the lease; and the marginal financing rate is equal to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behaviour, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

After initial recognition, RoU is amortized over the lease's duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

Hedges

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

Two types of hedge are used by the Group:

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

- The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;

- The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Group actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

Fair value hedges

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

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

Cash flow hedges

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

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

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

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

Equity investments

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

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

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

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

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

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

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

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings and equipment of all kinds. It also includes the RoU acquired under leases and related use of tangible assets (for lessees) and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

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

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

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

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

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

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS 3R.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates, goodwill recorded as an asset is tested for impairment.[12] Any reduction value due to impairment 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.

[12] Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or Organismo Italiano di Valutazione) on "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012, "Italian valuation standards" published in 2015, the discussion paper issued on 22 January 2019, ESMA's recommendations contained in the document entitled "European common enforcement priorities for 2013 financial statements", the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010), and Consob's communications (no. DIE/17131 of 3 March 2014 and no. 3907 of 19 January 2015).

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.[13] The impairment is recognized in the profit and loss account as the difference between the carrying amount and the recoverable value of the asset concerned.

Financial liabilities recognized at amortized cost

These include the items Due to banks, Due to customers and Debt securities in issue less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IFRS 16, but which are also affected by the IFRS 9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the profit and loss account.

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

[13] Under IAS 36, impairment testing, i.e. tests to ascertain whether or not there has been a loss in the value of individual tangible and intangible assets, must be carried out at least once a year, in conjunction with preparation of the financial statements, or more frequently if events have taken place or materialized that would indicate there has been a reduction in the value of such assets (known as "impairment indicators").

The sale of treasury shares over the market following a buyback (even in the form of repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

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

Financial liabilities recognized at fair value

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

Financial liabilities at present value of the redemption amount

These consist of liabilities under the terms of agreements to buy out minorities in connection with acquisitions of controlling interests. These items, accounted for in heading “80. Other liabilities” of Balance Sheet, must be recognized at the present value of the redemption amount.

Provisions for liabilities and charges

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

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment on financial assets recognized at amortized cost.

In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is recognized in the profit and loss account.

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

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

As permitted by IAS 37, paragraph 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

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

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

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

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

Foreign currency transactions

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

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

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted using the average of the average monthly exchange rate readings for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

Tax assets and liabilities

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

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

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

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

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

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

Stock options, performance shares and long-term incentives

The stock option, performance share and long-term incentive (LTI) schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs.

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

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

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

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

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

Treasury shares

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

Fees and commissions receivable in respect of services

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

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

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

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

Dividends

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

Recognition of costs

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

Related parties

Related parties are defined, *inter alia* in accordance with IAS 24, as follows:

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in the Bank's share capital;[14]

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

b) Associate companies, joint ventures and entities controlled by them;

c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;

d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);

e) Close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals.

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

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

(€ '000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt securites (ABS)	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	8.370	1.488
Total				8.370	1.488

A.4 - Information on fair value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS 13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market.

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics,

– Discounted cash flow calculations,

– Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

If no market inputs are available, valuation models based on data estimated internally are used.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

The outbreak of the Covid-19 pandemic and subsequent government and healthcare measures had an immediate impact on capital markets, which priced in the new estimates of the economic slowdown as well as the regulators' restrictions on share buybacks and payments of dividends. These two combined effects caused a reduction in liquidity and made it difficult to hedge trades and risk reduction transactions generally (on dividends and volatility in particular). Overall there was a significant rise in uncertainty for the input parameters required in order to value the positions held by the Bank and in the parameters used for control activities.

In terms of independent price verification (IPV), the Bank stepped up its controls following the mismarking of volatility, correlation and dividends by using alternative providers, resulting in an increase in corrections to the original values proposed by the business units.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it.[15]

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

[15] Cf. IFRS 13, paragraph 73: "the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement"; and paragraph 74: "The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used". For further details see IFRS 13, paragraphs 72-90.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified:

– Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.
– Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

In cases where the input data used to value an asset or liability have different rankings, the choice of fair value level is driven by the significance of the input data (IFRS 13, paragraph 74).

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure. Similarly, the Bank has an independent control unit which checks the parameters used, comparing them with similar inputs from different sources which must nonetheless meet observability criteria.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to or subtracted from to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. In line with the best market practices, during the year under review all fair value adjustments were aligned with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation"). Introduction of the new framework has resulted in the need to start further calculating adjustments.

The changes in scope of fair value adjustments thus include the following in particular:

- Close-Out Costs;
- Investing and Funding Costs;
- Market Price Uncertainty;
- Model Risk.

Some fair value adjustments may be taken into consideration in order to align the valuation with the exit price *inter alia* on the basis of market liquidity levels or valuation parameters and to take account of the cost of funding.

The following activities were performed during the year under review:

- Revision of the scope and method of calculation used for the "dynamic" method (previously the fair value adjustment was calculated at the execution date for specific transactions, using market stress scenarios as input which were far worse but not monitored over time, i.e. "static"). Some of the main changes made were as follows:
  - Recalculation of the adjustments hedging the funding risk implicit in credit-linked issues. Using a point-in-time valuation approach, the use of a conservative factor linked to the credit curves has been eliminated from the calculation;
  - Changes to the calculation methods used for adjustments linked to the uncertainty of the repo margin: the Bank has transitioned from a simplified methodology to an approach based on a market consensus instrument, in line with the method already used for other risk factors.

– Removal of some FVAs: some of these adjustments were more linked to commercial than to risk issues,[16] and have in part been replaced by the introduction of Close-Out Costs;

– Introduction of Close-Out Costs: depending on the materiality of the risks present, the Bank has adjusted the fair value to ensure that the exit price is recorded, as required by IFRS 13.[17]

Credit/debt valuation adjustment (CVA/DVA)

Credit and debt value adjustments (CVA and DVA) are incorporated into the valuation of derivatives to reflect the impact respectively of the counterparty's credit risk and the Bank's own credit quality on the fair value, as follows:

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

– DVA is a positive quantity which takes into account the scenarios in which the Bank itself might fail before the party does while amounts are still payable (negative MTM) to the counterparty.

– CVA and DVA are calculated taking into consideration any counterparty risk mitigation agreements that have been entered into, in particular collateral and netting agreements for each counterparty.

The CVA/DVA methodology used by Mediobanca is based on the following inputs:

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the recovery rates conventionally utilized for credit default swap prices.

[16] That is, they were intended to mitigate the potential impact for clients in the event of buybacks of arbitrage trades, a phenomenon that has never occurred.

[17] The adjustment is calculated, for each risk factor considered, as a semi-bid/ask for the market data, multiplied by the exposure to the instrument to which the data refers.

The fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. To take account of this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

A.4.1 Fair value levels: measurement techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis, by fair value level

Level 1

This level comprises all instruments quoted on active markets or for which quotations are available on an ongoing basis. The former instance covers cash equity instruments, funds and listed derivatives[18] (futures and options with equity, interest rates and sovereign debt as the underlying) traded on regulated markets for which an official closing price was available. The second instance covers liquid debt securities for which quotations are available on an ongoing basis, and ABS and CLOs for which tradable quotations are available at the reporting date.

Level 2

– Bonds: securities traded on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2; as are instruments not traded on active markets that are marked to model using the implied credit spread curves obtained from Level1 or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, only if the credit spread curve applied is representative, the bonds are categorized as Level 2. In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs;

[18] Provided that the quotation is considered to be effectively liquid following the IPV process.

- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In accordance with the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, where possible the Bank uses models that maximize observable parameters, which are preferable to models where the use of unobservable parameters is predominant. When there is an active market for the input parameters to be used for the different components of the valuation model, the fair value is established on the basis of their market quotations. Hence an OTC derivative that mainly uses observable inputs deriving from Level 1 instruments (quoted prices, as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and credit spreads, as stipulated in paragraph 82 of IFRS 13) is classified as Level 2. These derivatives include:
- Plain vanilla instruments, such as options with equity or exchange rates, interest rate swaps, cap & floor, credit default swaps and credit default indexes as underlying;
- Exotic instruments which use more complex models such as exotic equity options, structured forex including derivatives embedded in notes issued by Mediobanca whose characteristics replicate those referred to above;
- Issues of certificates with credit derivatives or shares as underlying (basket or single name), including the issuer credit risk which is thus factored into the total calculation of the fair value.

The instruments referred to above are classified as Level 2 when the fair value component calculated using models based on observable inputs is adjudged to be predominant.

The observability of an input parameter depends on the type of product, and on the adequacy of the parameters used. In both cases the relevant issuers are the availability of quotes, expiry and level of moneyness.

Level 3

- Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread is added in order to factor in their unobservable illiquidity. Fair value adjustments may be used in recognizing such instruments at fair value when there is low liquidity, in order to compensate for the lack of observable market parameters for the Level 3 positions;

– Asset-backed securities, CLOs and loans: the measurement process relies on info-providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.

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

– Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;

– Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level 3;

– Derivatives: when the valuation of an OTC derivative has been materially affected by unobservable parameters it is classified as Level 3. Such derivatives include:

  – Plain vanilla instruments, such as options with equity as the underlying and long expiries, or dividends on which there is no market consensus and options on equity baskets (indexes and single name);

  – Equity certificates for which the valuation inputs show a high degree of uncertainty (as it emerges during the Independent Price Verification process) in terms of volatility or future dividends;

– Exotic instruments that use complex models (exotic options), or certain payoffs on exchange rates for which the valuation inputs are not directly observable, including derivatives embedded in bonds issued;

– Bespoke CDO tranches.

The instruments referred to above are classified as Level 3, because as stated in paragraphs 73 and 75 of IFRS 13, their fair value is established primarily by components attributable to unobservable inputs (such as implicit volatility above certain observation levels, equity and credit correlation, etc.), or contains adjustments that significantly alter the most liquid input parameters used.

All inputs used to determine the fair value of the principal risk positions, regardless of their fair value levels, are subject to the Independent Price Verification process based on the principle of verifying the data against input from other info-providers.

Assets and liabilities measured at fair value on a non-recurring basis

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally which are generally not directly observable on the market.

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level 2, and in all other cases as Level 3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks). The fair value of the naked components of Mediobanca structured issues is also categorized as Level 2 when Mediobanca strips out the derivative embedded in such issues; the derivative's fair value level is according to the method described above.

A.4.2 Measurement processes and sensibilities

As required by IFRS 13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

Uncertainties inherent in inputs and impact on mark-to-market for equity products

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€) 30/6/20	+/- delta vs MtM (€m) 30/6/19
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	0.52	0.46
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	1.15	0.612

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value * Assets 30/6/20 (€m)	Fair value * Liabilities 30/6/20 (€m)	Fair value * Assets 30/6/19 (€m)	Fair value * Liabilities 30/6/19 (€m)
OTC equity single name options, variance swap	Black-Scholes/ Black model	Implicit volatility [1]	14.16	(14.20)	0.81	(3.89)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation [2]	39.05	(20.73)	9.85	(9.40)

* Values are shown net of reserves booked.

1 Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

2 Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

A.4.3 Fair value ranking

Transfers between fair value ranking levels

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level 1 to Level 2 or vice versa mainly as a result of the loss (increase) in significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level 2 to Level 3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty’s market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities recognized at fair value on a non-recurring basis, by fair value ranking

(€ ’000)

Financial assets/liabilities measured at fair value	**30/6/20**			**30/6/19**		
	Level1	**Level2**	**Level3**	**Level1**	**Level2**	**Level3**
1. Financial assets measured at fair value with impact taken to profit and loss	5,888,700	2,715,128	981,584	7,393,508	2,575,250	654,215
a) financial assets held for trading	5,582,684	2,664,126	571,780	7,054,588	2,321,359	389,706
b) financial assets designated at fair value	—	51,002	—	—	51,976	—
c) other financial assets mandatorily valued at fair value	306,016	—	409,804	338,920	201,915	264,509
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,467,377	134,475	25,739	3,613,361	240,572	32,838
3. Hedging derivatives	—	464,718	—	—	412,234	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	9,356,077	3,314,321	1,007,323	11,006,869	3,228,056	687,053
1. Financial liabilities held for trading	4,018,034	3,407,947	530,954	4,948,023	2,829,951	249,777
2. Financial liabilities valued at fair value	—	216,020	—	—	55,859	—
3. Hedging derivatives	—	465,225	—	—	414,241	—
Total	4,018,034	4,089,192	530,954	4,948,023	3,300,051	249,777

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

(€ '000)

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading [1]	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value				
1. Opening balance	450,562	153,215	—	264,509	32,838	—	—	—
2. Increases	341,896	112,845	—	228,218	833	—	—	—
2.1 Purchases	249,223	65,339	—	183,838	46	—	—	—
2.2 Profits recognized in:	57,461	12,309	—	44,365	787	—	—	—
2.2.1 profit and loss	57,459	12,309	—	44,365	785	—	—	—
- of which, gains	*11,821*	*11,821*	—	—	—	—	—	—
2.2.2 net equity	2	X	X	X	2	—	—	—
2.3 Transfers from other levels	35,197	35,197	—	—	—	—	—	—
2.4 Other increases	15	—	—	15	—	—	—	—
3. Decreases	194,328	103,475	—	82,923	7,932	—	—	—
3.1 Disposals	130,281	61,832	—	67,663	786	—	—	—
3.2 Redemptions	4,507	4,507	—	—	—	—	—	—
3.3 Losses recognized in:	44,502	22,096	—	15,260	7,146	—	—	—
3.3.1 profit and loss	37,356	22,096	—	15,260	—	—	—	—
- of which, losses	*22,029*	*22,029*	—	—	—	—	—	—
3.3.2 net equity	7,146	X	X	X	7,146	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	15,040	15,040	—	—	—	—	—	—
4. Closing balance	598,128	162,585	—	409,804	25,739	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/20: €351,000; 30/6/19: €506,000) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

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

(€ '000)

	Financial liabilities		
	Held for trading [1]	Designated at fair value	Hedging derivatives
1. Opening balance	13,285	—	—
2. Increases	112,300	—	—
2.1 Issuance	22,558	—	—
2.2 Losses recognized in:	2,916	—	—
2.2.1 profit and loss	2,916	—	—
- of which, losses	*2,916*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	86,826	—	—
2.4 Other increases	—	—	—
3. Decreases	3,826	—	—
3.1 Redemptions	56	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	3,770	—	—
3.3.1 profit and loss	3,770	—	—
- of which, gains	*2,277*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	121,759	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/20: €0.35m; 30/6/19: €0.5m) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€ '000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/20				30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Financial assets valued at amortised cost	55,957,290	2,799,665	17,765,808	38,498,309	56,599,859	2,487,696	19,157,722	38,229,986
2. Tangible assets held for investment purposes	64,347	—	—	139,818	66,883	—	—	141,764
3. Non-current assets and groups of assets being sold	—	—	—	—	22,168	—	—	22,168
Total	56,021,637	2,799,665	17,765,808	38,638,127	56,688,910	2,487,696	19,157,722	38,393,918
1. Financial liabilities valued at amortised cost	59,241,107	1,287,832	57,913,842	39,433	57,936,936	1,109,322	57,136,709	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—	—	—	—	—
Total	59,241,107	1,287,832	57,913,842	39,433	57,936,936	1,109,322	57,136,709	48,237

The Level 3 instruments held for trading include options traded, i.e. contracts originated and closed with different counterparties but the same underlying instrument and uncertain risk parameter, totalled €408.8m (30/6/19: €236m), plus €0.35m in options linked to bonds issued and hedged on the market (€0.5m).

Net of these items, the Level 3 assets increased from €153.2m to €162.6m, as a result of new entries totalling €65.4m (€37m of which relating to derivative contracts) against departures totalling €66.3m, €59.6m of which regarding the transfer of ABS to a new provision and redemptions totalling €4.5m. Transfers from other levels totalled €35.2m, and chiefly involve derivative contracts being reclassified during the course of the year, due to the increase in uncertainty over volatility and the underlying dividends. Downward movements in fair value totalled €24.8m.

Level 3 liabilities, minus options traded and those linked to the bond issues referred to above, rose from €13.3m to €121.8m, as a result of the reclassifications made during the twelve months, regarding certain certificates and derivative contracts (worth a total of €86.8m), which became necessary due to the rise in uncertainty over estimated dividends, plus new positions totalling €22.5m (mainly derivative contracts); upward adjustments to fair value totalled €0.8m.

Financial assets compulsorily recognized at fair value, which mostly consist of investments in funds (including seed capital) increased from €264.5m to €409.8m, as a result of new additions totalling €183.8m, €110m of which in relation to the initial subscription to a fund with ABS as the underlying instrument, and €55m in additional investments in the Cairn funds, against departures totalling €67.7m which mostly involve the partial disposal of the above fund; overall there were other positive changes totalling €29m, representing the difference between €44.3m in higher valuations due to improvements in the credit rating of certain convertible loans, and €15.3m in downward value adjustments made to seed capital (primarily for Cairn).

Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), remain low at €25.7m (€32.8m).

A.5 - Information on "day one profit/loss"

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

Suspension of the day one profit is currently applied to the approx. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument, and, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €3.4m, and the portion that passed through profit and loss during the period totalled €2.5m.

The suspension approach is also applied to the profit deriving from trades in derivatives on Exchange rates linked to hedges of M&A deals: as the derivative becomes effective only if the deal is executed, the profit is suspended until the uncertainty regarding the deal's execution has ceased. At the reporting date there was only one trade of this kind, involving a profit of €470,000.

The Bank also has deals classified as Level 3 for which the initial profit has not had to be suspended, as these deals were originally negotiated with other market counterparties, without generating any material upfront difference.

Part B - Notes to the Consolidated Balance Sheet (*)

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/20	30/6/19
a) Cash	118,582	106,260
b) Demand deposits with Central Banks	3,101,369	632,102
Total	3,219,951	738,362

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

SECTION 2

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

*2.1 Financial assets held for trading: composition **

Items/values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	2,954,447	519,132	28,968	3,857,970	297,582	58,831
1.1 Structured securities	2,758	18,177	1,998	17,251	10,451	—
1.2 Other securietes	2,951,689	500,955	26,970	3,840,719	287,131	58,831
2. Equity securites[1]	1,962,771	—	46,476	2,441,048	—	76,336
3. UCITs	20,114	—	2,853	245,002	3	7,385
4. Loans	3,930	—	—	6,894	—	—
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	3,930	—	—	6,894	—	—
Total (A)	4,941,262	519,132	78,297	6,550,914	297,585	142,552
B. Derivative instruments						
1. Financial Derivatives	641,422	1,957,794	493,483 [2]	503,674	1,533,275	247,154 [2]
1.1 trading	641,422	1,953,287	493,340	503,674	1,488,740	246,957
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	4,507	143	—	44,535	197
2. Credit Derivatives	—	187,200	—	—	490,499	—
2.1 trading	—	187,200	—	—	490,499	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	641,422	2,144,994	493,483	503,674	2,023,774	247,154
Total (A+B)	5,582,684	2,664,126	571,780	7,054,588	2,321,359	389,706

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

[1] Equities include shares committed in securities lending transactions totalling €982,223,000 at 30 June 2020 and €1,277,841,000 at 30/6/19.

[2] Includes both the market value of options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching those associated with bond issued booked as financial liabilities held for trading and matched options traded (€408,844,000 as at 30/6/20 and €235,984,000 as at 30/6/19) matching amounts booked as financial liabilities held for trading.

2.2 Financial assets held for trading: by borrowers/issuers

Items/Values	**30/6/20**	**30/6/19**
A. Financial assets		
1. Debt securities	3,502,547	4,214,383
a) Central Banks	—	—
b) Public Administrations	1,880,990	3,398,524
c) Banks	1,203,460	553,734
d) Other financial companies	201,525	197,994
of which: insurance companies	2,904	—
e) Non financial companies	216,572	64,131
2. Equity instruments	2,009,247	2,517,384
a) Banks	149,796	391,154
b) Other finanzial companies	464,779	205,008
of which: Insurance companies	169,779	94,336
c) Non financial companies	1,394,672	1,921,222
d) Other issuers	—	—
3. UCITs	22,967	252,390
4. Loans	3,930	6,894
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	—	2,031
of which: insurance companies	—	—
e) Non financial companies	3,930	4,863
f) Families	—	—
Total (A)	5,538,691	6,991,051
B. Derivative instruments		
a) Central Counterparties	201,441	95,465
b) Others	3,078,458	2,679,137
Total (B)	3,279,899	2,774,602
Total (A+B)	8,818,590	9,765,653

2.3 Financial assets designated at fair value: composition

Items/Values	**30/6/20**			**30/6/19**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	—	51,002	—	—	51,976	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	51,002	—	—	51,976	—
2. Loans	—	—	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others	—	—	—	—	—	—
Total	—	51,002	—	—	51,976	—

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

Items/Values	**30/6/20**	**30/6/19**
1. Debt securities	51,002	51,976
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	51,002	51,976
of which: Insurance companies	—	—
e) Non financial companies	—	—
2. Loans	—	—
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	51,002	51,976

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	**30/6/20**			**30/6/19**		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	306	—	1,785	489	—	3,146
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	306	—	1,785	489	—	3,146
2. Equity instruments	—	—	4,939	—	—	7,163
3. UCITs	305,710	—	352,746	338,431	—	236,328
4. Loans	—	—	50,334	—	201,915	17,872
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	—	—	50,334	—	201,915	17,872
Total	306,016	—	409,804	338,920	201,915	264,509

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

Items/Values	30/6/20	30/6/19
1. Equity instruments	4,939	7,163
of which: banks	—	—
of which: other financial companies	4,939	7,163
of which: other non financial companies	—	—
2. Debts securities	2,091	3,635
a) Central Banks	—	—
b) Public administration	306	489
c) Banks	—	—
d) Other financial companies	1,785	3,146
of which: insurance companies	—	—
e) Non financial companies	—	—
3. UCITs	658,456	574,759
4. Loans	50,334	219,787
a) Central Banks	—	—
b) Public administration	—	—
c) Banks	—	—
d) Other financial companies	27	202,305
of which: insurance companies	—	—
e) Non financial companies	50,307	17,482
f) Households	—	—
Total	715,820	805,344

SECTION 3

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

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

Item/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 ([1])
1. Debts securities	3,351,465	134,475	—	3,507,591	240,572	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3,351,465	134,475	—	3,507,591	240,572	—
2. Equity instruments	115,912	—	25,739	105,770	—	32,838
3. Loans	—	—	—	—	—	—
Total	3,467,377	134,475	25,739	3,613,361	240,572	32,838

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – “Accounting Policies”.

[1] Includes investments in unlisted companies valued based on internal models.

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

Items/Values	30/6/20	30/6/19
1. Debt securities	3,485,940	3,748,163
a) Central Banks	—	—
b) Public administrations	2,613,617	2,863,097
c) Banks	521,126	507,767
d) Other financial companies	208,717	216,529
of which: insurance companies	64,983	131,292
e) Non financial companies	142,480	160,770
2. Equity securities	141,651	138,608
a) Banks	116	114
b) Other issuers:	141,535	138,494
- other financial companies	26,611	33,690
of which: insurance companies	—	—
- non financial companies	114,924	104,804
- others	—	—
3. Loans	—	—
a) Central Banks	—	—
b) Public administrations	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	3,627,591	3,886,771

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

	Gross value				Writedown			Write off partial total
	Stage 1	of which: low credit risk *	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	3,492,048	67,139	—	—	6,108	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/20	3,492,048	67,139	—	—	6,108	—	—	—
Total 30/6/19	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	X	X	—	—	X	—	—	—

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

SECTION 4

Heading 40: Financial assets at amortized cost *

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

Type of transaction/Values	30/6/20					
	Book value			Fair value		
	Stage 1 and stage 2	Stage 3	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks	588,815	—	—	—	588,815	—
1. Term deposits	—	—	—	X	X	X
2. Compulsory reserves	588,815	—	—	X	X	X
3. Reverse repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	5,344,129	—	—	239,190	4,873,797	269,588
1. Loans	4,857,932	—	—	—	4,810,838	71,261
1.1 Current accounts and demand deposits	1,245,824	—	—	X	X	X
1.2. Time deposits	31,990	—	—	X	X	X
1.3 Other loans:	3,580,118	—	—	X	X	X
- Reverse repos	2,464,519	—	—	X	X	X
- Finance leases	1,852	—	—	X	X	X
- Others	1,113,747	—	—	X	X	X
2. Debts securities	486,197	—	—	239,190	62,959	198,327
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	486,197	—	—	239,190	62,959	198,327
Total	5,932,944	—	—	239,190	5,462,612	269,588

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

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

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

Type of transaction/Values	30/6/20					
	Book Value			Fair value		
	Stage 1 and stage 2	Stage 3	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	45,995,939	1,229,166	358,574	—	12,265,313	37,994,080
1.1. Current accounts	1,444,080	71,178	71,177	X	X	X
1.2. Reverse Repos	994,532	—	—	X	X	X
1.3. Mortgages	26,128,110	436,086	16,439	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,429,392	531,262	245,884	X	X	X
1.5 Finance lease	1,657,101	142,991	25,074	X	X	X
1.6. Factoring	1,604,723	7,491	—	X	X	X
1.7. Other loans	4,738,001	40,158	—	X	X	X
2. Debt securities	2,799,241	—	—	2,560,475	37,883	234,641
2.1. Structured	—	—	—	—	—	—
2.2. Other debt securities	2,799,241	—	—	2,560,475	37,883	234,641
Total	48,795,180	1,229,166	358,574	2,560,475	12,303,196	38,228,721

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

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

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

Type of transaction / Values	30/6/20			30/6/19		
	Stage 1 and stage 2	**Stage 3**	**of which: impaired assets aquired or created**	**Stage 1 and stage 2**	**Stage 3**	**of which: impaired assets aquired or created**
1. Debt securities	2,799,241	—	—	2,421,926	—	—
a) Public Administration	2,143,431	—	—	1,733,519	—	—
b) Other financial company	437,441	—	—	432,677	—	—
of which: insurance companies	229,394	—	—	229,762	—	—
c) Non financial companies	218,369	—	—	255,730	—	—
2. Loans to:	45,995,937	1,229,166	358,574	45,059,134	1,156,867	368,637
a) Public Administration	343,149	2,719	—	209,875	13,342	—
b) Other financial company	5,795,827	3,081	401	6,726,486	2,709	412
of which: insurance companies	617,668	—	—	695,307	—	—
c) Non financial companies	15,271,523	483,141	56,396	14,583,974	549,526	63,562
d) Households	24,585,440	740,225	301,777	23,538,799	591,290	304,663
Total	48,795,180	1,229,166	358,574	47,481,060	1,156,867	368,637

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

	Gross value				Write-down			Partial write offs Total
	Stage 1	**of which: low credit risk ***	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	
Debt securities	3,290,988	*282,795*	—	—	5,550	—	—	—
Loans	48,688,255	*603,374*	3,333,424	2,240,213	235,595	343,398	1,011,047	6,023
Total 30/6/20	51,979,243	*886,169*	3,333,424	2,240,213	241,145	343,398	1,011,047	6,023
Total 30/6/19	53,135,655	*604,751*	2,824,170	2,017,484	197,324	319,509	860,617	9,948
of which: impaired financial assets aquired or originated	X	*X*	—	358,782	X	—	208	—

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

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value 30/6/20			Notional value	Fair Value 30/6/19			Notional value
	Level 1	Level 2	Level 3	30/6/20	Level 1	Level 2	Level 3	30/6/19
A. Financial derivatives								
1. Fair value	—	464,718	—	20,996,513	—	410,675	—	15,223,497
2. Cash flows	—	—	—	—	—	1,559	—	30,000
3. Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	464,718	—	20,996,513	—	412,234	—	15,253,497

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedge	Fair Value							Cash-flow		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	—	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	—	—	—	—	—
1. Financial liabilities	464,718	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	464,718	—	—	—	—	—	—	—	—	
1. Forecast transactions	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Ownership
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.9	12.9
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.4	25.4
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	2	Mediobanca S.p.A.	22.1	22.1

Legend:

[1] Joint control.

[2] Subject to significant influence.

[3] Exclusively controlled and not consolidated.

The criteria and methods for establishing the area of consolidation are illustrated in "Section 3 - Part A - Accounting Policies" to which reference is made.

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

Company name	Book value	Fair Value *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,163,439	2,730,551	101,357
2. Istituto Europeo di Oncologia S.r.l.	41,213	N/A	—
3. Burgo Group S.p.A.	—	N/A	—
Total [1]	3,204,652	—	—

[1] The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€50,000).

* Available only for listed companies.

** Dividends collected in the course of the financial year have been deducted from the book value of the investment (as described in Part A – Accounting Policies" of the Notes to the Accounts.

As at 30 June 2020, the book value carried under the "Equity investments" heading totalled €3,204.7m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,163.4m), and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €41.2m). The value of the stake held in Burgo (22.1% of the entity's share capital) has been written off entirely on prudential grounds.[1]

[1] The same has been done for the "Strumento Finanziario Partecipativo - SFP" (Mediobanca share has a nominal amount of €130m), recorded under heading 30: Financial assets recognized through other comprehensive income.

The Assicurazioni Generali and Istituto Europeo di Oncologia investments have been accounted for using the equity method, and the calculation of their value includes treasury shares owned, dividends collected, and any Mediobanca shares owned by the investee companies; the dividends collected are not taken through profit and loss but have been deducted from the carrying value of the investment.

As permitted by IAS 28 (see Part A of the Notes to the Accounts on associates which have reporting periods ending on different dates compared to the parent company and significant events occurring between the two dates), the pro rata share of earnings and valuation reserves for 4Q differ from the figures stated by Assicurazioni Generali itself as at 31 March 2020, due to the writeback credited by the company in 2Q in respect of AFS equities and investments in funds that are recycled through profit and loss. In particular, the pro rata share of earnings stated by the company at 31 March 2020 have been adjusted to reflect the writebacks to AFS equities and funds as at 30 June 2020, as the writedowns charged in 1Q were reversed in the half-yearly accounts.[2]

Impairment testing of equity investments

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

The process of recording impairment charges involves checking whether there are indicators of impairment and then proceeding to write the investment down if appropriate. Indicators of impairment may be subdivided into two main categories:

– Quantitative indicators: market capitalization below the company's net asset value, in cases where the securities are listed on active markets;
– Qualitative indicators: manifest financial difficulties, negative earnings results, falling by a significant margin of targets set in budgets or long-term business plans disclosed to the market, announcing/launching composition procedures or restructuring plans, or downgrade of credit rating (in particular if to levels below investment grade).

[2] See Assicurazioni Generali's interim financial statements for the six months ended 30 June 2020, p. 11.

IAS 28, paragraph 41A states that:

– Impairment charges must be taken for an asset if the book value is higher than the recoverable value, defined by IAS 36 as the higher of fair value (net of sales costs) and "value in use";

– To calculate fair value (as governed by IFRS 13), the methodologies that may be used are as follows:

  – Stock market prices, in cases where the investee company is listed on an active market;

  – Valuation models generally recognized by the market, including market multiples (for significant transactions in particular);

– To calculate "value in use" (as governed by IAS 28 paragraph 42), one or other of the following methodologies may be used:

  – The discounted value of the cash flows generated by the investee company, as derived from the cash flows generated by the investments owned by the company and the proceeds deriving from the sale of those investments; or

  – The discounted value of the cash flows assumed to derive from dividends receivable and the eventual sale of the investment.

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

* * *

Accounting data for the investee companies consolidated using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2019.

7.3 Significant investments: accounting data

Company name	**Company name**		
	Assicurazioni Generali S.p.A.	**Istituto Europeo di Oncologia S.r.l.**	**Burgo Group S.p.A.**
Cash and cash-convertible assets	X	X	X
Financial assets	463,929	99	441
Non-financial assets	43,772	128	991
Financial liabilities	40,904	85	989
Non-financial liabilities	443,820	73	176
Total revenues	94,635	362	1,698
Profit/(Loss) on ordinary activities before tax	3,587	10	15
Profit/(Loss) on ordinary activities after tax	2,465	8	10
Profit/(Loss) on held-for-sale assets after tax	475	—	—
Profir/(Loss) for the period (1)	2,939	8	10
Other profit/(loss) components after tax (2)	3,757	—	(4)
Total profit/(loss) for the period (3) = (1) + (2)	6,696	8	6

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

Entities under significant influence	**Aggregate net equity** [1]	**Pro rata net equity**	**Differences arising upon consolidation** [2]	**Consolidated book value**
Assicurazioni Generali S.p.A.	24,565.8 [1]	3,165.1	(1.6) [2]	3,163.4
Istituto Europeo di Oncologia S.r.l.	162.4 [3]	41.2	—	41.2

[1] The overall net equity reflects the dividend received in May 2020 (€787m).

[2] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €12.6m; pro rata €1.6m).

[3] The net equity value of €132m as at 31/3/20 (€33.5m pro rata) has been adjusted to reflect property revaluations net of depreciation charges accrued (totalling €7.7m pro rata).

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

As at 30 June 2020, the market value of the Group’s investment in Assicurazioni Generali was €2,730.6m (equal to €13.47 per share), which is below the book value of the holding (€3,163.4m). Under IAS 28 and in accordance with the internal policy in force, an impairment test was run to determine the value in use of the investment, taking into account the following aspects:

- With a 12.9% interest in the ordinary share capital of Assicurazioni Generali, Mediobanca is the group's long-standing largest shareholder;
- The book value of the investment is aligned with the group's net asset value (pro rata), and so does not reflect any goodwill.

To determine the value in use, the dividend discount model was used (excess capital). The valuation was made using the same methods used in previous years, based solely on information in the public domain. For this reason the most recent analysts' estimates were used to identify the cash flows to be discounted. The cost of capital (9.3%) was determined based on the capital asset pricing model, and the growth rate was assumed to be consistent with the estimated inflation rate for 2022 (1.3%). Sensitivity analysis was also performed, to test the sensitivity of the results thus obtained to changes in the valuation parameters.

The impairment test process confirmed that the recoverable value is higher than the book value; hence according to paragraph 41A of IAS 28, the impairment test was passed.

The valuation obtained was also slightly higher than the analysts' average target prices.

As for the investment in Istituto Europeo di Oncologia, its book value is in line with its net present value, as the latter was adjusted to factor in the revaluation of the properties owned by the company based on market prices when the stake was acquired.

No reduction to book value has been necessary for either investment.

7.5 Equity investments: movements during the period

	30/6/20	30/6/19
A. Opening balance	3,259,777	3,210,839
B. Increases	304,269	321,161
B.1 Purchases	—	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	304,269	321,161
C. Decreases	359,344	272,223
C.1 Sales	—	—
C.2 Adjustments	—	—
C.3 Writeoffs	—	—
C.4 Other changes [1]	359,344	272,223
D. Closing balance	3,204,702	3,259,777
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

[1] Includes the dividend collected.

SECTION 9

Heading 90: Property, plant and equipment

9.1 Core tangible assets: composition of assets stated at cost

Activities/Values	Total	Total
	30/6/20	30/6/19
1. Property assets	215,885	210,949
a) lands	84,895	84,895
b) buildings	94,884	96,912
c) furniture	14,783	12,994
d) electronic system	8,663	9,042
e) other	12,660	7,106
2. Leased assets	207,909	—
a) lands	—	—
b) buildings	196,082	—
c) furniture	—	—
d) electronic system	—	—
e) other	11,827	—
Total	423,794	210,949
of which: arising from the recovery of guarantees received	*75*	*76*

* The Mediobanca Group has applied IFRS 16 since 1 July 2019.

9.2 Properties held for investment purposes stated at cost: composition of assets stated at cost

Activities/Values	Total				Total			
	30/6/20				30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	64,347	—	—	139,818	66,883	—	—	141,764
a) lands	29,144	—	—	84,688	29,054	—	—	84,398
b) buildings	35,203	—	—	55,130	37,829	—	—	57,366
2. Rights of use acquired through the lease	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	64,347	—	—	139,818	66,883	—	—	141,764
of which: arising from the recovery of guarantees received	*39,774*	—	—	*46,375*	*41,999*	—	—	*47,590*

9.5 Inventory of assets as governed by IAS 2: composition

Items/Values	Total	Total
	30/6/20	30/6/19
1. Inventories of tangible assets arising from the recovery of guarantees received	7,631	8,017
a) lands	971	1,100
b) buildings	6,660	6,917
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	7,631	8,017
of which: valued at fair value less costs to sell	—	—

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

9.6 Core assets: movements during the year

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance 30 june 2019	84,895	338,992	63,733	43,093	61,510	592,223
A.1 Total net reduction value	—	(46,494)	(50,739)	(34,051)	(44,649)	(175,933)
A.2 Net opening balance 30 june 2019	84,895	96,912	12,994	9,042	7,106	210,949
A.3 Changes in opening balances (FTA IFRS16)		195,586	—	—	9,755	205,341
A.4 Net initial carrying amount	84,895	292,498	12,994	9,042	16,861	416,290
B. Increase:	—	38,738	4,710	1,821	15,678	60,947
B.1 Purchasing	—	6,089	4,160	839	7,374	18,462
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised improvement costs	—	2,750	547	982	3,486	7,765
B.3 Writebacks	—	—	—	—	20	20
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive foreign exchange differences	—	28	2	—	15	45
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	29,871	1	—	4,783	34,655
C. Decrease:	—	40,270	2,921	2,200	8,052	53,443
C.1 Sales	—	1	—	—	5	6
- of which business combinations	—	—	—	—	—	—
C.2 Depreciation	—	37,565	2,918	2,198	8,017	50,698
C.3 Impairment losses allocated to	—	1,000	—	—	—	1,000
a) net equity	—	—	—	—	—	—
b) profit & loss[1]	—	1,000	—	—	—	1,000
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative foreign exchange differences	—	8	—	—	—	8
C.6 Transfer to:	—	—	—	—	—	—
a) investments	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	1,696	3	2	30	1,731
D. Net closing balance 30 June 2020	84,895	290,966	14,783	8,663	24,487	423,794
D.1 Total net write-down	—	(81,294)	(52,782)	(36,200)	(51,376)	(221,652)
D.2 Gross closing balance 30 June 2020	84,895	372,260	67,565	44,863	75,863	645,446
E. Carried at cost	—	—	—	—	—	—

[1] Refers the lease on the Frankfurt branch office which is in the process of being wound up.

Movements in core tangible assets include right of use acquired under finance leases as required by IFRS 16. Accordingly, the opening balances have been adjusted to reflect the effects of IFRS 16 first-time adoption as from 1 July 2019 (see Part A of the Notes to the Accounts, "New IFRS16: Leasing", for further details). New leases executed during the twelve months totalled €30.9m (stated in row B.7 "Other adjustments"), whereas depreciation charges for RoU totalled €38.6m (stated in row C.2 "Depreciation". Adjustments of €1m were also taken in connection with the closure of the Mediobanca S.p.A. branch office in Frankfurt.

9.7 Assets held for investment purposes: movements during the year

	Total	
	Lands	**Buildings**
A. Opening balance	29,054	37,829
B. Increase	650	917
B.1 Purchasing	—	—
- of which: business combinations	—	—
B.2 Capitalised expenditure on improvements	—	110
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange differences	—	—
B.6 Transfer from investment properties	—	—
B.7 Other adjustments	650	807
C. Decrease	560	3,543
C.1 Sales	—	—
- of which: business combinations	—	—
C.2 Depreciation	—	1,853
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C5 Negative exchange difference	—	—
C.6 Transfer to:	—	—
a) property used in operations	—	—
b) non-current assets and group of assets held for sale;	—	—
C.7 Other adjustments	560	1,690
D. Closing balance	29,144	35,203
E. Measured at fair value	84,688	55,130

These consist of the following properties:

Properties	**SQU./m.**	**Book value (€ '000)**	**Book value per SQU. m. (€'000)**
Rome	8,228	24,573	0.3
Lecce	21,024	17,172	1.2
Verona*	30,502	9,440	3.2
Bologna*	6,913	5,676	1.2
Vicenza	6,200	4,885	1.3
Pavia	2,250	1,164	1.9
Padua	4,208	1,437	2.9
Total	**79,325**	**64,347**	

* Includes industrial premises and areas used for offices.

9.8 Inventory of assets pursuant to IAS 2: movements during the year

	Inventories of property and equipment resulting from the enforcement of guarantees					**Other inventories of property and equipment**	**Total**
	Land	**Buildings**	**Furniture**	**Electronic equipment**	**Other**		
A. Opening balance	1,100	6,917	—	—	—	—	8,017
B. Increases	—	—	—	—	—	—	—
B.1 Purchases	—	—	—	—	—	—	—
B.2 Recoveries	—	—	—	—	—	—	—
B.3 Positive foreign exchange differences	—	—	—	—	—	—	—
B.4 Other changes	—	—	—	—	—	—	—
C. Decreases	129	257	—	—	—	—	386
C.1 Sales	—	—	—	—	—	—	—
C.2 Impairment losses	—	—	—	—	—	—	—
C.3 Negative foreign exchange differences	—	—	—	—	—	—	—
C.4 Other changes	129	257	—	—	—	—	386
D. Closing balance	971	6,660	—	—	—	—	7,631

SECTION 10

Heading 100: Intangible assets

Intangible assets with indefinite life consist of goodwill and brands acquired as part of business combinations, whereas those with definite duration are the client lists similarly acquired and software. For details on the methods by which intangible assets are valued, reference is made to Part A - Accounting Policies.

During the twelve months under review this item fell from €901.8m to €816m, chiefly as a result of the writedown charged to the goodwill on RAM AI, as described below.

10.1 Intangible assets: composition

Activities/Values	30/6/20		30/6/19	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	666,536	X	772,427
A.1.1 attributable to the group	X	666,536	X	772,427
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	67,403	82,057	59,233	70,098
A.2.1 Assets valued at cost:	67,403	82,057	47,976	70,098
a) intangible assets generated internally	—	—	—	—
b) other assets	67,403	82,057	47,976	70,098
A.2.2 Assets valued at fair value:	—	—	11,257	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	11,257	—
Total	67,403	748,593	59,233	842,525

10.2 Intangible assets: movements during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	772,427	—	—	233,464	70,098	1,075,989
A.1 Reductions of total net value	—	—	—	(174,231)	—	(174,231)
A.2 Net opening balance	772,427	—	—	59,233	70,098	901,758
B. Increases	6,606	—	—	41,063	11,959	59,628
B.1 Purchases	—	—	—	27,126	—	27,126
- of which business combinations	—	—	—	—	—	—
B.2 Increments of internal intagible assets	X	—	—	—	—	—
B.3 Value recoveries	X	—	—	—	—	—
B.4 Positive variations of fair value	—	—	—	—	—	—
- equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	78	1,605	1,683
B.6 Other variations	6,606	—	—	13,859	10,354	30,819
C. Decreases	112,497	—	—	32,893	—	145,390
C.1 Sales	—	—	—	—	—	—
- of which business combinations	—	—	—	—	—	—
C.2 Value adjustment	96,900	—	—	30,222	—	127,122
- Amortisations	X	—	—	30,222	—	30,222
- Depreciations	96,900	—	—	—	—	96,900
+ equity	X	—	—	—	—	—
+ P&L statement	96,900	—	—	—	—	96,900
C.3 Negative variations of fair value	—	—	—	—	—	—
- equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
C.4 Transfer to non-current assets	—	—	—	—	—	—
C.5 Negative exchange differrences	—	—	—	—	—	—
C.6 Other variations	15,597	—	—	2,671	—	18,268
D. Net closing balance	666,536	—	—	67,403	82,057	815,996
D.1 Adjustment of net total values	—	—	—	(209,562)	—	(209,562)
E. Gross closing balance	666,536	—	—	276,965	82,057	1,025,558
F. Measurement at cost	—	—	—	—	—	—

Information on intangible assets and goodwill

No new acquisitions were completed during the twelve months under review, but the purchase price allocation process (PPA) for the Messier Maris & Associés acquisition made last year has been completed, resulting in:

– A new valuation for the brand of €27.2m (when the deal was executed the brand was valued at €17m) with indefinite useful life. The new estimate was made by applying the royalty relief method based on the 2020-23 strategic plan and a royalty rate of 4.4% (taken from the Markables database);

– A new customer relationship being identified in an amount of €11.3m, to be amortized over eight years.

Goodwill, including deferred tax of €6.7m, thus reduces from €149 a €134.2m.

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

Table 1: Summary of PPA effects, Italian acquisitions

	Linea	IFID	Spafid Connect	Barclays	Esperia
Acquisition date	*27/6/2008*	*1/8/2014*	*18/6/2015*	*26/8/2016*	*6/4/2017*
Price paid	406,938	3,600	5,124	(240,000)	233,920
of which: ancillary charges	*2,000*	*200*	—	—	—
Liabilities	—	—	—	80,000	—
Intangible assets, defined life	(44,200)	(700)	(3,250)	(26,000)	(4,508)
no. of years amortization	*8*	*7*	*10*	*5*	*5*
Brands	(6,300)	—	—	—	(15,489)
Fair value adjustments	—	—	—	84,200	11,232
Balance of other assets (liabilities)	(2,659)	420	(466)	98,300	(176,585)
Tax effects	12,155	220	934	3,500	6,613
Goodwill before impairment test	**365,934**	**3,540**	**2,342**	**—***	**55,183**

* The deal generated badwill.

Table 1: Summary of PPA effects, non-Italian acquisitions

	Cairn	RAM[1]	MMA
Acquisition date	*31/12/2015*	*28/2/2018*	*11/4/2019*
Currency	GPB	CHF	EURO
Price paid	24,662	164,732	107,856
of which: ancillary charges	—	—	—
Liabilities	20,813	46,850	54,540
Intangible assets, defined life	—	(2,398)	(11,330)
no. of years amortization	—	*5*	*8*
Brands	—	(37,395)	(10,230)
Fair value adjustments	—	—	—
Balance of other assets (liabilities)	(8,345)	(6,853)	(13,353)
Tax effects	—	7,163	6,684
Goodwill before impairment test	**37,130**	**172,099**	**134,167**

[1] All amounts are calculated pro rata (89.25%).

The situation for the Group's other main acquisitions is as follows:

- The Linea acquisition (€407m) generated goodwill of €365.9m, which is now the only amount still recorded in the books following the writeoff of the brands with the useful life of the intangible assets having ended. The goodwill is split between three different CGUs: consumer credit, credit cards and salary-backed finance;
- The IFID acquisition (€3.6m) generated goodwill of €3.5m and intangible assets with time-limited life for a total of €0.7m. The deal has been allocated to the "Fiduciary Services" CGU;
- The Spafid Connect acquisition (€5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m. The deal has been allocated to the "Corporate Services" CGU.
- The deal to acquire the Barclays' Italian business unit required the seller to pay badwill of €240m, generating, which in the purchase price allocation process was treated as a contingent liability in an amount of €59m (linked to the restructuring process) and loan loss provisions for mortgages totalling €21m, roughly half of which for non-performing exposures. Taking account intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years, the bargain purchase generated a gain of €98.3m, most of which was absorbed by the one-off costs related to integrating the Barclays' geographical and IT networks into CheBanca! (approx. €80m);

- The Cairn Capital acquisition (£24.7m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed; Cairn Capital Group has been treated as a single CGU. Following exercise of some tranches, the interest held in the company is now equal to 70.93%, while the outstanding liability, valued at the presumed realizable value, is equal to €13.9m.
- Acquisition of 50% of Banca Esperia held by Banca Mediolanum in return for a consideration of €141m (the deal closed on 6 April 2017); in December 2017 Banca Esperia was merged into Mediobanca, and the purchase price allocation process was completed the same month, which led to a brand being recognized worth €15.5m, a customer list of €4.5m to be amortized over five years, and goodwill of €52.1m split between the Private Banking and Mid-Cap CGUs (for €29.4m and €22.7m respectively);
- In February 2018 a 69% stake was acquired in RAM AI under the terms of a put-and-call arrangement which allows the investment to be increased to 89.25%, exercisable from the third to the tenth year after the deal was executed. The purchase price allocation process led to recognition of a brand worth CHF 41.9m with indefinite life and a client list (related to the AUM management contracts followed by REYL) worth CHF 2.7m, to be amortized over five years. Goodwill post-PPA was calculated at CHF 172.1m, which includes the liability in respect of the put-and-call option (over the other 20.25% not acquired) valued at CHF 46.9m:
- The acquisition of 66.4% of the share capital of Messier Maris & Associés – MMA (completed in April 2019), for a consideration of €107.9m settled by means of 11.6 million Mediobanca treasury shares (equal to 1.3% of the Bank's share capital). A put-and-call agreement was also executed, exercisable as from the fifth year following the acquisition, that would allow the interest acquired to rise to 100%. In conjunction with the deal closing, the Messier Maris brand was transferred at a value of €17m, which was increased by €27.2m following the PPA process, along with a client list worth €11.3m to be amortized over eight years, which reduced the goodwill to €134.2m.

With reference to the RAM AI CGU, in view of the fact that its FY 2019-20 was considerably below the budget estimates, in part due to the crisis that developed following the Covid-19 pandemic, it has become necessary to revise the company's earnings projections. The company's growth estimates have been revised downwards compared to those at the acquisition date, and results are expected to return to their 2018-19 levels only in the next four or five years. The revised valuation of company based on the new plan is now comprised within a range that is below the original book value. The valuation has been confirmed by a specialist external operator. In view of these events, Mediobanca has decided to reduce the original goodwill by 60%, from CHF 172.1m to CHF 68.8m, with an impact on profit and loss of CHF 103.3m (€96.9m). Conversely, the liability in respect of the put-and-call option over the 20.25% stake not already owned has been adjusted to CHF 12.9m, aligned with the valuation resulting from the impairment testing, considering the right of exercise and the related expiry date, and so distinguishing it from the value in use. The adjustment produced a benefit of CHF 34m (€31.8m), which reduced the overall impact on profit and loss to CHF 69m (€65.1m).

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

Table 2: Other intangible assets acquired as a result of M&A transactions

Typology	Deal	30/6/20	30/6/19
Customer relationship		25,156	22,201
	IFID	—	*208*
	Spafid	*390*	*390*
	Barclays/CheBanca!	*6,838*	*11,258*
	MB Private Banking	*1,807*	*2,705*
	CMB	*5,215*	*5,865*
	RAM Active Investments	*1,346*	*1,774*
	Messier Maris et Associes	*9,560*	—
Brand		65,057	53,219
	MB Private Banking	*15,489*	*15,489*
	RAM Active Investments	*39,338*	*37,730*
	Messier Maris et Associes[1]	*10,230*	—
Acquired software	Spafid Connect	2,468	3,005
Total		**92,681**	**78,425**

[1] Added to the brand transferred in connection with the acquisition and equal to €17m (figure taken from financial statements for year ended 30 June 2019).

Table 3: Goodwill

Deal	30/6/20	30/6/19
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-Fiduciaria	3,080	3,080
Cairn Capital	40,738	41,414
Banca Esperia	52,103	52,103
RAM Active Investments	64,632	154,974
Messier Maris & Associés	134,167	149,040
Total goodwill	**666,536**	**772,427**

Table 4: CGUs

CGU	Deal	30/6/20	30/6/19
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	3,080
Corporate services	Spafid Connect	2,342	2,342
Cairn Capital		40,690	41,414
Mid corporate	ex Esperia	22,650	22,650
MBPrivate Banking	ex Esperia	29,453	29,453
RAM		64,680	154,974
Messier Maris & Associés		134,167	149,040
Total goodwill		**666,536**	**772,427**

Information on impairment testing

As stated in the Accounting Policies section, IAS 36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value.

If it is not realistically possible to establish the recoverable value of the individual asset directly, the standard allows the calculation to be made based on the recoverable value of the cash-generating unit, or CGU, to which the asset belongs. The CGU is defined as the smallest identifiable group of assets able to generate cash flows that do not present synergies with the other parts of the company, may be considered separately and sold individually.

In order to establish the recoverable value versus the book value at which the asset has been recognized in the accounts, reference is made to the higher between the fair value (net of any sales costs) and the net present value of an asset. The net present value in particular is calculated by discounting the future cash flows expected from an asset or cash-generating unit; the cash flow projections must reflect reasonable assumptions and must therefore be based on recent budget or estimates approved by the company's governing bodies. The cash flows must also be discounted at a rate which factors in the current cost of money and risks associated with the specific activity.

The Group has adopted a policy, the most recent update of which was submitted to the approval of the Board of Directors in June 2019, governing the impairment testing process which incorporates the guidance issued jointly by the *Organismo Italiano di Valutazione* (Impairment testing of goodwill in financial crises, published on 14 June 2012, *Principi Italiani di Valutazione* (PIV) published in 2015, Discussion Paper dated 22 January 2019), the ESMA recommendations contained in its document entitled "European Common Enforcement Priorities for 2013 Financial Statements", the joint Bank of Italy-Consob-IVASS guidelines (document no. 4 issued on 3 March 2010) and Consob communications (DIE/17131 of 3 March 2014 and 3907 of 19 January 2015).

On 10 July 2020, the *Organismo Italiano di Valutazione* published its "Guidelines on impairment testing following the effects of the Covid-19 pandemic", which has been taken into account in preparing these financial statements.

The recoverable value for goodwill has been estimated using the dividend discount model methodology, with the excess capital version applied which is commonly employed by financial institutions for this purpose for capital-intensive CGUs.

The cash flows have been projected over a time horizon of three-five years based on the Group's strategic plans and the annual budgets formulated by the management of the individual CGU. In view of the exceptional nature of the circumstances witnessed in the last few months due to the Covid-19 pandemic, in preparing the budget for FY 2020-21, the rolling estimates for the following years have been revised as well. This has involved identifying a new macroeconomic scenario, and account has been taken of the short- and medium-term consequences of the pandemic in line with the most recent estimates (slowdown in the real economy for businesses and households, resulting in a fall in demand, risk aversion in investing, opportunities in the area of corporate restructuring, with all the related risks), and the projections for revenues, investments and cost of risk have all been revised accordingly.

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

- The risk-free rate, i.e. the return on investments which are risk-free or entail minimum risk over the near term and not exceeding one year, identified as the return on sovereign debt of the countries in which the asset being valued is headquartered;
- The market risk premium, i.e. the reward which investors require in order to increase the risk on their investments. This is obtained from a variety of sources, including research carried out by companies and leading academics, with the contribution of various university professors in order to estimate the long-term payout ratio and the spread of returns on equities and the spot levels of government securities;
- The growth rate (g), to calculate the terminal value, using the so-called “perpetuity” methodology, established taking into account the inflation rate expected over the long term in the country where the specific CGU is based; in some cases, however, other factors are also considered, such as the real growth scenario in the sector where the CGU operates;
- Each CGU is also assigned a systemic risk indicator (Beta) considered over a two-year time horizon based on market peers.

Finally, it should be emphasized that in calculating the cost of equity (Ke), account must also be taken of risk specific to the CGU, if any, through an additional risk (alpha coefficient/factor) to incorporate the risk perceived by the market but not fully reflected by the CAPM indicators. At this unprecedented moment in time, having decided to calculate the cost of equity using the same method as in the past, an alpha coefficient has been used, which differs according to the geography in which the CGU is located, to capture the risk not reflected in the new cash flow estimates.

Table 5: Cost of equity parameters per CGU

CGU	30/6/20					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	**β**	**α**	***Ke***	***g***
Consumer credit	1.33%	6.97	1.03	1.36	9.88	1.3
Credit cards	1.33%	6.97	1.03	1.36	9.88	1.3
Salary-backed finance	1.33%	6.97	1.03	1.36	9.88	1.3
Fiduciary services	1.33%	6.97	1.00	1.36	9.66	1.3
Private Banking	1.33%	6.97	1.00	1.36	9.66	1.3
Mid corporate	1.33%	6.97	1.00	1.36	9.66	1.3
Services to issuers	1.33%	6.97	1.00	1.36	9.66	1.3
Cairn Capital / UK	0.51%	5.94	1.13	1.22	8.41	1.7
RAM AI / Switzerland	0.63%	6.34	1.13	2.52	9.02	1.5
MMA / France	-0.11%	6.97	1.11	1.80	8.96	1.5

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

The increase in the cost of equity compared to last year is largely attributable to use of the alpha coefficient, as follows: the Italian CGUs show a reduction in the risk-free rate (from 2.82% to 1.33%) and an increase in the risk premium (from 6.82% to 6.97%), while the two alternative asset management CGUs Cairn and RAM also show a reduction in the risk-free rate and in the risk reward. For all CGUs an alpha coefficient has been included.

All the Group's CGUs passed the impairment test, as the net present value was higher than the book value which already accounted for the depreciation of the current fiscal year.

A sensitivity analysis exercise was also performed, to ascertain the results in various scenarios, such as 0.25% increase or decrease in the cost of equity and/or a 0.50% increase or decrease in the growth rate, and again, all results were positive. Finally, in line with the main peers, sensitivity analysis has also been performed on other variables: the cost/income ratio, and for companies with credit risk, the cost of risk.

* * *

As for the three brands currently booked under intangibles with indefinite duration, the following should be noted:

- The value of the Mediobanca Private Banking brand has been tested to confirm there are no indicators of impairment, using the royalty relief method which is based on discounting the royalty flows allocated to the Private Banking brand;
- For the RAM AI brand, the valuation has been revised using the income approach in the Purchase Price Allocation process;
- The value of the Messier Maris et Associés brand has been recalculated as part of the Purchase Price Allocation.

SECTION 11

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

11.1 Advance tax assets: composition

	Total 30/6/20	Total 30/6/19
- Against Profit & Loss	616,727	612,627
- Against Net Equity	40,773	46,856
Total	657,500	659,483

11.2 Deferred tax liabilities: composition

	Total 30/6/20	Total 30/6/19
- Against Profit & Loss	302,963	292,302
- Against Net Equity	22,485	26,870
Total	325,448	319,172

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

	Total 30/6/20	Total 30/6/19
1. Opening balance	612,627	614,153
2. Increases	18,342	47,119
2.1 Deferred taxes assets for the year	17,651	47,111
a) relating to previous years	1,338	32
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	16,313	47,079
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	691	9
3. Decreases	14,242	48,646
3.1 Deferred taxes assets derecognized in the year	13,763	47,915
a) reversals of temporary differences	13,407	47,515
b) writedowns of non-temporary items	—	—
c) changes in accouting policies	—	—
d) others	356	400
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	479	731
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	479	731
4. Closing balance	616,727	612,627

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

	Total 30/6/20	Total 30/6/19
1. Opening balance	548,385	548,385
2. Increases	—	—
3. Decreases	—	—
3.1 Reversals of temporary differences	—	—
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	—
4. Closing balance	548,385	548,385

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

The 2020 Italian budget law has provided that the writeoff to current taxes will be postponed to the tax period in force until 31 December 2022 and the three subsequent tax periods; hence no changes have been recorded.

11.5 Changes in deferred tax during the period

	Total 30/6/20	Total 30/6/19
1. Opening balance	292,302	284,242
2. Increases	27,930	105,501
2.1 Deferred taxes liabilities of the year	21,698	1,095
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	21,698	1,095
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	6,232	104,406
3. Decreases	17,269	97,442
3.1 Deferred taxes liabilities derecognized in the year	15,506	95,774
a) rigiri	3,768	93,789
b) changes in accouting policies	—	—
c) others	11,738	1,985
3.2 Reduction in tax rates	—	32
3.3 Other decreases:	1,763	1,636
4. Closing balance	302,963	292,302

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

	Total 30/6/20	Total 30/6/19
1. Opening balance	46,856	69,542
2. Increases	39,231	37,358
2.1 Deferred taxes liabilities for the year	38,346	37,269
a) relating to previous year	—	—
b) due to changes in accounting policies	—	942
c) others	38,346	36,327
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	885	89
3. Decreases	45,314	60,044
3.1 Deferred tax liabilities derecognized in the year	43,570	52,923
a) reversals pf temporary differences	42,859	39,056
b) writedowns of non-recoverable amounts	—	—
c) due to changes in accounting policies	—	—
d) others	711	13,867
3.2 Reductions in tax rates	—	39
3.3 Other decreases	1,744	7,082
4. Closing balance	40,773	46,856

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

	Total 30/6/20	Total 30/6/19
1. Opening balance	26,870	59,782
2. Increases	75,772	95,855
2.1 Deferred taxes liabilities of the year	75,757	95,836
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	75,757	95,836
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	15	19
3. Decreases	80,157	128,767
3.1 Deferred taxes liabilities derecognized in the year	80,155	128,767
a) rigiri	80,155	128,577
b) changes in accouting policies	—	—
c) others	—	190
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	2	—
4. Closing balance	22,485	26,870

SECTION 12

Asset heading 120 and liability heading 70: Non-current assets and groups of assets held for sale and related liabilities

12.1 Non-current assets and groups of assets held for sale: composition

	30/6/20	30/6/19
A. Assets held for sale		
A.1 Financial assets	—	22,168
A.2 Equity investments	—	—
A.3 Tangible assets	—	—
of which: obtained by taking possession of collaterals	—	—
A.4 Intangible assets	—	—
A.5 Other non-current assets	—	—
Total (A)	—	22,168
of which: valued at cost	—	—
of which: valued at fair value, Level1	—	—
of which: valued at fair value, Level2	—	—
of which: valued at fair value, Level3	—	22,168

The assets held for sale stated as at 30 June 2019 refer to the sale of bad debts attributable to the former Micos Banca, which were disposed of at the start of FY 2019-20.

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

SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	30/6/20	30/6/19
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	44,631	26,024
3. Trade receivables or invoices to be issued	256,670	172,536
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	159,463	179,658
5. Other items	207,937	330,032
- bills for collection	48,197	158,064
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	17,092	22,634
- advance payments on deposit commissions	2,513	2,859
- other items in transit	79,036	128,099
- sundry other items[1]	61,099	18,376
Total other assets	669,396	708,945

[1] Includes accrued income.

Liabilities

SECTION 1

Heading 10: Financial liabilities recognized at amortized cost

1.1 Financial liabilities recognized at amortized cost: composition, due to banks

Type of transaction/Values	30/6/20				30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Loans from central banks	5,660,803	X	X	X	4,367,257	X	X	X
2. Loans from banks	7,149,527	X	X	X	9,503,601	X	X	X
2.1 Other current accounts and demand deposits	596,259	X	X	X	637,250	X	X	X
2.2 Time deposits	—	X	X	X	52,759	X	X	X
2.3 Loans	6,442,279	X	X	X	8,307,212	X	X	X
2.3.1 Repos	2,204,642	X	X	X	4,482,590	X	X	X
2.3.2 Other	4,237,637	X	X	X	3,824,622	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Lease liabilities [1]	4,519	X	X	X	—	X	X	X
2.6 Other liabilities	106,470	X	X	X	506,380	X	X	X
Total	12,810,330	—	12,810,330	—	13,870,858	—	13,870,858	—

[1] This item includes obligations in respect of payment of future leasing installments as required by IFRS 16 and Bank of Italy circular no. 262.

1.2 Financial liabilities recognized at amortized cost: composition, due to customers

Type of transaction/Value	30/6/20				30/6/19			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from customers and on demand deposits	18,957,396	X	X	X	17,379,865	X	X	X
2. Time deposits	6,232,444	X	X	X	5,813,091	X	X	X
3. Loans	846,472	X	X	X	676,049	X	X	X
3.1 Repos	710,173	X	X	X	471,387	X	X	X
3.2 Other	136,299	X	X	X	204,662	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease liabilities[1]	212,196	X	X	X	—	X	X	X
6. Other liabilities	124,706	X	X	X	118,877	X	X	X
Total	26,373,214	—	26,373,214	—	23,987,882	—	23,987,882	—

[1] This item includes obligations in respect of payment of future leasing installments as required by IFRS 16 and Bank of Italy circular no. 262.

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

Type of securities/ Values	30/6/20				30/6/19			
	Book value	Fair value*			Book value	Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. Bonds	18,889,474	1,287,832	17,901,254	—	18,724,942	1,109,322	17,972,952	—
1.1 structured	3,617,647	—	3,779,434	—	4,058,647	—	4,238,889	—
1.2 other	15,271,827	1,287,832	14,121,820	—	14,666,295	1,109,322	13,734,063	—
2. Other securities	868,410	—	828,977	39,433	1,353,254	—	1,305,017	48,237
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	868,410	—	828,977	39,433	1,353,254	—	1,305,017	48,237
Total	19,757,884	1,287,832	18,730,231	39,433	20,078,196	1,109,322	19,277,969	48,237

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2020 would show a gain of €235.7m (€237.8m).

Debt securities in issue increased from €18,724,942,000 to €18,889,474,000 on new issuance of €4.6bn, redemptions and buybacks of €4.4bn (generating gains of €0.6m), and other downward adjustments (exchange rates, amortized cost and hedging effects) amounting to €12.3m.

Structured bonds chiefly regard bonds with interest rate options (including cap and floor) and equity-linked notes (which account for 12.5% of this item).

The Group's first senior-non preferred issue was made during the twelve months, in an amount of €500m, falling due in April 2025, and listed on the Dublin stock exchange ("XS2106861771 Mediobanca SNP 1.25% 23/04/2025").

1.4 Breakdown of debt securities/subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,441,223,000:

Issue	**30/6/20**		
	ISIN	**Nominal value**	**Calculated amount**
MB Subordinato Mar 29	XS1579416741	50,000	50,275
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	639,586
MB OPERA 3.75 2026	IT0005188351	299,577	311,620
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	397,272
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,121
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	536,349
Total subordinated debt securities		2,359,032	2,441,223

SECTION 2

Heading 20: trading liabilities

2.1 Trading liabilities: composition

Operation type/Values	30/6/20					30/6/19				
	Notional value	Fair value			Fair value *	Notional value	Fair value			Fair value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	1,431,165	1,653,615	—	—	1,653,615	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,306,066	1,509,072	—	—	1,509,072	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—		—	—	—	—	
3.1 Bonds	—	—	—	—		—	—	—	—	
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—		—	—	—	—	
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	2,737,231	3,162,687	—	—	3,162,687	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments[2]										
1. Financial derivatives		855,347	2,989,573	530,954 [1]			650,530	2,128,951	249,777 [1]	
1.1 Trading	X	855,347	2,978,135	529,758	X	X	650,530	2,070,454	247,959	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	11,438	1,196	X	X	—	58,497	1,818	X
2. Credit derivatives		—	418,374	—			—	701,000	—	
2.1 Trading	X	—	418,374	—	X	X	—	701,000	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	855,347	3,407,947	530,954	X	X	650,530	2,829,951	249,777	X
Total (A+B)	X	4,018,034	3,407,947	530,954	X	X	4,948,023	2,829,951	249,777	X

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

[1] Including both €408,844,000 (30/6/19: €235,984,000) for matched options traded , matching the amount booked as financial assets held for trading and the market value of options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching those associated with bond issued booked as financial assets held for trading.

[2] In the data for 30/6/19, certificates have been restated based on their underlying instrument, in order to facilitate comparison with the data as at 30/6/20.

Heading 30: Financial liabilities recognized at fair value

3.1 Financial liabilities recognized at fair value; composition

Type of transaction/Values	30/6/20					30/6/19				
	Nominal value	Fair Value			Fair Value *	Nominal value	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
of which:						—				
- commitments to disburse funds	—	X	X	X	X	—	X	X	X	X
- financial guarantees given	—	X	X	X	X	—	X	X	X	X
2. Due to clients	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	X	—	—	—	—	X
2.2 Others	—	—	—	—	X	—	—	—	—	X
of which:					—					
- commitments to disburse funds	—	X	X	X	X	—	X	X	X	X
- financial guarantees given	—	X	X	X	X	—	X	X	X	X
3. Debt securities	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859
3.1 Structured [1]	215,587	—	216,020	—	X	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859

[1] Including €160,878,000 in certificates with guaranteed capital issued during FY 2019-20.

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by type of hedge/ranking

	30/6/20				30/6/19			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	465,225	—	21,286,650	—	414,241	—	17,381,786
1) Fair value	—	428,533	—	12,943,850	—	349,007	—	12,536,786
2) Cash flow	—	36,692	—	8,342,800	—	65,234	—	4,845,000
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	465,225	—	21,286,650	—	414,241	—	17,381,786

4.2 Hedging derivatives: composition by portfolio hedged/hedge type

Transactions / Type of hedge	Fair value							Cash flow		
	Specific						Generic	Specific	Generic	Foreign invest.
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets at fair value with impact taken on comprehensive income	30,470	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	367,595	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	398,065	—	—	—	—	—	—	—	—	—
1. Financial liabilities	30,468	X	—	—	—	—	X	36,692	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	30,468	—	—	—	—	—	—	36,692	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see Asset section 11.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/20	30/6/19
1. Working capital payables and invoices pending receipt	255,677	327,037
2. Amounts due to revenue authorities	63,376	76,186
3. Amounts due to staff	211,853	227,706
4. Other items:	267,163	318,029
- bills for collection	24,141	26,719
- coupons and dividends pending collection	4,149	2,564
- available sums payable to third parties	57,037	44,959
- premiums, grants and other items in respect of lending transactions	16,581	29,951
- other[1]	165,255	213,836
Total	798,069	948,958

[1] Includes the liability in respect of the put-and-call agreements entered for Cairn Capital, RAM AI and MMA.

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	Total 30/6/20	Total 30/6/19
A. Opening balance	27,808	27,510
B. Increases	8,633	9,093
B.1 Provision of the year	6,635	6,394
B.2 Other increases	1,998	2,699
- of which business aggregation operations	—	—
C. Reductions	8,579	8,795
C.1 Severance payments	2,492	2,742
C.2 Other decreases[1]	6,087	6,053
- of which business aggregation operations	—	—
D. Closing balance	27,862	27,808
Total	27,862	27,808

[1] Includes €4,200,000 in transfers to external, defined contribution pension schemes (30/6/19: €3,904,000).

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

9.2 Other information

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

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, early withdrawals rate), while for the others, market best practices have been taken into account (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2020 has been used for similar companies to those being valued (equal to 0.31%, compared with 0.77% last year), while the inflation rate has fallen to 1.20% (from 1.50%).

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	30/6/20	30/6/19
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given	13,680	10,536
2. Funds on other commitments to disburse funds and guarantees given	284	—
3. Provision to retirement payments and similar[1]	2,573	1,840
4. Other provisions:	112,956	150,139
4.1 legal and fiscal controversies	—	—
4.2 staff expenses	4,835	3,889
4.3 others	108,121	146,250
Total	129,493	162,515

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

IAS 37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

As at 30 June 2020, the heading "Other provisions" totalled €129.5m, and includes €12.7m in commitments to disburse funds and financial guarantees issued, €2.6m in company post-retirement benefit provisions (which regard Group company RAM, in line with Swiss regulations), and €113m for litigation and other contingent liabilities, including labour costs. The latter reflect withdrawals by Mediobanca (€27.1m, chiefly due to the recalculation of tax risk, after the dispute pending with Mediobanca International was settled), and CheBanca! (€12m, to cover the recent strategic projects, plus the exit of staff as a result of the Barclays acquisition); transfers to provisions for the twelve months totalled €12.1m, and chiefly involve the disputes outstanding and personnel management. The balance of €113m is split between Mediobanca (€71.4m, versus €96.2m last year), CheBanca! (€19.4m, versus €32.9m), SelmaBipiemme (€10m, basically unchanged), Compagnie Monégasque de Banque (€3.8m, versus €4.5m), and Compass (€3.2m, versus €2.3m).

The most significant litigation still pending against the Mediobanca Group consists of the two requests for damages made respectively by:

– Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with fourteen other banks. The liability with which the banks are charged is non-contractual, and consists of participation in the alleged damages caused by execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, until the presiding judge pronounces on whether the means of proof requested by the parties are admissible;[1]
– Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on clearly unrealisitc forecasts and figures and a restructuring plan under Article 182bis for the italian bankruptcy law which included guarantees that were too favourable to the banks themselves; these two facts led allegedly to to the company being put into the extraordinary administration. In a ruling issued on 21 July 2020, the presiding judge rejected Lucchini's claim (as amended with the first memo pursuant to Article 183 of the Italian Code of Civil Procedure), finding that the right to damages in question had lapsed as it was now statute-barred; the claimant may still challenge the ruling before the Milan Court of Appeal.

As stated in the Review of Operations, the effects of the "Lexitor" ruling on retail operations are minimal and are limited to possible disputes over consumer credit transactions (salary-backed finance in particular), all of which prior to 5 December 2019, for which several complaints have been received, which are following the normal procedure in view of that the law on this matter is not yet consolidated.

With reference to the disputes outstanding with the Italian revenue authorities, an inspection by the authorities started in 2018 with reference to

[1] Mediobanca has also submitted an appeal, in conjunction with the other banks involved, to the Florence Court of Appeal to have the ruling that rejected the exception to the Italian judge having jurisdiction overturned. The first hearing has been set for 25 May 2021.

the 2014-15 and 2015-16 financial years was completed, in the course of which three main charges had emerged:

- Alleged failure to apply, as required by the transparency regulations, the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion for years 2013, 2014 and 2015, as follows:
  - Notice of assessment regarding alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest), notified at end-2018;
  - Notice of assessment for FY 2014-15 (on 2014 earnings), for a disputed amount of €16.1m (plus fines and interest), notified at end-December 2019;
  - A formal notice of assessment was issued in October 2019 with regard to FY 2015-16 (on 2015 earnings), for which no notice of assessment has yet been issued;
- Alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, as disputed by means of notice with reference to 2014 (involving tax of €2.3m, plus fines and interest), and included again with reference to 2015 in the formal notice of assessment received in October 2019;
- Dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International S.A. (based in Luxembourg) in the financial years from 2012-13 to 2016-17. With regard to this case, in October 2019 an agreement was reached with the Italian revenue authority which resulted in a payment of €21m, plus interest but no fines ("penalty protection"). At the same time, a new transfer pricing methodology has been agreed with the revenue authority, to minimize the tax risks going forward. Mediobanca took the opportunity to voluntarily free up profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, i.e. when the transparency taxation mechanism for companies with registered offices in countries with privileged taxation regimes (i.e. blacklisted countries) was not in place. For its part, Mediobanca International SA has submitted an application to the Luxembourg tax authority to recover the higher taxes paid in relation to the taxable revenues attributed by the Italian revenue authority to Italy.

With reference to the first two charges, the company is convinced there has been no wrongdoing, and has challenged the rulings; in particular, the appeal presented by Mediobanca against the 2018 CFC charge was discussed by the Milan Province Tax Commission in November 2019, for which the ruling is now pending.

Other significant events during the twelve months under review include the following cases, all now successfully concluded:

- Process for writing off tax debts ("rottamazione delle liti") provided for by Article 6 of Italian Decree Law 119/18 for seven out of the eight tax disputes SelmaBipiemme (notified tax per €11.7m, plus fines and interest totalling €35.2m), which may now to all intents and purposes be considered as closed;
- Dispute regarding the alleged failure by CheBanca! to pay registration tax on the acquisition of the former Barclays business unit, with both rulings from the Court of Appeal in favour, confirming the first-degree rulings issued;
- Tax relief on collection notice issued following an automatic check carried out on the 2015 *Unico* tax model for the former Banca Esperia.

In view of the above, the number of disputes outstanding at the reporting date in which the Group is involved is very low and regards the following:

- Three disputes pending with the Court of Cassation, one of which regards leasing (involving notified tax of €191,000), one the former Banca Esperia to report a money transfer outside Italy as part of the tax monitoring communications, for which fines of €5.9m were handed down (already paid), and the third regarding Mediobanca SGR, which was charged in its capacity as fund manager of the "Marsupio" real estate fund for the alleged failure to pay withholding tax on three transactions, involving a higher amount of tax notified of €746,000 (payable by the fund);
- Three disputes regarding the alleged failure to refund the tax credit due to interest on VAT for various tax years by SelmaBipiemme; in particular the Milan Court of Appeal confirmed that interest for €470,000, have not been repaid (for 2008);
- A total of eight tax disputes remain outstanding, involving claims in respect of direct and indirect taxes, for minor amounts and at different stages of the legal process, for a total notified amount of €1.2m.

The enquiries launched by the French and German tax authorities into the Mediobanca Paris and Frankfurt branches were completed in December 2019. In both cases the enquiries focused on analyzing the branch offices' transfer pricing policies in force with the parent company, and resulted in the policies being amended and settlement agreements being signed without incurring in any further charges in terms of taxes of fines (save for a very minor amount payable by way of interest), without prejudice in any case to the possibility of recovering in Italy the higher tax paid abroad.

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

10.2 Provisions for risks and charges: changes during the period

	Funds on other commitments to disburse funds and guarantees given	**Provision to retirement payments and similar**	**Other provisions: staff expenses**	**Other provisions: others**	**Total**
A. Opening balance	—	1,840	3,889	146,250	151,979
B. Increases	284	733	2,127	12,984	16,128
B.1 Provision for the year	284	646	1,004	11,057	12,991
B.2 Changes due to the passage of time	—	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—	—
B.4 Other increases	—	87	1,123	1,927	3,137
- *of which business aggregation operations*	—	—	—	—	—
C. Decreases	—	—	1,181	51,113	52,294
C.1 Use during the year	—	—	1,181	51,112	52,293
C.2 Difference due to discount rate changes	—	—	—	—	—
C.3 Other decreases	—	—	—	1	1
- *of which business aggregation operations*	—	—	—	—	—
D. Closing balance	284	2,573	4,835	108,121	115,813

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

	Provisions for credit risk related to commitments and financial guarantees given			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commitments to disburse funds	7,967	521	2,988	11,476
Financial guarantees given	1,604	600	—	2,204
Total	9,571	1,121	2,988	13,680

10.5 Defined benefit company retirement pension schemes

This refers to the defined benefit company retirement pension scheme operated by Caisse Bâloise on behalf of RAM AI staff as required by Swiss law. The provision is subject to actuarial quantification by an independent actuary using the Projected Unit Credit Method.[2] The current value of the liability as at the reporting date has also been adjusted to reflect the fair value of any plan assets, resulting in a liability of €2.6m (CHF 2.7m) has been booked to the accounts, which is higher than last year (€1.8m, equal to CHF 2m).

To determine the liability's value, certain financial and demographic assumptions have been used: the former include a discount rate of 0.25%, and an increase in salaries of 1%[3]; for the latter, in some cases the company's own experience has been used, e.g. early withdrawal rate, rates of exiting the fund early, family group composition, etc., while in other cases account has been taken of the relevant best practice or legislative provisions: for instance, for the mortality, turnover and invalidity rates the BVG 2015 tables have been used, for life expectancy of the populations the CMI 2016 tables, and for retirement age the legal provisions now in force.

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

IAS19 Net obligation	**30/6/20**	**30/6/19**
	CHF/1000	CHF/1000
Present value of defined benefit obligation	(14,973)	(13,578)
Present value of plan assets	12,232	11,536
Surplus/(deficit)	(2,741)	(2,042)
IFRIC14 adjustment	—	—
Net accounting (liability)/asset	(2,741)	(2,042)

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

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

[3] Last year 0.40% and 1% respectively.

SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

Items	Direct labour	Indirect labour	30/6/20	30/6/19
A. Non-life insurance	—	157,244	157,244	170,838
A.1 Premium reserves	—	147,192	147,192	162,203
A.2 Accident reserves	—	10,052	10,052	8,635
A.3 Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B.1 Mathematical reserves	—	—	—	—
B.2 Reserves for sums to pay	—	—	—	—
B.3 Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C.1 Reserves related to contract which performance are linked to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	157,244	157,244	170,838

11.2 Technical reserves: changes during the period

	30/6/20	30/6/19
A. Non-life business		
Opening balance	170,838	175,853
Combinations involving group companies	—	—
Changes to reserves (+/-)	(13,594)	(5,015)
Other additions	—	—
Closing balance	157,244	170,838
B. Life insurance and other technical reserves		
Opening balance	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Closing balance	—	—
C. Total technical reserves	157,244	170,838

SECTION 13

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

13.1 "Capital" and "Treasury shares": composition

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

On 25 March 2020 the Bank's share buyback was completed.[4] As a result of the buyback, the Bank now owns 3% of the share capital, i.e. 26.6 million shares, having bought back 13 million shares (for an outlay of €105.5m); in November 2019, some 1.7 million shares were used in connection with the performance share scheme.

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

Items/Types	Ordinary
A. Shares in issue at the start of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—
A.1 Treasury shares (-)	(15,346,295)
A.2 Shares outstanding: opening balance	871,869,882
B. Additions	1,759,772
B.1 New shares issuance as a result of:	17,270
- against payment:	—
- bonds conversions	—
- exercise of warrants	—
- others	—
- free:	17,270
- to employees	17,270
- to directors	—
- others	—
B.2 Treasury shares' disposal	1,742,502
B.3 Other additions	—
C. Reductions	(13,007,495)
C.1 Cancellations	—
C.2 Treasury shares' buyback	(13,007,495)
C.3 Disposal of business	—
C.4 Other reductions	—
D. Shares outstanding: closing balance	860,622,159
D.1 Treasury shares (+)	(26,611,288)
D.2 Shares in issue at the end of period	887,233,447
- entirely unrestricted	887,233,447
- with restrictions	—

[4] Under the resolution adopted by shareholders at the 2018 Annual General Meeting, the Bank was authorized to buy back up to 3% of the share capital, or 26.6 million shares.

13.4 Profit reserves: other information

Items	30/6/20	30/6/19
Legal reserve	88,722	88,704
Statutory reserve	1,029,580	1,157,437
Treasury shares	231,538	141,989
Others	4,916,024	4,503,343
Total	6,265,864	5,891,473

SECTION 14

Heading 190: Net equity attributable to minorities

14.1 Heading 210: Net equity attributable to minorities – composition

Company name	30/6/20	30/6/19
1. SelmaBipiemme S.p.A.	85,101	83,792
2. RAM Active Investments S.A.	6,385	5,856
3. Other minors	6	10
Total	91,492	89,658

Other information

1. Guarantees and commitments

	Nominal value of commitments and financial guarantees given			30/6/20	30/6/19
	Stage 1	Stage 2	Stage 3		
1. Commitment to disburse funds	9,877,662	44,873	15,862	9,938,397	12,608,418
a) Central Banks	—	—	—	—	—
b) Public Administration	1,129,491	—	—	1,129,491	4,069,828
c) Banks	33,525	—	—	33,525	82,745
d) Other financial companies	1,834,007	—	—	1,834,007	1,043,680
e) Non-financial companies	4,956,225	17,729	14,640	4,988,594	5,881,153
f) Families	1,924,414	27,144	1,222	1,952,780	1,531,012
2. Financial guarantees given	699,111	12,922	—	712,033	282,264
a) Central Banks	—	—	—	—	—
b) Public Administration	—	—	—	—	—
c) Banks	9,992	—	—	9,992	26,407
d) Other financial companies	196,331	—	—	196,331	166,763
e) Non-financial companies	474,126	12,922	—	487,048	70,634
f) Families	18,662	—	—	18,662	18,460

2. Other commitments and guarantees issued

Items/Types	Nominal value 30/6/20	Nominal value 30/6/19
1. Other guarantees issued	122,626	123,463
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	6	5
d) Other financial companies	28,533	19,494
e) Non-financial companies	30,571	28,188
f) Families	63,516	75,776
2. Other commitment	148,846	129,299
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	124,199	111,319
d) Other financial companies	—	—
e) Non-financial companies	20,747	17,980
f) Families	3,900	—

3. Assets established as collateral to secure own liabilities and commitments

Portfolios	Amounts 30/6/20	Amounts 30/6/19
1. Financial assets valued at fair value with impact taken to profit and loss	2,136,505	4,816,803
2. Financial assets valued at fair value with impact taken to other comprehensive income	1,085,935	1,817,460
3. Financial assets valued at amortized cost	18,092,585	15,371,083
4. Tangible assets	—	—
of which: tangible assets that constitue inventories	—	—
5. Equity investments	190,108	—

5. Assets managed and traded on behalf of third parties

Type of service	Amounts 30/6/20	Amounts 30/6/19
1. Order execution on behalf of client		
a) purchases	26,849,645	14,820,923
1. settled	26,226,551	14,711,791
2. unsettled	623,094	109,132
b) sales	26,717,796	14,199,338
1. settled	26,094,702	14,090,206
2. unsettled	623,094	109,132
2. Portfolios management		
a) individual	12,589,696	12,358,038
b) collective	15,579,671	16,117,972
3. Custody and administration of securities		
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	11,123,568	11,191,064
1. securities issued by companies included in the area of consolidation	181,178	160,049
2. other securities	10,942,390	11,031,015
b) Third-party securities held in deposits (excluding portfolio management): other	16,905,832	16,182,829
1. securities issued by companies included in the area of consolidation	35,083	164,398
2. other securities	16,870,749	16,018,431
c) Third-party securities deposited to third	24,956,998	23,131,120
d) Own securities deposited to third	10,444,675	9,922,561
4. Other operations	2,674,546	1,702,426

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)[1]	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/20	30/6/19
1. Derivatives	2,703,447	549,899	2,153,548	1,407,741	245,400	500,407	603,462
2. Reverse Repos	3,459,051	—	3,459,051	3,459,051	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/20	6,162,498	549,899	5,612,599	4,866,792	245,400	500,407	X
Total 30/6/19	9,554,066	279,269	9,274,797	8,645,845	25,490	X	603,462

[1] Refers to transactions in derivative financial products with a central counterparty with which a netting agreement is in place which provides for daily margining.

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

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets offset in BS (b)	Net amount of the financial liabilities reported in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash collateral placed (e)	30/6/20	30/6/19
1. Derivatives	2,042,676	—	2,042,676	1,408,041	298,279	336,356	218,773
2. Repos	2,080,835	—	2,080,835	2,080,835	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/20	4,123,511	—	4,123,511	3,488,876	298,279	336,356	X
Total 30/6/19	7,176,091	—	7,176,091	6,566,792	390,526	X	218,773

8. Securities lending operations

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

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

Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2020, in 89% of cases the counterparty was three major banking groups.

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	288,659	35,743	609,566
a) Banks	267,755	31,528	268,316
b) Financial institutions	20,904	4,215	341,250
c) Customers	—	—	—
2. Securities lended collateralized by cash - Due to:	(334,886)	(8,004)	(230,845)
a) Banks	(334,886)	(7,801)	(230,845)
b) Financial institutions	—	(203)	—
c) Customers	—	—	—
Total securities lending (book value)	(46,227)	27,739	378,721

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	303,565	588,000	1,617,448
a) Banks	140,000	588,000	—
b) Financial institutions	163,468	—	1,463,936
c) Customers	97	—	153,512
2. Securities lended collateralized by cash - Due to:	(1,256,508)	(134,820)	(708,456)
a) Banks	(628,779)	—	(140,000)
b) Financial institutions	(627,729)	(134,820)	(568,456)
c) Customers	—	—	—
Total securities lending (fair value)	(952,943)	453,180	908,992

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
1. Financial assets valued at fair value with impact taken to P&L:	34,349	866	—	35,215	33,169
1.1 Financial assets held for trading	31,665	329	—	31,994	28,945
1.2 Financial assets designated to fair value	1,386	—	—	1,386	1,416
1.3 Other financial assets mandatorly measured at fair value	1,298	537	—	1,835	2,808
2. Financial assets valued at fair value with impact taken to other comprehensive income	40,226	—	X	40,226	63,472
3. Financial assets valued at amortized cost:	54,366	1,713,044	X	1,767,410	1,756,321
3.1 Due from banks	18,040	17,849	X	35,889	33,098
3.2 Due from clients	36,326	1,695,195	X	1,731,521	1,723,223
4. Hedging derivatives[1]	X	X	79,806	79,806	12,355
5. Other assets	X	X	99	99	1,902
6. Financial liabilities[2]	X	X	X	21,136	18,771
Total	128,941	1,713,910	79,905	1,943,892	1,885,990
of which: income interests on impaired financial assets	—	*76,393*	—	*76,393*	*64,554*
of which: interest income on finance lease	—	*46,344*	—	*46,344*	—

[1] Mainly to hedge funding.

[2] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates, €18.6m of which in connection with T-LTRO.

1.2 Interest and similar income: other information

As at 30 June 2020, the balance of the account includes €166.2m in connection with financial assets in foreign currencies.

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
1. Financial liabilities valued at amortized cost	(83,150)	(409,846)	X	(492,996)	(473,862)
1.1 Due to central banks	(177)	X	X	(177)	(761)
1.2 Due to banks	(19,239)	X	X	(19,239)	(25,875)
1.3 Due to customers	(63,734)	X	X	(63,734)	(83,857)
1.4 Securities in issue	X	(409,846)	X	(409,846)	(363,369)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,453)	—	(2,453)	(2,450)
4. Other liabilities and provisions	X	X	(5,215)	(5,215)	(519)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets[1]	X	X	X	(1,533)	(4,961)
Total	(83,150)	(412,299)	(5,215)	(502,197)	(481,792)
of which: interest expenses related to lease liabilities	*(2,447)*	—	—	*(2,447)*	—

[1] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates.

1.4 Interest expense and similar charges: other information

As at 30 June 2020, the balance of the account includes €105.9m in connection with financial liabilities in foreign currencies.

1.5 Margins on hedging transactions

Items	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
A. Positive differentials on hedging transactions	189,131	175,774
B. Negative differentials on hedging transactions	(109,325)	(163,419)
C. Net balance (A-B)	79,806	12,355

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
a) guarantees given	4,004	2,359
b) credit derivatives	—	—
c) management services, brokerage and consultancy income:	372,076	345,530
1. securities trading	19,101	14,231
2. currency trading	—	—
3. portfolio management	128,568	124,266
3.1. individuals	47,205	36,276
3.2. collectives	81,363	87,990
4. custody and administration of securities	17,307	14,242
5. depositary bank	7,458	7,458
6 placement of securities	83,571	71,955
7. reception and transmission of orders	22,416	15,173
8. consultancy activities	5,266	11,793
8.1. related to investments	5,266	11,793
8.2. related to financial structure	—	—
9. distribution of third parties services	88,389	86,412
9.1. porfolio management	13,225	12,813
9.1.1. individual	12,228	12,035
9.1.2. collective	997	778
9.2. insurance products	72,813	70,005
9.3. other products	2,351	3,594
d) collection and payment services	21,823	11,559
e) securitization servicing	438	473
f) factoring services	6,666	6,382
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	6,309	4,752
j) other services	213,976	213,868
Total	625,292	584,923

The heading “Other services” includes €33.8m from the consolidation of Messier Maris et Associés, in connection with advisory activity (other services). MMA’s contribution last year (€5.3m) was for 4Q only (from 1 April to 30 June 2019).

2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
a) guarantees received	(49)	(34)
b) credit derivatives	—	—
c) management and brokerage services	(22,366)	(22,451)
1. trading in financial instruments	(8,678)	(7,740)
2. currency trading	—	—
3. portfolios management:	(9,939)	(10,882)
3.1 own portfolio	(24)	(100)
3.2 third parties portfolio	(9,915)	(10,782)
4. custody and administration securities	(3,744)	(3,448)
5. financial instruments placement	(5)	(381)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(14,294)	(13,892)
e) other services	(101,921)	(108,078)
Total	(138,630)	(144,455)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/20		12 mths ended 30/6/19	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	71,291	349	87,269	—
B. Other financial assets mandatorily measured at fair value	—	9,448	—	14,205
C. Financial assets measured at fair value with impact taken to other comprehensive income	6,337	—	4,329	—
D. Equity investments	—	—	—	—
Total	77,628	9,797	91,598	14,205

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions / Income	Capital gain (A)	Trading income (B)	Capital loss (C)	Trading loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	171,573	374,081	(241,883)	(584,802)	(281,032)
1.1 Debt securities	84,745	122,155	(74,144)	(68,452)	64,304
1.2 Equity	86,487	242,584	(166,374)	(510,543)	(347,846)
1.3 UCITs	232	9,096	(1,205)	(5,807)	2,316
1.4 Loans	38	246	(160)	—	124
1.5 Others	71	—	—	—	71
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Others	—	—	—	—	—
3. Financial assets and liabilities: exchange rate differences[1]	X	X	X	X	(35,972)
4. Derivative instruments:	2,590,638	2,052,841	(2,377,864)	(1,981,648)	298,981
4.1 Financial derivatives:	1,944,815	1,397,233	(1,715,198)	(1,379,327)	262,537
- on debt securities and interest rates[2]	848,578	417,335	(817,021)	(515,973)	(67,081)
- on equity securities and shares indexes	1,096,237	979,898	(897,833)	(862,801)	315,501
- on currency and gold	X	X	X	X	15,014
- others	—	—	(344)	(553)	(897)
4.2 Credit derivatives	645,823	655,608	(662,666)	(602,321)	36,444
of which: natural hedges related to fv option	*X*	*X*	*X*	*X*	—
Total	2,762,211	2,426,922	(2,619,747)	(2,566,450)	(18,022)

[1] This item contains valuations for banking book positions based at current exchange rates totalling €20,923,000, and the exchange rate effect on hedging the RAM investment (minus €10.5m).

[2] Of which €40,912,000 in positive margins on interest rate derivatives (30/6/19: minus €13,829,000).

The result in net trading income reflects the sharp market correction at end-March 2020, only some of which had been recovered by the reporting date.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Income from:		
A.1 Fair value hedging derivatives	84,743	168,235
A.2 Hedged financial assets (fair value)	196,268	239,391
A.3 Hedged financial liability (fair value)	49,544	30,895
A.4 Cash-flows hedging derivatives	6	2
A.5 Assets and liabilities denominated in currency	—	—
Total income on hedging activities (A)	330,561	438,523
B. Expenses on:		
B.1 Fair value hedging derivatives	(120,348)	(57,495)
B.2 Hedged financial assets (fair value)	(42,341)	(48,721)
B.3 Hedged financial liability (fair value)	(172,659)	(326,881)
B.4 Cash-flows hedging derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total expenses on hedging activities (B)	(335,348)	(433,097)
C. Net profit from hedging activities (A-B)	(4,787)	5,426
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposals/repurchases: breakdown

Items / Income	12 mths ended 30/6/20			12 mths ended 30/6/19		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	13,166	(15,838)	(2,672)	17,863	(15,498)	2,365
1.1 Due from banks	1,550	(7)	1,543	—	(150)	(150)
1.2 Due from customers	11,616	(15,831)	(4,215)	17,863	(15,348)	2,515
2. Financial assets at fair value with impact taken to other comprehensive income	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.1 Debt securities	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.2 Loans	—	—	—	—	—	—
Total assets (A)	88,988	(31,239)	57,749	91,123	(21,959)	69,164
B. Financial liabilities at amortized cost						
1. Due to banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	6,925	(6,279)	646	10,787	(592)	10,195
Total liabilities (B)	6,925	(6,279)	646	10,787	(592)	10,195

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income include current exchange rate valuations of €0.2m and €10.5m respectively (30/6/19: €3.7m and €14.4m).

SECTION 7

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

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

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(965)	—	(965)
1.1 Debt securities	—	—	(965)	—	(965)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	3,296	—	—	—	3,296
2.1 Debt securities in issue[1]	3,296	—	—	—	3,296
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities:exchange rate differences	X	X	X	X	—
Total	3,296	—	(965)	—	2,331

[1] The figures are stated at fair value, including issuer risk which at 30/6/20 amounted to €365,000.

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

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	56,529	220	(25,370)	(152)	31,227
1.1 Debt securities	—	—	(1,538)	—	(1,538)
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	13,829	220	(23,550)	(152)	(9,653)
1.4 Loans[1]	42,700	—	(282)	—	42,418
2. Financial assets: exchange rate differences	X	X	X	X	(460)
Total	56,529	220	(25,370)	(152)	30,767

[1] The figures refer to converting instruments related to restructuring operations

SECTION 8

Heading 130: Net writeoffs (writebacks) for credit risk

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

Transaction/Income	Writedowns			Writebacks			
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3	12 mths ended 30/6/20	12 mths ended 30/6/19
		Write-off	Others				
A. Due from banks	(2,235)	—	—	935	—	(1,300)	(264)
- Loans	(1,929)	—	—	687	—	(1,242)	45
- Debt securities	(306)	—	—	248	—	(58)	(309)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Due from customers	(349,359)	(49,432)	(344,108)	178,170	168,470	(396,259)	(209,247)
- Loans	(345,464)	(49,432)	(344,108)	177,113	168,283	(393,608)	(212,964)
- Debt securities	(3,895)	—	—	1,057	187	(2,651)	3,716
of which: financial assets purchased or originated credit impaired	—	*(44,757)*	*(208)*	—	*52,310*	*7,345*	*16,073*
Total	(351,594)	(49,432)	(344,108)	179,105	168,470	(397,559)	(209,512)

Writeoffs on due from customers include the provisioning increase on performing exposure recalculated based on the new macroeconomic scenario in addition to the downgrade effect of the Italian Republic on securities.

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

Transaction/Income	Writedowns			Writebacks			
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
		Write-off	Others				
A. Debt Securities[1]	(4,805)	—	—	—	—	(4,805)	(779)
B. Due to:	—	—	—	—	—	—	—
- Clients	—	—	—	—	—	—	—
- Banks	—	—	—	—	—	—	—
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—
Total	(4,805)	—	—	—	—	(4,805)	(779)

[1] It includes the downgrade effect of the Italian Republic on securities.

SECTION 9

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

9.1 Gains (losses) from contractual modifications: breakdown

This heading, which reflects a loss of €253,000, includes the impacts of contractual modifications on financial assets which, since they do not represent substantial modifications under either IFRS9 or Group's policies, do not entail the derecognition of the assets involved but do require the modifications to contractual cash flows to be taken through profit and loss.

SECTION 10

Heading 160: Net premium income

10.1 Net premiums: breakdown

Premium for insurance	Direct labour	Indirect labour	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Life business				
A.1 Gross premiums accounted (+)	—	—	—	—
A.2 Outward reinsurance premiums (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums accounted (+)	—	42,521	42,521	55,625
B.2 Outward reinsurance premiums (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	15,011	15,011	3,548
B.4 Change in premium reserve for premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Total	—	57,532	57,532	59,173
C. Total net premiums	—	57,532	57,532	59,173

SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	12 mths ended 30/6/20	12 mths ended 30/6/19
1. Net change in technical reserves	—	—
2. Claims paid pertaining to the year	(10,457)	(7,056)
3. Other income and expense from insurance	(5,334)	(5,659)
Total	(15,791)	(12,715)

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

Charges for claims	12 mths ended 30/6/20	12 mths ended 30/6/19
Life business: expenses relating to claims, net of reinsurance ceded		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 (-) Amounts reinsured with third parties	—	—
B. Change in reserve for amounts payable	—	—
B.1 Gross annual amount	—	—
B.2 (-)Amounts reinsured with third parties	—	—
Total life business claims	—	—
Non-life business: expenses relating to claims, net of recoveries and reinsurance ceded		
C. Amounts paid out	(9,040)	(8,523)
C.1 Gross annual amount	(9,040)	(8,523)
C.2 (-)Amounts reinsured with third parties	—	—
D. Change in recoveries net of amount ceded to reinsures	—	—
E. Change in claims reserves	(1,417)	1,467
E.1 Gross annual amount	(1,417)	1,467
E.2 (-)Amounts reinsured with third parties	—	—
Total non-life business claims	(10,457)	(7,056)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
1) Employees	(586,005)	(560,935)
a) wages and salaries	(421,511)	(408,011)
b) social security contributions	(91,404)	(89,579)
c) severance pay (only for Italian legal entities)	(3,556)	(3,656)
d) social security costs	—	—
e) allocation to employees severance pay provision	(12,188)	(11,718)
f) provision for retirement and similar provisions	(63)	—
- defined contribution	(63)	—
- defined benefits	—	—
g) payments to external pension funds	(15,911)	(15,488)
- defined contribution	(15,911)	(15,488)
- defined benefits	—	—
h) expenses resulting from share based payments	(12,551)	(12,022)
i) other employees' benefits	(28,821)	(20,461)
2) Other staff	(6,674)	(6,259)
3) Directors and Statutory Auditors	(10,741)	(9,296)
4) Early retirement costs	(1,595)	(4,651)
Total	(605,015)	(581,141)

The heading includes €17.8m deriving from the consolidation of Messier Maris et Associés, starting from 1 April 2019 (versus 3.2 of the previous year).

12.2 Average number of staff by category

	12 mths ended 30/6/20	12 mths ended 30/6/19
Employees:		
a) Senior executives	427	409
b) Executives	1,944	1,860
c) Other employees	2,408	2,417
Other staff	231	246
Total	5,010	4,932

12.5 Other administrative expenses: breakdown

Type of expense/amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(57,211)	(71,124)
- loan recovery activity	(69,267)	(66,467)
- marketing and communications	(37,174)	(42,268)
- properties[1]	(21,376)	(53,191)
- EDP	(132,310)	(125,900)
- info-provider	(44,725)	(40,985)
- bank charges, collection and payment fees	(24,160)	(21,645)
- operating expenses	(64,988)	(63,551)
- other staff expenses	(15,649)	(23,756)
- other costs[2]	(87,249)	(71,319)
- indirect and other taxes	(76,315)	(72,416)
Total other administrative expenses	(630,424)	(652,622)

[1] The reduction as at 30/6/20 was due to the effects of IFRS 16 first-time adoption.

[2] The item includes contributions to the various resolution funds: €60.8m for the year ended 30/6/20 and €53.5m for the year ended 30/6/19.

This heading includes €6.3m from RAM AI (compared with €2.2m of last year, when its contribution was limited to just three months).

SECTION 13

Heading 200: Net transfers to provisions

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

	12 mths ended 30/6/20			12 mths ended 30/6/19
	Provisions	Reallocation surplus	Total	Total
Loan committments	(6,104)	4,474	(1,630)	3,786
Financial guarantees given	(1,532)	19	(1,513)	(79)
Total	(7,636)	4,493	(3,143)	3,707

13.2 Net transfers to provisions in respect of other commitments and guarantees issued

	12 mths ended 30/6/20			12 mths ended 30/6/19		
	Provisions	Reallocation surplus	Total	Provisions	Reallocation surplus	Total
Other provisions	—	—	—	—	—	—
Other guarantees given	(284)	—	(284)	—	—	—

13.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/20			12 mths ended 30/6/19
	Provisions	Reallocation surplus	Total	
1. Other provisions				
1.1 Legal disputes	—	—	—	(2,465)
1.2 Staff costs	(153)	—	(153)	—
1.3 Other	(10,009)	27,309	17,300	(1,265)
Totale	(10,162)	27,309	17,147	(3,730)

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depriciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 For operational use	(50,718)	(1,000)	20	(51,698)
- Owned	(12,814)	—	—	(12,814)
- Licenses acquired through lease	(37,904)	(1,000)	20	(38,884)
2 For investment	(1,853)	—	—	(1,853)
- Owned	(1,853)	—	—	(1,853)
- Licenses acquired through lease	—	—	—	—
3 Inventories	X	—	—	—
Total	(52,571)	(1,000)	20	(53,551)

Following the introduction of IFRS 16, this heading now contains depreciation charges relating to rights of use. The RoU for the property housing the Frankfurt branch office has been written down by €1m following the decision to shut the office.

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	**Amortization (a)**	**Impairment losses (b)**	**Writebacks (c)**	**Net risult (a + b - c)**
A. Intangible assets				
A.1 Owned	(30,222)	—	—	(30,222)
- Software	(11,315)	—	—	(11,315)
- Others	(18,907)	—	—	(18,907)
A.2 Right of use acquired through lease	—	—	—	—
Total	(30,222)	—	—	(30,222)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expense: breakdown

Income-based components/Values	**12 mths ended 30/6/20**	**12 mths ended 30/6/19**
a) Leasing activity	(9,519)	(10,735)
b) Sundry costs and expenses	(9,677)	(9,437)
Total	(19,196)	(20,172)

16.2 Other operating income: breakdown

Income-based components/Values	**12 mths ended 30/6/20**	**12 mths ended 30/6/19**
a) Amounts received from customers	73,698	72,909
b) Leasing activity	6,996	8,826
c) Other income[1]	127,909	102,328
Total	208,603	184,063

[1] Includes the gain deriving from the valuation of the Cairn put-and-call option following the capital increase by the company, and the positive impact deriving from the liability in respect of the RAM put-and-call option amounting to €31.8m.

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/Value	12 mths ended 30/6/20	12 mths ended 30/6/19
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal[1]	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	304,269	321,157
1. Revaluation	304,269	321,157
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal[1]	—	—
4. Other expenses	—	—
Net profit	304,269	321,157
Total	304,269	321,157

SECTION 19

Heading 270 – Impairment charges to goodwill

19.1 Impairment charges to goodwill: composition

Income/Value	12 mths ended 30/6/20	12 mths ended 30/6/19
Impairment charges to goodwill	(96,900)	—

Reference is made to Part A – Accounting Policies for a description of the means by which the loss of value for goodwill has been calculated.

Meanwhile, reference is made to Part B – Notes to the Consolidated Balance Sheet for a description of the results of the goodwill impairment testing process and the procedures through which it was carried out.

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Tangible assets	—	(73)
- Gains on disposal	—	—
- Losses on disposal	—	(73)
B. Other assets	59	239
- Gains on disposal	59	266
- Losses on disposal	—	(27)
Net profit	59	166

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activities: breakdown

Income components/Sectors	12 mths ended 30/6/20	12 mths ended 30/6/19
1. Current tax expenses (-)	(206,499)	(257,566)
2. Changes in current taxes of previous years (+/-)	(834)	3,436
3. Reduction in current taxes of the year (+)	758	875
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	—	—
4. Changes in deferred tax assets (+/-)	4,003	(13,605)
5. Changes in deferred tax liabilities (+/-)	(10,932)	10,331
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(213,504)	(256,529)

This heading includes the effect of the settlement reached with the Italian revenue authority for the dispute over application of funds transfer pricing between Mediobanca S.p.A. and Mediobanca International (€22.4m).

21.2 Reconciliation between theoretical and effective tax burden

Income/Value	12 mths ended 30/6/20	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.00%	814,932
Theoretical tax rate	27.50%	224,106
Dividends (-)	-0.30%	(2,408)
Gains on disposals of equity investments (PEX) (-)	-0.03%	(216)
Gains on equity-accounted investments (-)	-7.82%	(63,759)
Changes in deferred tax for previous years (-)	0.00%	(15)
Other taxes (non-financial and non-Italian companies) (+/-)	0.43%	3,544
Non-taxable income 10% IRAP and staff cost (-)	0.00%	(9)
Tax sparing credit (-)	-0.03%	(280)
Impairment (+/–)	1.54%	12,579
Use of provisions	-0.40%	(3,263)
Participation to transfer price assessment	2.16%	17,571
MB International reserve redemption	1.42%	11,544
Other differences (+/-)	-2.63%	(21,446)
TOTAL IRES	21.84%	177,948
IRAP	4.36%	35,556
TOTAL HEADING[1]	26.20%	213,504

[1] Compared with a tax rate of 23.69% last year.

SECTION 23

Heading 340: Profit (loss) for the year attributable to minorities

23.1 Breakdown of heading 340 "Profit (loss) for the period attributable to minorities"

Company name	12 mths ended 30/6/20	12 mths ended 30/6/19
1. SelmaBipiemme S.p.A.	736	2,130
2. RAM Active Investments S.A.	249	1,055
3. Other minor interests	62	(2)
Total	1,047	3,183

SECTION 25

Heading 350: Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/20	12 mths ended 30/6/19
Net profit	600,382	823,025
Avg. no. of shares in issue	860,611,137	871,819,196
Avg. no. if potentially diluted shares	5,255,453	5,081,612
Avg. no. of diluted shares	865,866,590	876,900,808
Earnings per share	0.70	0.94
Earnings per share, diluted	0.69	0.94

Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

Items	30/6/20			30/6/19
	Before tax effect	Tax effect	After tax effect	After tax effect
10. Net profit (loss)	**X**	**X**	**601,429**	**826,208**
Other income items not passing through P&L				
20. Equity instruments designated at fair value with impact taken to comprehensive income:	**3,698**	**(550)**	**3,148**	**10,928**
a) changes in fair value	2,914	(550)	2,364	3,845
b) tranfers to other shareholders' equity items	784	—	784	7,083
30. Financial liabilities designated at fair value with impact taken to profit and loss (own creditworthiness changes):	**(2,575)**	**851**	**(1,724)**	**—**
a) changes in fair value	(2,575)	851	(1,724)	—
b) tranfers to other shareholders' equity items	—	—	—	—
40. Hedge accounting of equity instruments measured at fair value with impact taken to comprehensive income:	**—**	**—**	**—**	**—**
a) fair value change (hedged instrument)	—	—	—	—
b) fair value change (hedging instrument)	—	—	—	—
50. Property, plant and equipment	**—**	**—**	**—**	**—**
60. Intangible assets	**—**	**—**	**—**	**—**
70. Defined benefits plans	**(2,576)**	**315**	**(2,261)**	**(1,106)**
80. Non-current assets classified as held for sale	**—**	**—**	**—**	**—**
90. Valuation reserves from equity-accounted investments:	**1,493**	**—**	**1,493**	**(21,745)**
100. Tax expenses (income) relating to items not reclassified to profit or loss	**—**	**—**	**—**	**—**
Other income items passing through P&L				
110. Hedges of non-Italian investments:	**(5,116)**	**1,904**	**(3,212)**	**(3,838)**
a) changes in fair value	(5,116)	1,904	(3,212)	(3,838)
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
120. Exchange differences:	**5,475**	**—**	**5,475**	**3,706**
a) changes in fair value	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	5,475	—	5,475	3,706
130. Cash flow hedges:	**16,482**	**(5,270)**	**11,212**	**(28,582)**
a) changes in fair value	16,482	(5,270)	11,212	(28,582)
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
of which: net position	—	—	—	—
140. Hedging instruments (non-designated items):	**—**	**—**	**—**	**—**
a) changes in value:	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
150. Financial assets (different from equity instruments) at fair value with impact taken to comprehensive income:	**(23,037)**	**7,647**	**(15,390)**	**(23,179)**
a) changes in fair value	(6,274)	2,075	(4,199)	15,279
b) reclassifications through profit or loss account	(16,763)	5,572	(11,191)	(38,458)
- impairment losses	4,268	(1,411)	2,857	545
- gains/losses on disposals	(21,031)	6,983	(14,048)	(39,003)
c) other variations	—	—	—	—
160. Non-current assets classified as held for sale	**—**	**—**	**—**	**—**
a) changes in fair value	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
170. Valuation reserves from equity-accounted investments	**(220,379)**	**—**	**(220,379)**	**(81,395)**
180. Tax expenses (income) relating to items reclassified to profit or loss	**—**	**—**	**—**	**—**
190. Total other comprehensive income	**(226,535)**	**4,897**	**(221,638)**	**(145,211)**
200. Comprehensive income (10+190)	**X**	**X**	**379,791**	**680,997**
210. Consolidated comprehensive income attributable to minorities	X	X	1,478	3,337
220. Consolidated comprehensive income attributable to parent company	**X**	**X**	**378,313**	**677,660**

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to which the Group is subject, and manages and mitigates them in co-ordination with the various business areas. The division's main duties and responsibilities are described below, along with its characteristics in terms of independence, plus an indication of the role of the other company units in risk management.

SECTION1

Banking Group risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF, [1] monitoring risks, and ascertaining that the various limits established for the various business lines are compliant with.

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca S.p.A. (the "Group Risk Management Unit"), which also performs specific activities for the parent company scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management Unit, which reports directly

[1] On 30 July 2020, the Board of Directors of Mediobanca approved a new version of the Group Policy on Risk Appetite Framework (RAF) Definition, which sets out the general principles, organizational model and implementation process for defining the Framework. In the RAF, based on the Strategic Plan and the maximum risk assumable that is set in it, the Group states the level and type of risks which it is intended to take, plus any tolerance thresholds and operating limits to be complied with in normal operating and/or stress conditions.

to the Chief Executive Officer under the Group Chief Risk Officer's leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and carries out second-level controls on the risk parameters used to quantify impairment charges and calculate RWAs; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator in the event of insolvency; iii) Market Risk Management and Risk Automation, which monitors market and counterparty risk and is responsible for developing, coordinating, rationalizing and ensuring the consistency of IT development activities within Risk Management; iv) Liquidity and IR Risk Management, which monitors liquidity and interest rate risks on the banking book; v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; vi) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and is responsible for validating the Group's risk measurement systems; vii) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Wealth Management division; and viii) Risk Management London Branch, which is responsible for controlling risks and coordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A..

With reference to the authorization process to use AIRB models in order to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books and for the CheBanca! Italian mortgage loan book. As an integral part of this process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 - the "CRR"), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Plan"). With regard to exposures for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk used for management purposes.

2. Credit risk management policies

2.1 Organizational aspects

The Mediobanca Group has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensure that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guarantee that all forms of operations are consistent with their own appetite for risk.

The Board of Directors, in its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Plan for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private & Affluent Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

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

In the process of defining its risk appetite, the parent company:

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

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

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

Under IFRS 9 “Financial Instruments”, assets which are not recognized in the financial statements at fair value (i.e. loans, debt securities and off-balance-sheet exposures) must be tested for impairment based on expected losses.

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable to be used directly in an accounting environment (e.g. in some cases reconverting the data to reflect a point-in-time approach). Under IFRS 9, expected losses are calculated from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which there has been a significant increase in credit risk (“Stage 2”) or which show objective signs of impairment (“Stage 3”), and on a time horizon of twelve months for the instruments not included in the previous two categories (“Stage 1”). For off-balance-sheet exposures, credit conversion factors are used to calculate the expected losses, derived from application of the internal models; if there are no specific models, the factors associated with the standard EAD calculation are used.

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

In line with the guidance issued by EBA, ECB, ESMA and IASB issued following the outbreak of the Covid-19 pandemic, automatic reclassification mechanisms have not been applied for contractual changes made in connection with the various support programmes made available by the law, category association measures or independent initiatives offered to clients by the Group itself.[2]

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months, or until the contractual expiry date of the relevant exposure, depending on which Stage it is classified in), discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring (50%, 25% and 25% respectively). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations for interest rates. Levels of deviation from the baseline scenario are established in order to determine the mild-negative and mild-positive scenarios; these deviations are obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models, and the levels of variation compared to the base scenario are established using a 25% confidence level. In line with the ECB guidance,[3] issued in view of the Covid-19 emergency situation, the satellite model forecasts used in the IFRS 9 methodological framework to transmit macroeconomic effects to the risk parameters have in some cases been interpolated to factor in the increased risk of the current scenario without adding excessive volatility which would be unjustified given the expectations that the crisis is likely to diminish in the medium and/or long term. This has been done by applying a "spline" function to long-term trends (historical and future) in cases where the satellite model concerned gave excessively volatile results over the medium and/or short period. To date this approach has been applied to the satellite models used for the PD and LGD parameters for the Wholesale Banking portfolio, and to the model used for the LGD parameter for the mortgage portfolio.

[2] See the following in particular:
- ESMA: Public Statement of 25 March 2020, "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- EBA: Public Statement of 25 March 2020, "Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures";
- ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic";
- IASB: Statement of 27 March 2020, "IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic".

[3] See in particular the following: ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions, of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", containing guidelines on use of forecasts to estimate the expected credit loss during the pandemic.

Reference is made to section 5 for specific details of the treatment applied to each business segment.

In terms of the expected losses' sensitivity to changes in the macroeconomic scenario, these have been estimated by comparing the values of the expected losses at end-June with those obtained by using only the mild-negative scenario to condition the risk parameters. By following this method the increase in provisioning taken through profit and loss would amount to some €7m, chiefly for the corporate exposures, as it is associated with a deterioration of 0.8% in GDP for each of the next three years compared to the baseline scenario.

2.4 Credit risk mitigation techniques

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

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

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

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

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

Monitoring of collateral consisting of financial instruments has been stepped up as a result of the high volatility witnessed on financial markets following the outbreak of the Covid-19 pandemic. For instance, in Private Banking the situations most at risk have been identified, and for "Lombard" credit in particular work has begun quickly on restoring the collateral margins typically associated with this form of credit. Due to the diversification of the portfolio of assets used as collateral, and the haircuts applied when the lending value is calculated, no particular risk situations have emerged.

3. Non-performing credit exposures

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

The Group uses a single definition for all the following instances: "default" as defined by the regulations on regulatory capital requisites; "non-performing", used for the supervisory reporting statistics; and Stage 3, or "credit-impaired", assets as defined by the accounting standards in force. In so doing, account has been taken of the provisions contained in the following documents: EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the ECB of 21 November 2018. In line with these principles, instances of assets which qualify as "non-performing" include:

- Exposures identified using the 90 days past due principle, based on which the regulations referred to above have standardized the calculation criteria in use at EU level (in particular with reference to the applicable materiality thresholds, and the irrelevance of which instalment in particular is established as being past due for purposes of the calculation);
- Cases in which the credit obligation has been sold, leading to material losses in relation to the credit risk;
- Distressed restructuring, i.e. restructuring the debt of a borrower who is in or is about to encounter difficulties in meeting their own financial obligations, situations that imply a significantly reduced financial obligation;
- Cases of bankruptcy or other systems of protection covering all creditors or all unsecured creditors, the terms and conditions of which have been approved by a judge in a court of law or another competent institution;
- Instances identified through other indicators of a borrower being unlikely to pay, such as the enforcement of guarantees, exceeding of given financial leverage ratios, negative evidence in information systems such as central credit databases, or the borrower's sources of income suddenly becoming unavailable.

The regulations referred to above have been applied on a voluntary basis by the Group since the reports issued on 30 September 2019, after authorization was received from the ECB for the AIRB segments. Differences from the framework previously used mainly involved the 90 days past due criterion, which is now calculated using more stringent methods, and the mechanisms for exiting default status. At the first-time adoption stage, gross non-performing assets increased by almost €0.2bn as a result of this one-off effect, more than 90% of which was attributable to Consumer Banking. However, this change did not impact materially in terms of charges taken through profit and loss, as the positions were already covered.

Also of relevance in this connection are the recent guidelines released by the regulatory and supervisory authorities in connection with the Covid-19 emergency, in particular the EBA recommendations of 25 March 2020 in its "Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures", which require banks to reassess the counterparty closely before reclassifying accounts when moratoria are granted (if a high number of moratoria with similar characteristics are granted, automatic mechanisms should be avoided and reclassifications made only when the borrower's status has been closely scrutinized). The EBA also subsequently issued "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19", which detail the criteria to be fulfilled for moratoria not to be classified as forbearance measures or "distressed restructuring" which would result in their being categorized as in default. Also significant in this connection is the ECB's stance as set out in its "FAQs on ECB supervisory measures in reaction to the coronavirus" on 20 March 2020, whereby the use of a public guarantee issued in connection with the Covid-19 emergency is to be assessed with due flexibility as an indicator of default. This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to detect non-performance before the 90 days past due status by running individual analysis or applying automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures may reflect either analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company's business.

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

4. Financial assets subject to commercial renegotiations and concessions

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

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

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client. In line with the EBA and ECB statements following the Covid-19 crisis, no automatic reclassification mechanisms have been applied following contractual amendments made under the terms of the immediate support programmes provided by law, category association arrangements, or equivalent initiatives offered independently by the Group itself.

For an exposure to be classified as forborne, the Group assesses whether or not such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to the accumulation, actual or potential (in the latter case if the concessions are not granted), of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, whereas certain predefined conditions apply in the case of consumer credit activities (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as described in the previous sections, a position being assigned the status of "forborne" is considered to be incompatible with its being treated as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned "forborne" status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage

1 in less than two years, in line with the minimum duration of two years provided for the "forborne performing exposure" status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for "non-performing forborne exposure" to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the "forborne performing exposure" status.

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

5. Details by individual business segment

Corporate activity

The Group's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. At the analysis stage, all relevant documentation is obtained in order to appraise the borrower's credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which take into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels.

The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved limits must also be confirmed by the approving body with the same frequency.

In terms of monitoring the performance of individual credit exposures, Mediobanca has adopted an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring in depth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watchlist is also used to provide qualitative information regarding allocation to Stage 2, which includes counterparties classified as "amber" or "red" for watchlist purposes. All forborne positions are also subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modeling used for the regulatory calculation, with the downturn effect removed.

The criterion for reclassifying positions to Stage 2, which is based on an increase in the PD indicator, has been supplemented with the additional specification that the internal rating for the position must have been downgraded by at least two notches from its original rating. This change has been introduced in order to capture the significant increase in risk as a result of the Covid-19 emergency, but the Group Chief Risk Officer and/or Lending and Underwriting Committee in any case have powers of discretion to revise the classification on prudential grounds.

Leasing

Individual applications are processed using similar methods to those described above for corporate banking. Applications for leases below a predetermined limit received via banks with which there are agreements in place are approved by the banks themselves, against written guarantees from them covering a portion of the risk.

Applications for smaller amounts are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty's legal status (type of company).

The activities of analysis, disbursement, monitoring, and credit risk control are significantly supported by the company's information system; the asset being leased is also subject to a technical assessment.

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

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

In terms of criteria for reclassification of leases to Stage 2, the evidence obtained from the parent company's watchlist for corporate clients is used as qualitative information. Also for corporate clients, the criterion used for reclassification to Stage 2 based on the observation of an increase in the PD indicator is applied subject to checking that the internal rating has been downgraded by at least two notches compared to the original rating (as stated previously for corporate loans). For mid-corporate and small business clients, in accordance with the internal Directive on Leasing, moratoria granted by law which before the request were marked as "Watchlist Red" or "Watchlist Amber" (the latter with more than 30 days past due in the three months prior to the moratorium application) are classified as forborne (Stage 2).

Consumer credit

Consumer credit operations are performed primarily by Compass Banca and Futuro, where applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit *bureaux*. Points of sale are linked electronically to the company's headquarters, to ensure that applications and credit scoring results are processed and transmitted swiftly. Under the system of powers for approval assigned by the company's Board of Directors, for increasing combinations of amount and expected loss, approval is required by the relevant bodies at headquarters, in accordance with the authorization levels established by the Board of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, or legal recovery action. After six unpaid installments (or four unpaid installments in particular cases, such as credit cards), accounts are held to be officially in default, and the client is deemed to have lapsed from the time benefit allowed under Article 1186 of the Italian Civil Code. As from the six months after such lapse has been established, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies, for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. To estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public-sector workers, private-sector workers or pensioners). The forward-looking component is factored in using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

In consumer credit specific qualitative indicators are used to classify exposures as Stage 2, such as the existence of suspension measures, the existence of other non-performing accounts for the same borrower, and evidence of irregularities in payment in the recent past.

Positions for which moratoria have been granted in connection with Covid-19 form an exception to the general rule whereby the existence of suspension measures would automatically lead to a position being classified as Stage 2. For such positions, a quantitative criterion has been introduced instead, namely a change in the PD (i.e. a significant increase in credit risk, or "SICR"), suitably adapted to ensure that the rating system is not unduly reactive (the system is constructed on the basis of historical series which include only ordinary suspension measures).

Factoring

Factoring, a business in which MBFACTA specializes, includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which in virtually all cases is a retail customer).

For traditional factoring, the internal units appraise the solvency of the sellers and the original borrowers via individual analysis using methodologies similar to those adopted for corporate lending, whereas for instalment factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, costs and margins.

The evidence obtained from the parent company's watchlist for corporate clients is also used as qualitative information for allocation to Stage 2, which includes counterparties classified as "amber" or "red".

NPL business [4]

This business is performed by MBCredit Solutions, which operates on the NPLs market, acquiring non-performing loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies. The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

The purchase price for the non-performing loans is determined by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections of expected amounts recovered, expenses and margins. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value

[4] See Part A of the Notes to the Accounts for definition and treatment of POCIs.

due to the future cash flows being overestimated, the flows are recalculated and adjustments charged as difference between the scheduled value at the valuation date (amortized cost) and the discounted value of the cash flows expected, which are calculated by applying the original effective interest rate. The estimated cash flows take account of the expected collection times, the assumed realizable value of any guarantees, and the costs which it is considered will have to be incurred in order to recover the credit exposure.

Private banking

Private banking operations include granting loans as a complementary activity in serving affluent, high net worth and institutional clients, with the aim of providing them with wealth management and asset management services. Exposure to credit risk versus clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally backed by collateral or guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the size of the loan, guarantees/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees. The evidence obtained from the parent company's watchlist for corporate clients is also used as qualitative information for reclassification to Stage 2, which includes counterparties classified as "amber" or "red".

Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert. A new valuation is generally requested for properties established as collateral for positions which have become non-performing.

Accounts, both regular and irregular, are monitored through a reporting system which allows operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter positions at risk, to ensure that the necessary corrective action can be taken versus the credit policies.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyers. Internal procedures requires that cases with four or more unpaid instalments (not necessarily consecutive), or cases with persistent irregularities or interest suspended at the legal rate, are designated as unlikely to pay accounts, and classified as bad loans once the ineffectiveness of the recovery actions has been certified.

Exposures for which concessions have been granted are defined as forborne exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which the Bank grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly. A qualitative criterion is used for classification of mortgages to Stage 2, consisting of assignation of the worst internal rating class before default.

The existence of moratoria granted by public institutions or at the individual bank's own initiative due to external causes of illiquidity, potential or actual, such as the Covid-19 emergency, is considered to be an indicator of temporary economic difficulty. This kind of support does not qualify as a forbearance measure, and is compatible with an exposure being classified as Stage 1 for the duration of the moratorium; however, if there is internal information on the borrower which provides a more accurate picture of the borrower's financial difficulties, the moratorium may be treated as a forbearance measure. Specific monitoring has been instituted for such positions, which is performed by the Monitoring and Credit Recovery division, to assess whether the position concerned should be reclassified as forborne and/or unlikely to pay.

Provisioning is determined analytically for bad loans and based on clusters of similar positions for unlikely to pay, other overdue and performing accounts. The analytical provision for bad loans takes account of expert valuations of the assets (deflated on a prudential basis) as well as the timing and costs of the recovery process. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios to the PD estimates. The LGD parameters are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models.

6. Impact of Covid-19

6.1 Government and regulatory action following the Covid-19 pandemic

In order to address the effects of the Covid-19 pandemic on the economy, the Italian government launched a substantial first package of measures contained in the "Cura Italia" Decree Law issued on 17 March 2020, with the aim of safeguarding citizens' health and supporting the country's productive system by keeping firms active and so preserving workers' jobs. This first package was soon followed by another, the "Liquidità" Decree Law issued on 8 April 2020, which added further measures to support businesses.

The "Rilancio" Decree Law of 19 May 2020 confirmed and reinforced the measures introduced by the "Cura Italia" Decree Law, extending their duration to meet the needs resulting from the gradual reopening of the economy launched on 4 May 2020 (known as "Phase 2"). This Decree Law includes significant measures to bolster the liquidity and capitalization of firms, support the production sectors most affected by the emergency, and fund investment and innovation.

The EU institutions (notably the EBA, ESMA, ECB and IASB) also intervened in response to the medical crisis, introducing extraordinary measures described in more detail in Part A.

In this scenario, the Mediobanca Group rapidly developed and implemented procedures tailored to the specific areas of activity and their respective portfolios, in order to respond to the possibilities offered by the Decree Laws referred to above providing support to households and businesses. Steps were taken to implement the provisions of the "Cura Italia" and "Liquidità" Decree Laws; and the initiatives adopted by category associations ABI and Assofin (consumer credit and mortgage lending) were adhered to, in particular as follows:

– CheBanca!, moratoria under the Gasparrini Fund were available immediately, while the bank also implemented its own product catalogue in order to offer the possibility, from as early as 18 May 2020, for customers to apply for loans under Article 13 of the "Liquidità" Decree Law (a service which was not available before the Decree Laws were issued);
– Compass, which operates in the consumer credit segment, has not participated in the SME Guarantee Fund as its business model is not focused on granting loans to businesses and commercial enterprises, meaning it does not qualify for granting the loans provided under the Decree Laws; as for moratoria, though, in addition to implementing the operating procedures required to comply promptly with the Decree Laws' provisions, both Compass and Futuro adhered to the "Covid-19 moratoria for consumer credit" promoted by Assofin;
– SelmaBipiemme, which operates in leasing, had already adhered to the SME Guarantee Fund on account of the nature of its business, and so participated in the activities permitted by the Decree Laws straight away;
– Mediobanca S.p.A. adhered to the fund made available by SACE, approving deals involving substantial amounts under the "Liquidità" Decree Law starting from July 2020.

It should be noted that the Group has also granted moratoria on a voluntary basis, i.e. private initiatives to provide support to its clients, with the aim of alleviating the difficulties facing households and helping companies to tackle the situation created by the spread of the epidemic.

6.2 Moratoria granted to clients in connection with Covid-19

As mentioned above, in addition to adhering to the moratoria provided for by the "Cura Italia"[5] and "Liquidità" Decree Laws and the initiatives promoted by category associations ABI[6] and Assofin for consumer loans,[7] the Mediobanca Group has also taken initiatives on a voluntary basis, in Consumer Banking in particular, taking the view that it is fundamental to help its clients during this difficult period.

Overall, the moratoria that had been granted by the Group until 30 June 2020 (as summarized in Table 1 below) involved over 133,000 clients and a total amount of loans of some €2.6bn, half of which were in Consumer Banking and the remainder split equally between leasing and mortgage lending. Net of those exposures for which the concessions have already finished and repayments have resumed as normal (€746.3m, almost all of which in Consumer Banking which on average granted two months' relief), the amount of loans outstanding for which moratoria agreements were still in force as at 30 June 2020 totaled €1,855.9m, split equally between the three segments.

In detail, this amount, which is still subject to moratoriums, is divided into 41% whose payment plan resumes by the first quarter of next financial year, 45% whose payment plan resumes by the end of 2020 and 15% after 2020.[8]

In Consumer Banking, the first data suggest a much more positive trend than initially feared, with approx. 85% of clients having recommenced making repayments as normal, a small number who had asked for a short extension to the terms of the moratoria (9%, granted within the period provided by Assofin moratoria which permit repayments to be suspended for up to six months), plus a residual number of accounts past due; these figures further improve with reference to expiry dates subsequent to 30 June 2020.

[5] Italian Decree Law 18/20 (known as "Cura Italia"), as converted into Italian Law 27/20.

[6] For instalments past due and unpaid after 31 January 2020 on mortgages and leases (property and other).

[7] Under the terms of the Assofin Covid-19 moratoria, instalments can be suspended for up to six months, although shorter durations can be agreed with the client. Suspension may involve the entire instalment or only part, at the lender's discretion.

[8] With reference to the Consumer only the distribution is respectively 92%, 8%, 0%, while with reference to Wealth Management (mainly real estate mortgages) the breakdown is respectively 37%, 19% and 44%; for leasing almost all payment plans restart in the last three months of 2020.

As already mentioned, moratoria granted to address the economic consequences of the Covid-19 emergency do not automatically result in forbearance measures being recorded.[9] Furthermore, as the moratoria in accounting terms result merely in deferral of repayments, they are treated on the basis of modification accounting rules. In view of the mechanism by which the suspensions granted by the Group function in practice, no impact from the above renegotiation has been taken through profit and loss, the mechanism itself being sufficient to guarantee that the current value of the exposure post-renegotiation is largely consistent with the value before the renegotiation took place.

Table 1 - Moratoria granted by business area

(€ m)

Gross Moratoria	**Granted up to 30 June**	**Expired [1]**	**Residual as of 30 June**	**% Loans to customers [2]**	**of which Stage1**
Corporate Investment Banking	5.5	—	5.5	—	4.1
Consumer Banking	1,333.3	745.5	587.8	4.2%	223.1
Wealth Management	602.2	0.8	601.4	4.5%	492.2
Leasing (holding function)	661.2	—	661.2	34.8%	567.8
Total Moratoria ex COVID-19	**2,602.2**	**746.3**	**1,855.9**	**3.9%**	**1,287.2**
- of which Decreto Cura Italia	45.2%		63.3%		
- of which industry-wide initiatives	39.6%		28.8%		
- of which Group Initiative[3]	15.2%		7.9%		

[1] Normal repayment schedule has resumed.

[2] Gross moratoria granted in relation to Covid-19 outstanding at 30/6/20 as a percentage of gross customer loans.

[3] Moratoria granted on a voluntary basis by Compass Banca, SelmaBipiemme and CheBanca!

Only some of the moratoria granted conform fully to the EBA Guidelines (EBA/GL/2020/02),[10] which require continuity in terms of classification and in particular staging. A summary of the table provided as part of the regulatory disclosure included in the Pillar III - Disclosure to the Public document is provided below.[11]

[9] The moratoria introduced in response to the pandemic aim to address system risks and to contain and mitigate potential future risks in the wider EU economy. In this sense, the measures are not specific to the client, as the moratoria are applied regardless of individual financial circumstances.

[10] To ensure that the data on moratoria granted in support of customers at European level are fully comparable, the EBA Guidelines require that only moratoria granted under law (which for Italy means the "Cura Italia" and "Liquidità" Decree Laws) and initiatives promoted by the category associations (ABI/Assofin) should be stated.

[11] The "Pillar III - Disclosure to the Public" document is available on the Bank's website at www.mediobanca.com in the section entitled "Capital Solidity".

Table 2 - Moratoria granted by type of counterparty and timing bracket (excerpt from Template no. 2 of the EBA Guidelines)

30/6/20	Gross carrying amount [1]	of which: Legislative moratoria [2]	of which: Expired [3]	Residual maturity of moratoria [4]		
				Up to 3 months	From 3 to 6 months	From 6 to 18 months
Loans and advances for which moratorium was offered	**2,204.2**	**1,219.1**	**830.0**	**1,041.6**	**123.3**	**209.3**
Households	**1,607.0**	**627.5**	**830.0**	**449.8**	**123.3**	**204.0**
of which: Collateralised by residential immovable property	583.9	583.1	0.8	264.2	115.0	203.9
Non-financial corporations	**594.4**	**589.1**	**—**	**589.1**	**—**	**5.3**
of which: Small and Medium-sized Enterprises	401.1	397.1	—	397.1	—	4.0
of which: Collateralised by commercial immovable property	357.1	352.9	—	352.9	—	4.2
Financial corporations	**2.8**	**2.5**	**—**	**2.7**	**—**	**—**

[1] Gross book value of loans subject to moratoria received and/or granted by the Group as at 30/6/20.

[2] Moratoria granted pursuant to the "Cura Italia" Decree Law (Articles 54 and 56).

[3] I.e. for which the payment relief period has ended.

[4] Expiry date for benefit of term for suspension under moratoria granted and outstanding at 30/6/20.

The initiatives granted pursuant to the EBA Guidelines amount to €2.2bn, roughly half of which by law, almost all of which regard the moratoria granted for mortgages and leases, and the remained Assofin/Consumer Banking initiatives. Some 73% of the moratoria granted were to households, two-thirds of which in respect of consumer credit transactions and one-third mortgages. Most of the share versus non-financial companies involves leasing contracts (€570.2m out of €594.4m) in different industrial sectors, with the highest concentrations in manufacturing, real estate and wholesale/retail commerce.

The amount still subject to moratoria at 30 June 2020 falls to €1.4bn after deducting approx. €830m Consumer Banking concessions where there are no more suspension of payments (this includes cases where payments will restart in the following 30 days).

* * *

As at 31 August 2020 the Group had granted moratoria for a total amount of €2.7bn, half of which in Consumer Banking and the remainder split equally between mortgages and leasing. Of these, €1.5bn are outstanding (roughly 3% of the Group's total loans), as €1.2bn of the concessions granted in Consumer Banking have already ended (€418.4m more than at 30 June 2020); the data confirm that the trend in terms of repayment schedule resumption is positive, in line with the results as at end-June 2020, and that virtually all clients (just under 90%) have resumed making repayments as normal.

In the first two months of FY 2020-21, Mediobanca S.p.A. has approved a total of five deals guaranteed by SACE under the terms of the "Decreto Liquidità" for a total amount of up to €150m.

It should be noted that moratoria granted to companies under Article 56 of the "Cura Italia" decree law have been extended until 31 January 2021 under the "Decreto Legge no. 104" of 14 August 2020.

6.3 Macroeconomic scenario and Covid-related impact

The provisioning as at 30 June 2020 reflects the most recent update to the macroeconomic scenario which incorporates the most recent estimates post-Covid. With reference to 30 June 2020, internal estimates have been developed based on a more conservative scenario than the consensus, for the European geographies especially, which sees the economic slump continuing until 1Q 2021, at rates of contraction which are similar to those during lockdown; the recovery phase is assumed to begin only starting from 2Q 2021.

The macroeconomic scenario at end-June reflects a contraction in GDP for all world economies that is unprecedented in the last 90 years.

The estimates used by the Group for 2020 see GDP falling in Italy by 11.64%, in the EU area by 9.71%, and the United States by 10.77%. Equally, the figures show sharp rises in the unemployment rates: from 10% to 13.5% in Italy, from 6.3% to 9.4% in Europe, and from 3.7% to 10.7% in the United States.

All these figures show substantial improvements for 2021 (GDP in Italy +0.82%; EU -0.11%; USA +7.64%), emphasizing the pro-cyclical effects which are characteristic of the point-in-time method used to calculate provisioning under IFRS 9. As mentioned in section 2.3 above, in line with the recommendations expressed by the regulators, the Mediobanca Group has adopted methodologies for calculating and using forward-looking data that adequately reflect the specific features of the current macroeconomic scenario.

Table 3 - Macroeconomic scenario parameters [1]

PIL Forecast	**2020**	**2021**	**2022**
Italy	-11.64%	0.82%	5.25%
UE	-9.71%	-0.11%	5.13%
US	-10.77%	7.64%	6.03%

Unemployment rate	**2020**	**2021**	**2022**
Italy	13.52%	14.20%	12.31%
UE	9.39%	10.46%	9.11%
US	10.74%	7.34%	5.16%

Interest rate on Government bond (10 years)	**2020**	**2021**	**2022**
Italy	1.66%	2.30%	2.83%
Germany	-0.38%	-0.31%	0.17%
US	0.87%	0.65%	1.17%

[1] Taken from internal estimates based on a more conservative scenario than consensus for the European geographies in particular, according to which the economic slump could continue until 1Q 2021, at rates of contraction similar to those seen during lockdown; the recovery phase is assumed to begin only in 2Q 2021.

As mentioned above, the contraction in the global economy is expected to recover only starting from 2021, returning to pre-Covid levels only from mid-2022. The estimated trend in the macroeconomic scenario will therefore be reflected in the trend in provisioning, which should gradually stabilize at lower values in line with the estimated recovery and with the six-monthly updates to the scenario.

Overall, the increase in loan loss provisioning for the twelve months attributable to Covid-19 is €113m, concentrated mainly in 4Q, in conjunction with the update to the scenario and the economic effects of the lockdown beginning to materialize. Roughly half of these involve Consumer Banking (€64m), even though this area is only marginally impacted by the macroeconomic scenario, with the majority attributable to the increase in the portfolio coverage levels to factor in the expected increase in rates of default already reflected in the changes to staging.

Indeed, the portfolios most affected by the risk parameter revision are the corporate and in particular the large corporate loan books (€37m).

Table 4 - Covid-related impact on earnings

(€ m)

Impact on item 130 of P&L *	of which Covid FY20	of which IVQ
Corporate Investment Banking	43	42
Consumer Banking	64	52
Wealth Manangement	4	4
Leasing (Holding Functions)	2	2
Total	113	100

* Net loan loss provisions (writebacks) for credit risk - Section 8.

SECTION 1

Consolidated accounting risks

QUANTITATIVE INFORMATION

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi (other company), which under the banking group method of consolidation are accounted under the equity method.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans *	Unlikely to pay *	Non performing overdue exposures (NPLs)	Performing overdue exposures [1]	Other performing exposures	Total
1. Financial assets at amortized cost	435,370	627,316	166,479	334,564	54,393,561	55,957,290
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	51,002	51,002
4. Other financial assets mandatorily at fair value	27	3,584	—	—	48,814	52,425
5. Financial assets being sold	—	—	—	—	—	—
Total 30/6/20	435,397	630,900	166,479	334,564	57,979,317	59,546,657
Total 30/6/19	468,625	670,166	57,990	465,977	58,982,830	60,645,588

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €106.8m, €116.1m of which is attributable to mortgage loans (1.1% of the performing loans in this segment), and €86.7m to factoring (4.9%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €677m, consisting primarily of consumer credit exposures totalling €632.1m.

* Includes the NPLs held by MBCredit Solutions in an amount of €358.6m, €357m of which bad loans.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing assets				Performing assets			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,240,212	(1,011,047)	1,229,165	6,023	55,312,665	(584,540)	54,728,125	55,957,290
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,492,048	(6,108)	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	X	X	51,002	51,002
4. Other financial assets mandatorily at fair value	72,770	(69,159)	3,611	—	X	X	48,814	52,425
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 30/6/20	2,312,982	(1,080,206)	1,232,776	6,023	58,804,713	(590,648)	58,313,881	59,546,657
Total 30/6/19	2,279,854	(1,083,073)	1,196,781	9,948	59,709,827	(518,672)	59,448,807	60,645,588

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	6,786,376
2. Hedging Derivatives	—	—	464,718
Total 30/6/20	—	—	7,251,094
Total 30/6/19	—	—	7,363,462

The non-performing items include €358.6m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.4bn as at 30 June 2020. Of these items, €4.9m (with a nominal value of €484.5m) involve assets acquired from other Group companies, mostly those operating in consumer banking.

The purchase price of these items, and also their initial recognition value, is €520.8m, compared with a nominal (original gross) value of €5.6bn.

Information on exposures to sovereign debt

*A.1.2a Exposures to sovereign debt securities by state, counterparty and portfolio **

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(1,471,647)	(1,471,647)
Italy	—	—	—	—	X	X	136,036	136,036
Spain	—	—	—	—	X	X	(55,418)	(55,418)
Germany	—	—	—	—	X	X	(623,809)	(623,809)
France	—	—	—	—	X	X	(928,456)	(928,456)
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,613,617	—	2,613,617	2,613,617
Italy	—	—	—	—	1,739,967	—	1,739,967	1,739,967
United States	—	—	—	—	328,023	—	328,023	328,023
Germany	—	—	—	—	321,963	—	321,963	321,963
France	—	—	—	—	100,515	—	100,515	100,515
Others	—	—	—	—	123,149	—	123,149	123,149
3. Financial assets at amortized cost	—	—	—	—	2,134,435	—	2,134,435	2,134,435
Italy	—	—	—	—	1,512,487	—	1,512,487	1,512,487
France	—	—	—	—	366,527	—	366,527	366,527
Spain	—	—	—	—	110,317	—	110,317	110,317
United States	—	—	—	—	62,666	—	62,666	62,666
Others	—	—	—	—	82,438	—	82,438	82,438
Total 30/6/20	—	—	—	—	4,748,052	—	3,276,405	3,276,405

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €36.4m.

A.1.2b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Valore nominale	Book Value	Fair Value	Duration
Italy	148,812	136,036	3.15	3,276,095	3,252,455	3,276,437	4.15
Germany	(580,000)	(623,809)	4.24	790,000	372,073	372,193	1.61
Spain *	(53,932)	(55,418)	3.00	180,000	181,948	183,814	2.30
United States	—	—	—	511,135	390,689	392,794	0.44
France	(842,453)	(928,456)	2.88	515,400	467,042	468,885	0.84
Others	—	—	—	85,978	83,846	90,281	—
Total 30/6/20	(1,327,573)	(1,471,647)		5,358,608	4,748,053	4,784,404	

* The figure does not include forward sales with a notional amount of €300m.

[1] Does not include sales of €139m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €3.7m; or sales of €60.0m on the *BPT* future (Italy) with a positive fair value of €0.2m. Net hedge buys of €1,030m have also not been included (virtually all of which allocated to France country risk).

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m.

Information on structured entities (apart from securitization SPVs)

In accordance with the provisions of IFRS 12, the Group treats the entities it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing narrow restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A - Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99, namely Quarzo S.r.l., Quarzo CQS S.r.l., and MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A.

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Cairn Capital and RAM Active Investments) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

B.2.1 Structured entities consolidated prudentially

As at 30 June 2020 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are performed entirely through special purpose vehicles. In particular the following aspects should be noted:

UCITS

As part of its asset management business, CheBanca! follows the sale, exclusive to its clients, of five different segments of its Yellow Funds SICAV. The SICAV is managed by fund management company Mediobanca Management Company, whereas the funds are managed by BlackRock and Mediobanca SGR. As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments (230,000 units, for an outlay of €23m) which were still outstanding at 30 June 2020; these total 52,446, and have a NAV of €4.7m.

Compagnie Monégasque de Banque has sold its clients six fund segments of CMB Global Lux, a company authorized under Luxembourg law. The SICAV is managed by Compagnie Monégasque de Banque itself, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestion and by CACEIS Luxembourg respectively. As at 30 June 2020 Mediobanca S.p.A. had no investments outstanding in the above segments.

Turning to RAM Active Investments SA, Mediobanca S.p.A. has subscribed to several of its funds, providing seed capital with a total NAV of €153.9m split between four funds: one tactical fund - RAM Asia Bond Total Return (€17.3m) - and three systematic funds - RAM Systematic I/O (€49.6m), RAM Global Sustainable Income Equities (€52.9m) and RAM Global Multi-Asset (€34.1m). All the funds with the exception of RAM Systematic I/O are UCITS funds with NAV calculated daily.

Cairn Capital Group Ltd itself has subscribed to Cairn Special Opportunities Credit Fund and Cairn Strata Credit Fund and to the Cairn Loan Investment SPE I and II for a total amount of €1.7m, plus Mediobanca's share of the seed capital amounting to €243.6m invested in Cairn European Loan Fund (€106.6m, €55m of which subscribed for during the twelve months), Cairn Strata Credit Fund (€51.5m), Cairn Mediobanca Strata UCITS Credit Fund (€50m), and SPE Cairn Loan Investments Holdings I and II (€22.9m and €12.5m respectively).

Of the funds which Mediobanca SGR sells to its clients, Mediobanca S.p.A. has subscribed for a total of €31.8m, split between €15.5m in the Mediobanca Global Multimanager fund (classes 15 and 35), €7.3m in Mediobanca Social Impact (a philanthropic fund), €4m in Mediobanca CoCo Credit Fund, and €7.5m in Mediobanca *Fondo per le imprese 1 e 2* (which invest in mini-bonds).

On 31 October 2019, Mediobanca acted as sponsor in the arrangement of the Negentropy RAIF fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited. The deal involved the senior Belvedere ABS (IT0005357360) being transferred in return for delivery of 1,100,360 fund units subsequently sold on the market (350,000 units worth €35m). The Bank's investment in the fund as at 30 June 2020 totalled €76.4m, corresponding to around 68% of the entire NAV which in the meantime had been invested in other senior ABS. The objective is to continue with the sale process.

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments mean that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; hence Mediobanca does not have direct control.

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depends largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence this does not qualify as acting as sponsor.

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost - due from customers: composition", in which the Group is the sole lender, involve an amount of €576.4m, plus €2.7m in notes booked as Hold to Collect and Sell, and €51m in notes mandatorily recognized at fair value.

QUANTITATIVE INFORMATION

Balance-sheet item/SPE type	Accounted for under asset heading	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
Yellow Fund Sicav	Financial assets mandatorily at fair value	4,749	—	—	4,749	4,749	—
CMG Funds	Financial assets mandatorily at fair value	43	—	—	43	43	—
Cairn European Loan Fund	Financial assets mandatorily at fair value	106,640	—	—	106,640	106,640	—
Cairn Strata Credit Fund	Financial assets mandatorily at fair value	51,507	—	—	51,507	51,507	—
Cairn Loan Investments	Financial assets mandatorily at fair value	36,148	—	—	36,148	36,148	—
Cairn Mediobanca Strata UCITS Credit Fund	Financial assets mandatorily at fair value	49,993	—	—	49,993	49,993	—
RAM - Systematic I/O	Financial assets mandatorily at fair value	49,602	—	—	49,602	49,602	—
RAM - Asia Bond Total Return	Financial assets mandatorily at fair value	17,305	—	—	17,305	17,305	—
RAM - Global Shareholder Yield Equities	Financial assets mandatorily at fair value	52,884	—	—	52,884	52,884	—
RAM - Global Multi-Asset	Financial assets mandatorily at fair value	34,084	—	—	34,084	34,084	—
Mediobanca Funds	Financial assets held for trading	2,526	—	—	2,526	2,526	—
Mediobanca Funds	Financial assets mandatorily at fair value	31,811	—	—	31,811	31,811	—
Negentropy RAIF Fund	*Financial assets mandatorily at fair value*	76,377	—	—	76,377	76,377	—
Other funds	Financial assets mandatorily at fair value	952	—	—	952	952	—
Asset Backed	Financial assets at amortized cost	576,385	—	—	576,385	576,385	—
Asset Backed	Financial assets at fair value with impact taken to comprehensive income	2,714	—	—	2,714	2,714	—
Asset Backed	Financial assets designated at fair value	51,002	—	—	51,002	51,002	—

D.3 Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, *inter alia* financed by debt, with a medium-term time horizon).

As at 30 June 2020 the Group's exposure to this type of transaction amounted to €5,483.6m [12] - down 3.6% on the €5,690.8m reported last year - and accounted for just under one-third of the corporate loan book, 11% of which were pure LBOs (€602m), while 8.7% have been classified as non-performing (five deals worth €477m). During the period under review there were repayments totalling €1,994.3m (with 24 deals being closed), with new investments totalling €1,787.1m (€1,416m of which in relation to 27 new deals and the remainder calls on previous commitments). The loan book continues to be concentrated on domestic deals (43.6% of the total), and deals with clients in other EU member states (40.2%).

[12] Plus off-balance-sheet exposures (commitments and derivatives) totalling €811m (30/6/19: €776m).

SECTION 2

Banking Group risk*

1.1 CREDIT RISK

QUALITATIVE INFORMATION

For the qualitative information, see pp. 243ff in this Part of the Notes to the Accounts.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Prudential consolidation - Financial assets by past-due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3 *		
	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets valued at amortized cost	71,937	11,597	3,869	125,084	118,190	3,886	140,242	73,620	677,792
2. Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—	—	—	—
Total 30/6/20	71,937	11,597	3,869	125,084	118,190	3,886	140,242	73,620	677,792
Total 30/6/19	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335

* Includes the NPLs acquired by MBCredit Solutions

* The following are excluded from the area of prudential consolidation: Compass RE (reinsurance), Ricerche e Studi, Compass Rent and MB Contact Solutions (other companies).

A.1.2 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: trend in overall writedowns and provisions

Motivations/risk stages	Cumulative writedowns													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				of which: purchased or originated credit impaired exposures	Stage 1	Stage 2	Stage 3	
	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns					
Starting balance	197,324	1,840	—	199,164	319,509	—	—	319,509	860,617	—	307,494	553,123	—	7,209	974	2,353	1,389,826
Increase variations due to acquired or originated financial assets	97,874	3,710	—	101,584	93,838	—	—	93,838	47,448	—	217	47,231	—	3,622	141	5	246,638
Derecognitions other than writeoffs	(11,222)	(647)	—	(11,869)	(25,406)	—	—	(25,406)	(142,459)	—	(4,067)	(138,392)	—	(1,252)	(22)	(60)	(181,068)
Net writedowns/ writebacks due to credit risk	(50,409)	1,205	—	(49,204)	(50,273)	—	—	(50,273)	261,912	—	11,636	250,276	208	(1,244)	341	689	162,221
Contractual modifications without derecognition	546	—	—	546	11	—	—	11	—	—	—	—	—	—	—	—	557
Changes in estimating methodologies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off not recognised directly in profit and loss	(1,281)	—	—	(1,281)	(2,113)	—	—	(2,113)	(30,029)	—	(16,066)	(13,963)	—	—	—	—	(33,423)
Other variations	8,309	—	—	8,309	7,833	—	—	7,833	13,558	—	(116)	13,674	—	1,235	(311)	—	30,624
Closing balance	241,141	6,108	—	247,249	343,399	—	—	343,399	1,011,047	—	299,098	711,949	208	9,570	1,123	2,987	1,615,375
Collection proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	3,770	—	3,678	92	—	—	—	—	—
Writeoffs recognised directly in profit and loss	(127)	—	—	(127)	(85)	—	—	(85)	40,473	—	42,029	(1,556)	—	—	—	—	40,261

A.1.3 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portofolios/risk stages	Gross amounts / Nominal values					
	Transfers between stage 1 to stage 2		Transfers between stage 2 to stage 3		Transfers between stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	2,127,748	616,311	343,620	113,059	353,926	13,941
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—
3. Commitments to disburse funds and financial guarantees given	34,313	16,899	25	4,083	1,161	1,030
30/6/20	2,162,061	633,210	343,645	117,142	355,087	14,971
30/6/19	1,543,091	597,975	262,074	76,184	199,436	2,918

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/amounts	Gross exposures		Accumulated impairment and provision	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- *of which: forborne exposures*	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- *of which: forborne exposures*	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- *of which: forborne exposures*	—	*X*	—	—	—
d) Overdue exposures (performing)	X	45	—	45	—
- *of which: forborne exposures*	*X*	—	—	—	—
e) Other exposures (performing)	X	7,428,982	(5,600)	7,423,382	—
- *of which: forborne exposures*	*X*	—	—	—	—
Total (A)	—	7,429,027	(5,600)	7,423,427	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	9,196,053	—	9,196,053	—
Total (B)	—	9,196,053	—	9,196,053	—
Total (A+B)	—	16,625,080	(5,600)	16,619,480	—

A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/amounts	**Gross exposures**		**Accumulated impairment and provision**	**Net Exposure**	**Total partial write-off**
	Non-performing loans	**Performing loans**			
A. Cash credit exposures					
a) Bad loans *	782,717	X	(347,320)	435,397	5,572
- of which: forborne exposures	*100,574*	*X*	*(90,592)*	*9,982*	*204*
b) Unlikely to pay *	1,168,084	X	(537,184)	630,900	451
- of which: forborne exposures	*805,398*	*X*	*(323,482)*	*481,916*	—
c) Overdue exposures (NPLs)	362,181	X	(195,702)	166,479	—
- of which: forborne exposures	*68,225*	*X*	*(40,828)*	*27,397*	—
d) Overdue exposures (performing)	X	388,955	(54,436)	334,519	—
- of which: forborne exposures	*X*	*29,216*	*(3,868)*	*25,348*	—
e) Other exposures (performing)	X	54,325,157	(530,612)	53,794,545	—
- of which: forborne exposures	*X*	*566,887*	*(41,797)*	*525,090*	—
Total (A)	2,312,982	54,714,112	(1,665,254)	55,361,840	6,023
B. Off-balance-sheet exposures					
a) Non-performing	15,861	X	(2,987)	12,874	—
b) Performing	X	18,910,955	(10,692)	18,900,263	—
Total (B)	15,861	18,910,955	(13,679)	18,913,137	—
Total (A+B)	2,328,843	73,625,067	(1,678,933)	74,274,977	6,023

* Includes the NPLs acquired by MBCredit Solutions.

A.1.7 Prudential consolidation - Cash exposures to customers: trend in gross non-performing exposures, by credit quality

Causals/ category	Bad loans *	Unlikely to pay *)	Overdue exposures (NPLs)
A. Opening balance (gross amount)	888,311	1,221,940	169,604
- Of which sold but not derecognized	47,200	126,582	51,174
B. Increases	200,406	463,313	348,287
B.1 transfers from performing loans	30,518	343,167	284,974
B.2 entry from impaired financial assets acquired or originated	35,514	—	—
B.3 transfers from other categories of non-performing exposures	98,209	62,590	14,640
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	36,165	57,556	48,673
C. Decreases	306,000	517,169	155,710
C.1 transfers to perfomorming loans	1,132	183,175	8,783
C.2 write-off	58,225	16,386	2,725
C.3 recoveries	54,288	142,556	33,627
C.4 sales proceeds	17,782	11,300	4,267
C.5 losses on disposals	143	2,395	1,675
C.6 transfers to other categories of non-performing exposures	1,271	93,553	80,615
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	173,159	67,804	24,018
D. Closing balance (gross amounts)	782,717	1,168,084	362,181
- Of which sold but not derecognized	173,265	251,225	137,341

* Includes the NPLs acquired by MBCredit Solutions.

The headings "Transferred from impaired financial assets acquired or originated" and "Other increases" chiefly involve the NPL portfolios acquired by MBCredit Solutions.

The heading "Other reductions" includes the non-performing mortgage loans originated by Micos Banca in Italy, which in the accounts for the year ended 30 June 2019 were booked as Assets held for sale (under IFRS 5) at a net value of €22.2m, with the sale completed at the start of the current year.

A.1.7bis Prudential consolidation - Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	Non-performing forborne exposures	Performing forbor-ne exposures
A. Opening balance (gross amount)	1,001,522	652,475
- Of which sold but not derecognized	*66,205*	*55,768*
B. Increases	293,884	528,087
B.1 Inflows from performing not forborne exposures	94,908	343,839
B.2 Inflow from performing forborne exposures	64,711	X
B.3 Inflows from non-performing forborne exposures	X	160,383
B.4 Inflows from non-performing not forborne exposures	95,506	2,257
B.5 other increases	38,759	21,608
C. Decreases	321,209	584,459
C.1 Outflows to performing not forborne exposures	X	259,274
C.2 Outflows to performing forborne exposures	160,383	X
C.3 Outflows to non-performing forborne exposures	X	64,711
C.4 write-off	6,186	333
C.5 recoveries	108,418	100,090
C.6 sales proceeds	5,195	281
C.7 losses on disposals	1,258	677
C.8 other decreases	39,769	159,093
D. Closing balance (gross amounts)	974,197	596,103
- Of which sold but not derecognized	*166,809*	*202,850*

As at 30 June 2020, gross non-performing exposures subject to forbearance measures[13] totalled €974.2m (30/6/19: €1,001.5m), with a coverage ratio of 46.7% (47.4%); while net NPLs totalled €519.3m (€526.7m).

Gross performing forborne exposures amount to €596.1m (€652.5m), with a coverage ratio of 7.7% (7.3%) which reduces to €550.4m (€605.2m) on a net basis.

Overall net non-performing forborne exposures represent 1.1% of total customer loans (unchanged), while performing forborne exposures represent 1.2% (1.3%).

[13] Forbearance is defined as when a specific concession is offered to a client who is facing, or who risks facing, temporary financial difficulties in meeting their payment obligations.

A.1.9 Prudential consolidation - Non performing cash exposures to customers: trend in overall writedowns

Description/Category	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance overall amount of writedowns	419,686	82,503	551,773	369,873	111,614	22,399
- Sold but not derecognized	*44,116*	*9,723*	*82,635*	*27,209*	*36,789*	*8,192*
B. Increases	168,141	32,005	283,468	99,005	189,194	39,443
B.1 Adjustments on acquired or originated impaired assets	—	X	—	X	—	X
B.2 other value adjustments	92,506	8,004	169,082	48,968	134,141	19,647
B.3 losses on disposal	143	12	2,395	995	1,675	251
B.4 transfers from other categories of non-performing exposures	67,089	18,144	45,343	10,927	8,805	5,792
B.5 contractual changes without cancellations	—	—	—	—	—	—
B.6 other increases	8,403	5,845	66,648	38,115	44,573	13,753
C. Reductions	240,507	23,916	298,057	145,396	105,106	21,014
C.1 writebacks from assessments	8,176	2,295	105,448	89,934	8,081	2,363
C.2 writebacks from recoveries	15,168	3,291	21,972	12,195	7,927	1,362
C.3 gains on disposal	4,548	1,502	2,516	673	285	77
C.4 write-off	58,225	2,948	16,386	2,831	2,725	407
C.5 transfers to other categories of non-performing exposures	876	204	61,740	23,519	58,621	13,057
C.6 contractual changes without cancellations	—	—	—	—	—	—
C.7 other decreases	153,514	13,676	89,995	16,244	27,467	3,748
D. Closing overall amount of writedowns	347,320	90,592	537,184	323,482	195,702	40,828
- Sold but not derecognized	*123,176*	*13,564*	*127,283*	*52,909*	*74,592*	*14,287*

A.2 Classification of credit exposures by internal and external ratings

A.2.1 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	1,240,779	3,797,191	3,988,514	3,867,437	125,070	409,800	43,856,222	57,285,013
- First Stage	1,240,779	3,797,191	3,988,426	3,817,969	122,283	300,127	38,444,602	51,711,377
- Second Stage	—	—	3	49,468	2,787	88,338	3,192,828	3,333,424
- Third Stage	—	—	85	—	—	21,335	2,218,792	2,240,212
B. Financial assets valued at fair value with impacts taken to other comprehensive income	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- First Stage	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- Second Stage	—	—	—	—	—	—	—	—
- Third Stage	—	—	—	—	—	—	—	—
Total (A+B)	2,042,839	3,884,066	6,189,779	4,121,405	135,682	454,697	43,948,593	60,777,061
of which: impaired financial assets aquired or originated	—	—	—	—	—	—	*358,782*	*358,782*
C. Commitments and financial guarantees given								
- First Stage	22,505	658,733	4,719,382	826,388	67,409	6,876	4,265,489	10,566,782
- Second Stage	—	—	—	—	1,921	—	55,874	57,795
- Third Stage	—	—	—	—	—	—	15,862	15,862
Total (C)	22,505	658,733	4,719,382	826,388	69,330	6,876	4,337,225	10,640,439
Total (A+B+C)	2,065,344	4,542,799	10,909,161	4,947,793	205,012	461,573	48,285,818	71,417,500

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

The table is compliant with the classification provided by Bank of Italy circular 262/05 (sixth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between AAA and BBB-, and represent 76% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients and to small and medium-sized enterprises.

A.2.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non performing exposures	Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortized cost									
- First Stage	1,057,710	6,220,524	16,495,104	17,401,263	5,007,493	88,142	—	5,441,141	51,711,377
- Second Stage	—	4,716	21,388	468,964	1,672,575	887,300	—	278,481	3,333,424
- Third Stage	—	—	—	—	—	—	2,240,212	—	2,240,212
B. Financial assets valued at fair value with impacts taken to other comprehensive income									
- First Stage	802,060	106,813	2,232,630	250,599	44,897	—	—	55,049	3,492,048
- Second Stage	—	—	—	—	—	—	—	—	—
- Third Stage	—	—	—	—	—	—	—	—	—
Total (A+B)	1,859,770	6,332,053	18,749,122	18,120,826	6,724,965	975,442	2,240,212	5,774,671	60,777,061
of which: impaired financial assets aquired or originated	—	—	—	—	—	—	*358,782*	—	*358,782*
C. Commitments and financial guarantees given									
- First Stage	78,389	885,077	5,967,080	1,736,277	320,244	7,333	—	1,572,382	10,566,782
- Second Stage	—	2	21	391	34,873	19,103	—	3,405	57,795
- Third Stage	—	—	—	—	—	—	15,862,00	—	15,862
Total (C)	78,389	885,079	5,967,101	1,736,668	355,117	26,436	15,862	1,575,787	10,640,439
Total (A+B+C)	1,938,159	7,217,132	24,716,223	19,857,494	7,080,082	1,001,878	2,256,074	7,350,458	71,417,500

Mediobanca uses models developed internally in the process of managing credit risk to assign ratings to each counterparty.

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

The companies within the Group which use the internal ratings and contribute to the various rating classes indicated apart from Mediobanca S.p.A. (for corporate customers) are: SelmaBipiemme, Compass/Futuro, CheBanca! and MBFACTA (for corporate customers).

A.3 Distribution of secured exposures by type of securities

A.3.1 Prudential consolidation - Cash and off-balance sheet secured exposures to banks

	Gross exposures	Net expo-sures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Public Admin-istrations	Banks	Other fi-nancial company	Other enti-ties	
								Central coun-terparties	Banks	Other fi-nancial company	Other enti-ties					
1. Secured balance sheet credit exposures:	2,925,573	2,924,275	—	1,007	2,858,371	845	—	—	—	—	—	—	—	—	—	2,860,223
1.1. totally secured	2,925,573	2,924,275	—	1,007	2,858,371	845	—	—	—	—	—	—	—	—	—	2,860,223
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2. partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet cred-it exposures:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1. totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2. partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Prudential consolidation - Cash and off-balance sheet secured exposures to customers

	Gross exposures	Net exposures	Collaterals (1)				Personal guarantees (2)										Total (1)+(2)
			Property - mortgages	Financial leasing property	Collaterals	Other guarantees	Credit derivatives					Signature loans					
							CLN	Other derivatives				Public Admin-istrations	Banks	Other financial company	Other entities		
								Central coun-terparties	Banks	Other financial company	Other entities						
1. Secured balance sheet credit exposures:	21,373,967	20,963,313	11,184,290	1,086,040	3,117,264	1,914,187	—	—	—	—	—	54,124	10,306	265,786	1,965,423		19,597,420
1.1. totally secured	17,575,133	17,308,338	10,406,042	1,086,040	2,372,516	1,554,532	—	—	—	—	—	20,942	10,306	122,508	1,638,711		17,211,597
- of which non-performing	*481,417*	*285,713*	*146,864*	*100,485*	*565*	*19,023*	—	—	—	—	—	—	—	*11,646*	*7,130*		*285,713*
1.2. partially secured	3,798,834	3,654,975	778,248	—	744,748	359,655	—	—	—	—	—	33,182	—	143,278	326,712		2,385,823
- of which non-performing	*378,245*	*247,541*	*3,301*	—	*5,434*	—	—	—	—	—	—	—	—	—	*161*		*8,896*
2. Secured off-balance sheet credit exposures:	1,865,692	1,859,798	53,431	—	989,439	299,873	—	—	—	—	—	5,961	4,495	34,940	247,582		1,635,721
2.1. totally secured	965,718	963,095	46,674	—	345,509	299,873	—	—	—	—	—	5,961	4,495	—	247,582		950,094
- of which non-performing	*1,061*	*1,047*	*46*	—	*737*	*264*	—	—	—	—	—	—	—	—	—		*1,047*
2.2. partially secured	899,974	896,703	6,757	—	643,930	—	—	—	—	—	—	—	—	34,940	—		685,627
- of which non-performing	*14,000*	*11,060*	—	—	—	—	—	—	—	—	—	—	—	—	—		—

A.4 Prudential consolidation - Financial and non-financial assets obtained by taking possession of collaterals

	Derecognized credit exposures	Gross amount	Gross writedowns	Book value	
					Of which: obtained during the period
A. Tangible assets	65,925	65,273	(17,793)	47,480	1,437
A.1. Core assets	82	76	(1)	75	—
A.2. Held for investment purpose	56,712	56,653	(16,879)	39,774	1,437
A.3. Inventories	9,131	8,544	(913)	7,631	—
B. Equity and debt securities	—	—	—	—	—
C. Other assets	—	—	—	—	—
D. Assets held for sale	—	—	—	—	—
D.1. Tangible assets	—	—	—	—	—
D.2. Other assets	—	—	—	—	—
30/6/20	65,925	65,273	(17,793)	47,480	1,437
30/6/19	67,476	67,030	(16,938)	50,092	526

The table includes properties originating from the enforcement of leasing contracts by SelmaBipiemme. Such properties are booked, to the consolidated accounts and the individual financial statements of the Group company, on the basis of their characteristics and in accordance with the internal procedures, as tangible assets under IAS 40 or IAS 2. In very few instances they are classified as core properties, whereas IFRS 5 is not applied as the conditions provided for in this standard do not apply.

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (*of which: insurance companies*)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	(145)	427	(9,267)	—	—	73,431	(26,949)	361,539	(310,959)
- *of which: forborne exposures*	—	—	*27*	*(7,231)*	—	—	*6,075*	*(9,433)*	*3,880*	*(73,928)*
A.2 Unlikely to pay	932	(489)	2,382	(1,180)	—	—	387,816	(223,846)	239,770	(311,669)
- *of which: forborne exposures*	—	—	*166*	*(209)*	—	—	*343,400*	*(198,159)*	*138,350*	*(125,114)*
A.3 Overdue exposures (NPLs)	1,788	(113)	299	(131)	—	—	25,478	(7,212)	138,914	(188,246)
- *of which: forborne exposures*	—	—	—	—	—	—	*211*	*(122)*	*27,186*	*(40,706)*
A.4 Performing exposures	6,981,492	(10,090)	6,696,189	(15,379)	914,940	(3,423)	15,893,819	(91,545)	24,557,564	(468,034)
- *of which: forborne exposures*	—	—	*30,718*	*(509)*	—	—	*263,338*	*(11,319)*	*256,382*	*(33,837)*
Total (A)	6,984,212	(10,837)	6,699,297	(25,957)	914,940	(3,423)	16,380,544	(349,552)	25,297,787	(1,278,908)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	11,681	(2,959)	1,193	(28)
B.2 Performing exposures	1,163,224	—	6,770,198	(1,752)	1,361,860	—	8,932,241	(5,884)	2,034,600	(3,056)
Total (B)	1,163,224	—	6,770,198	(1,752)	1,361,860	—	8,943,922	(8,843)	2,035,793	(3,084)
30/6/20	8,147,436	(10,837)	13,469,495	(27,709)	2,276,800	(3,423)	25,324,466	(358,395)	27,333,580	(1,281,992)
30/6/19	12,292,681	(6,525)	12,947,022	(18,933)	1,574,703	(1,846)	25,020,633	(365,341)	25,777,187	(1,218,944)

B.2 Prudential consolidation - Cash and off-balance sheet exposure to customers by geography

Exposures/geographical area	Italy		Others European countries		America		Asia		Rest of the world	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	430,813	(343,307)	3,686	(3,826)	342	(49)	60	(15)	496	(123)
A.2 Unlikely to pay	561,081	(511,612)	59,462	(17,408)	324	(127)	10,033	(8,037)	—	—
A.3 Overdue exposures (NPLs)	165,432	(195,394)	1,037	(306)	2	—	—	—	8	(2)
A.4 Performing exposures	40,722,039	(532,701)	11,135,210	(32,274)	1,949,333	(18,594)	55,146	(110)	267,336	(1,369)
Total (A)	41,879,365	(1,583,014)	11,199,395	(53,814)	1,950,001	(18,770)	65,239	(8,162)	267,840	(1,494)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,874	(2,987)	—	—	—	—	—	—	—	—
B.2 Performing exposures	7,886,339	(5,222)	9,632,054	(3,766)	934,822	(690)	161,238	(1,014)	285,810	—
Total (B)	7,899,213	(8,209)	9,632,054	(3,766)	934,822	(690)	161,238	(1,014)	285,810	—
30/6/20	49,778,578	(1,591,223)	20,831,449	(57,580)	2,884,823	(19,460)	226,477	(9,176)	553,650	(1,494)
30/6/19	53,399,786	(1,564,201)	18,809,502	(34,131)	3,303,772	(8,728)	246,356	(453)	278,107	(2,230)

B.3 Prudential consolidation - Cash and off-balance sheet exposure to banks by geography

Exposures/geographical area	Italy		Others European countries		America		Asia		Rest of the world	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	3,329,998	(5,267)	4,041,237	(310)	50,479	(20)	1,655	(3)	58	—
Total (A)	3,329,998	(5,267)	4,041,237	(310)	50,479	(20)	1,655	(3)	58	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	494,418	—	8,701,566	—	69	—	—	—	—	—
Total (B)	494,418	—	8,701,566	—	69	—	—	—	—	—
30/6/20	3,824,416	(5,267)	12,742,803	(310)	50,548	(20)	1,655	(3)	58	—
30/6/19	3,830,385	(1,656)	15,730,689	(871)	49,739	(11)	5,357	(2)	399	(3)

B.4a Credit risk indicators

	30/6/20	30/6/19
a) Gross bad loans/total loans	1.51%	1.72%
b) NPLs/cash exposures	4.18%	4.09%
c) Net bad loans/regulatory capital [1]	4.82%	5.80%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €366.6m to €357m.

B.4b Gross NPL Ratio [14]

(€ m)

	30/6/20	30/6/19
	Gross value (prudential scope of consolidation)	
Loans	46,028.4	43,731.1
NPLs	1,954.2	1,782.3
Loans and advances to customers	47,982.6	45,513.4
NPLs purchased by MBCredit Solutions	358.8	368.6
Treasury financial assets *	9,105.6	10,105.0
Total Loans and Receivables (FINREP)	57,447.0	55,987.0
Gross NPL ratio Finrep %	4.0%	3.8%

* In line with the guidelines of the EBA Risk Dashboard, the calculation excludes cash and includes untied deposits held with central banks.

At 30 June 2020 the Mediobanca Group reported a Finrep gross NPL ratio 4%, basically in line with last year (3.8%) and with the EBA average, [15] confirming the Mediobanca Group as one of the best players on the national and European market.[16] The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions was 3.4% (30/6/19: 3.2%).

B.4c Large risks

	30/6/20	30/6/19
a) Book value	9,641,791	11,220,374
b) Weighted value	7,510,106	7,767,800
c) No. of exposures	6	8

As at 30 June 2020, aggregate exposures (including market risks and equity investments) to a total of six groups of clients (two fewer than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €9.6bn (€7.5bn, taking into account guarantees and weightings), lower than the respective figures at end-June 2019 (€11.2bn and €7.8bn respectively). In detail the six exposures are to three industrial groups, one insurance company and two banking groups.

[14] In the EBA Risk Dashboard, the gross NPL ratio is defined as the gross book value of the NPLs (loans and advances) as a percentage of total loans and advances. Source: EBA Risk Dashboard, Risk Indicators in the Statistical Annex (AQT_3.2).

[15] The weighted average NPL ratio in the sample of banks considered by the EBA is 3% in 1Q 2020 and 2.7% in 4Q 2019 (source: EBA Risk Dashboard. The definition of NPL ratio used by the Mediobanca Group is more conservative than that of the EBA, as the denominator used does not include treasury assets which are performing but highly volatile

[16] Source: ECB Transparency exercise, December 2019.

C. Securitization

QUALITATIVE INFORMATION

The Group has portfolio of securities deriving from securitizations by other issuers totalling €214.7m, €185.8m of which as part of the banking book (almost all HTC recognized at amortized cost) and €28.9m as part of the trading book.

The contribution from senior securities held as part of the banking book declined from €152.3m to €129m, following the reduction in the exposure to deals with NPLs as underlying instrument, the amount of which fell from €142.6m to €80.7m, 79% of which involved domestic deals (Unicredit-Fino, Intesa-Belvedere and Prisma), against an increase in securities with performing loans and CLOs as the underlying, to €48.4m (€9.7m); the portfolio reflects an increase in the exposure to mezzanine tranches to €56.3m (€3.3m), almost entirely attributable to the contribution of securities with performing receivables as the underlying instrument (€41.2m), and to a lesser extent, new investments in CLOs (€14.1m). The share of junior notes remains decidedly low at €0.4m. Overall the portfolio contains CLOs totalling €22.1m, €14.1m of which are mezzanine.

The trading book reflects a sizeable reduction, from €91.4m to €28.9m, with virtually the entire portfolio renewed. The balance at 30 June 2020 reflects almost exclusively mezzanine securities, €20.9m of which involve securitizations of performing receivables (mostly Italian) and €8m in CLO tranches. Movements for the period include the transfer of €50m to a fund in which a share worth a nominal €75m was subscribed.

Mediobanca also has an exposure to:

– Cairn Loan Investments LLP (CLI and CLI II), Cairn-branded CLO management companies, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invest in the junior tranches of the CLOs they manage, with investments of €26m and €13m respectively;
– Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by DeA Capital SGR S.p.A. which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28m;

– Negentropy RAIF - Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited; the fund has a NAV of €112.3m, with senior tranches of Italian NPLs as the underlying instrument, 45% of which consists of the initial transfer from the Belvedere deal; Mediobanca, which acted as advisor on the deal, currently has an investment of €76.4m.

The secondary ABS market saw a sudden widening of spreads following the Covid-19 emergency, with a liquidity freeze which was largely mitigated by the monetary policy initiatives promoted by the central banks. The fiscal policy instruments finalized by the various governments, meanwhile, have preserved the average quality of the underlying instruments for the moment. However, the flow of new deals has slowed significantly, reflecting the fact that market conditions are currently less advantageous than the terms offered by the new T-LTRO.

QUANTITATIVE INFORMATION

C.2 Prudential consolidation - exposures from main customer securitizations by asset type/exposure

Type of securitized assets/ Exposure	Cash exposure					
	Senior		*Mezzanine*		*Junior*	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Italy NPLs (residential mortgages and real estates)	63,733	—	1,024	(976)	283	(357)
B. Spain NPLs (residential mortgages and real estates)	16,924	—	—	—	—	—
C. Italy Performing Loans	26,809	—	52,995	(972)	—	—
D. Netherlands Performing Loans	13,530	—	3,083	(10)	187	(11)
E. Spain Performing Loans	—	—	945	(55)	—	—
F. Germany Performing Loans	—	—	5,090	—	—	—
G. Other receivables	8,029	—	22,107	(843)	—	—
Total 30/6/20	129,025	—	85,244	(2,856)	470	(368)
Total 30/6/19	220,594	103	26,434	(6)	841	—

C.3 Prudential consolidation - Interest in vehicle companies

Name	Name	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	1,918,203	—	211,809	1,358,893	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,398,744	—	107,979	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	532,693	—	80,837	454,635	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	826,281	—	79,467	783,000	—	120,915
Quarzo 10 - Quarzo S.r.l.	Milan	Accounting	1,892,739	—	117,279	1,760,000	—	248,800
Quarzo CQS S.r.l. (2015)	Milan	Accounting	—	—	—	—	—	—
Quarzo CQS S.r.l. (2018)	Milan	Accounting	354	—	23	311	—	52
MB Funding Lux S.A.	Luxembourg	Accounting	1,247,744	—	—	850,185	—	—

C.5 Prudential consolidation - servicing - collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets (30/6/20)		Receivables collected during the year		Percentage share of securities repaid (30/6/20)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS (2015)	—	—	3,794	50,666	—	100.00	—	—	—	3,794
Futuro	Quarzo CQS (2018)	7,203	374,858	7,638	178,612	—	52.07	—	—	—	7,638
Compass	Quarzo Srl	371,904	6,661,225	—	3,200,535	—	87.67	—	—	—	—

C.6 Prudential consolidation - consolidated securitization-related SPVs

Quarzo S.r.l. (Compass Banca)

This SPV currently has five securitizations outstanding, with performing loans granted by Compass Banca as the underlying instrument (Compass itself subscribed for the entire amount of the junior securities), which can be sold on a revolving basis for a period of between six and 66 months, after which the amortization phase can commence. In some deals Mediobanca S.p.A. and/or other Group companies subscribed to the senior notes.

The five deals outstanding are summarized in the table below:

Issue date	Senior		Junior	Credits transferred in the year	From the repayment date
	A1	A2			
25/02/16	—	2,640	660	307	01/11/19
15/02/17	—	1,215	285	708	
06/12/18	600	147	153	—	01/07/19
25/11/19	600	183	117	131	
17/04/20	—	1,760	240	70	

Legend:

A1: issued on the market

A2: subscribed to by Mediobanca S.p.A. and/or other Group companies.

Quarzo CQS S.r.l. (Futuro)

This SPV currently has one securitization outstanding, completed in 2018 with Futuro receivables (from salary-backed finance) as the underlying instrument and sold in a single, non-revolving tranche. The senior notes (originally issued in an amount of €598m, €311.4m of which is still in issue) are listed on the Dublin stock market and have mostly been sold on the market, while the junior notes (€52m) have been subscribed to entirely by Futuro.

The option to buy back the receivables underlying the first deal (Quarzo CQS 2015, completed on 1 April 2015) was completed in May 2020, which closed with all the outstanding junior notes being redeemed (€52m) and all sums due being paid.

MB Funding Lux S.A. (Mediobanca)

This vehicle company was set up by Mediobanca S.p.A. with the aim of completing secured deals with pools of corporate receivables originated by Mediobanca International (Luxembourg) SA or Mediobanca S.p.A. as the underlying instrument, retaining the associated credit risk. The notes, which were issued under the parent company's Medium-Term Note Programme, have been entirely subscribed to by Group companies and used as collateral on the interbank market.

The four deals have an aggregate nominal value of €840m, made up as follows:

Issue date	Value	Refund date
25/06/17	200	25/06/22
20/12/17	100	20/12/24
30/10/18	400	30/10/23
15/03/19	140	15/03/24

The Group also has a single, unsecured €10m issue outstanding, expiring in June 2023.

* * *

Accounts between the originator and the SPVs during the period under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	—	—	—	—
Quarzo S.r.l.	4,116.8	3,225.4	11.2	27.6	292.8
MB Funding Lux	269.0	211.9	—	—	2.2

D. Disposals

A. Financial assets sold but not entirely derecognized

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*	*of which deteriorated*	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*
A. Financial assets held for trading	1,866,258	—	1,866,258	X	1,740,442	—	1,740,442
1. Debt securities	1,539,228	—	1,539,228	X	1,421,918	—	1,421,918
2. Equities	327,030	—	327,030	X	318,524	—	318,524
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	383,482	—	383,482	—	365,219	—	365,219
1. Debt securities	383,482	—	383,482	—	365,219	—	365,219
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets measured at amor-tized cost	5,990,083	5,121,867	868,216	126,463	3,453,703	2,778,168	675,535
1. Debt securities	654,112	—	654,112	—	588,892	—	588,892
2. Loans	5,335,971	5,121,867	214,104	126,463	2,864,811	2,778,168	86,643
30/6/20	8,239,823	5,121,867	3,117,956	126,463	5,559,364	2,778,168	2,781,196
30/6/19	10,056,012	6,049,062	4,006,950	61,416	6,282,305	2,359,845	3,922,460

D.3 Prudential consolidation - Disposals related to financial liabilities with repayment exlusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total	
			30/6/20	30/6/19
A. Financial assets held for trading	1,866,258	—	1,866,258	3,147,167
1. Debt securities	1,539,228	—	1,539,228	2,312,251
2. Equities	327,030	—	327,030	834,916
3. Loans	—	—	—	—
4. Derivatives	—	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Equities	—	—	—	—
3. Loans	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Loans	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	383,482	—	383,482	529,449
1. Debt securities	383,482	—	383,482	529,449
2. Equities	—	—	—	—
3. Loans	—	—	—	—
E. Financial assets measured at amortized cost (fair value)	6,918,051	—	6,918,051	7,433,408
1. Debt securities	659,771	—	659,771	162,126
2. Loans	6,258,280	—	6,258,280	7,271,282
Total financial assets	9,167,791	—	9,167,791	11,110,024
Total associated financial liabilities	5,627,526	—	X	X
30/6/2020	3,540,265	—	9,167,791	11,110,024
30/6/2019	4,829,983	—	X	11,110,024

B. Financial assets sold and fully derecognized with continuing involvement recorded

QUALITATIVE INFORMATION

D.4 Prudential consolidation - covered bond issues

Mediobanca Covered Bond S.r.l., an SPV set up in accordance with the provisions of Article 7-*bis* of Italian law 130/99, is 90%-owned by CheBanca!, with the other 10% owned by SPV Holding.

The company forms part of the €5bn, ten-year program of issuance realized pursuant to Italian law 130/99, and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;

– CheBanca! as the seller (including on a revolving basis), of assets eligible for sale under the regulations in force, up to the limits on Mediobanca's regulatory capital ratios, and servicer for the transaction;

– Mediobanca Covered Bond S.r.l., an SPV and non-recourse recipient of the assets and guarantor of the covered bonds.

Five deals are outstanding under the current program (one was made at the start of FY 2020-21), all rated AA- by Fitch (following the downgrade in May 2020 after the Italy country rating was cut as well), with a nominal value of €3,750m placed with institutional investors and covered by assets totaling €5,094.5m, as follows:

Issue date	Value	Rate	Maturity date
01/10/13	750	fix: 3.625%	ott-23
01/11/15	750	fix: 1.375%	nov-25
30/11/17	750	fix: 1.25%	nov-29
31/07/18	750	fix: 1.125%	ago-24
01/07/19	750	fix: 0.5%	ott-26
	3,750		

During the twelve months under review, assets were sold by CheBanca! to Mediobanca Covered Bond in an amount of €705.8m, with assets bought back totalling €95.3m.

* * *

E. Prudential consolidation - models for measuring credit risk

The Mediobanca Group uses the IRB Advanced method, featuring the PD and LGD parameters, in order to quantify the capital requirement for credit risk on the corporate loan book of Mediobanca and Mediobanca International and the CheBanca! Italian mortgage portfolio. A plan has also been adopted to progressively role the internal models out to cover other categories of credit asset as well (the "Roll-Out Plan"). For these exposures, for which the standardized methodology is currently used to calculate the regulatory capital requirements, the Group has nonetheless developed internal credit risk models that are used for management purposes. The Group has also developed a portfolio model to calculate the economic capital for credit risk, which allows concentration and diversification effects (geographical and sector) to be taken into consideration. For further details please see "Section 1.1 Credit risk" in Part E of the Notes to the Accounts.

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

- Sensitivity - mainly Delta and Vega - to small changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;
- Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme changes in market variables.

Other complementary and more specific risk metrics are also calculated, in addition to VaR and sensitivity, in order to capture risks not fully measured by these indicators more effectively. The weight of products which require such metrics to be used is in any case extremely limited compared to the overall size of Mediobanca's trading book.

The strong market correction which followed the Covid-19 crisis drove an increase in the use of market risk limits, which resulted in desk control and reporting activities being stepped up versus the committees, senior management and supervisors.

The aggregate value-at-risk on the trading book ranged from a low of €1.9m at end-September 2019 to a high of €7.6m in mid-March, with the average reading virtually unchanged at €4.2m (30/6/19: €4.3m). The point-in-time reading for VaR at the start of the financial year was €6.5m, but by mid-August this had reduced to €2m after some large outright positions were closed. It remained near this level until early February 2020, after which it increased progressively following the material rise in volatility. From the time when the first cases of Covid-19 were reported in Italy, market volatility and VaR rose quickly, reaching the high of €7.7m in mid-March mentioned above. Thereafter the VaR reading remained at high levels, albeit slightly lower, fluctuating between €5m and €6m due to the strong volatility that continues to affect markets. The point-in-time reading for VaR as at 30 June 2020 was €5.8m (€6.3m).

Like VaR, the expected shortfall also showed an average reading in line with the previous year, at around €5.4m.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) in the twelve months showed four occasions on which the VaR value was departed from, all of which occurred between 9 and 17 March 2020 due to the instability and high market volatility that erupted following the outbreak of Covid-19.

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors (€ '000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	3,312	478	4,773	2,016	2,165
Credit	2,585	788	6,888	1,750	1,163
Share prices	6,194	815	8,782	3,291	1,632
Exchange rates	633	231	1,415	718	1,740
Inflation	581	125	780	256	170
Volatility	3,462	740	4,372	1,828	1,271
Diversification effect (*)	*(10,968)*	—	—	*(5,654)*	*(3,824)*
Total	5,799	1,917	7,649	4,205	4,317
Expected Shortfall	***6,766***	***2,488***	***19,803***	***5,385***	***5,376***

(*) Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of sensitivities to movements in the various risk factors which are monitored daily.

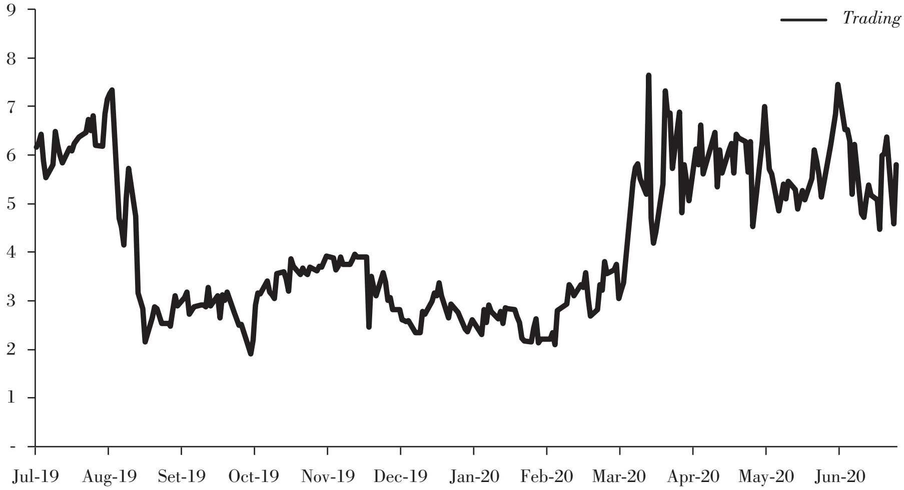
Compared to last year, the exposures to the various asset classes have not increased significantly. The average exposures to equities have increased, measured by both delta and vega, with marked fluctuation between highs and lows. The interest rate delta ranged from minus €362,000 to plus €806,000, with an average reading of around €24,000, and with more pronounced fluctuations between lows and highs than last year. Conversely, the exchange rate delta was lower than last year, ranging from a low of minus €187,000 to a high of €786,000 per percentage point (last year the high was €1.9m per percentage point).

Table 2: Overview of trends in main sensitivities for trading book

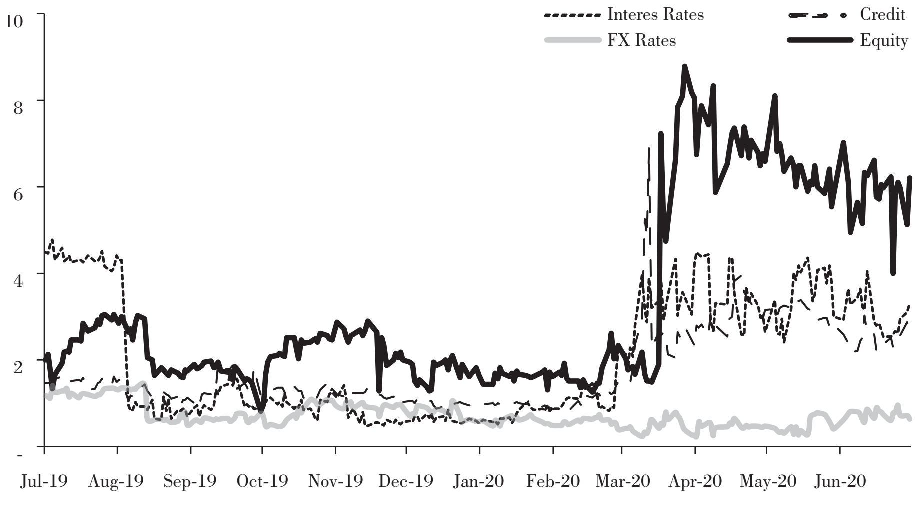
Risk factors (€ '000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	476,305	187,161	1,255,622	738,132	664,340
Equity vega (+1%)	589,060	(2,579,578)	1,748,192	858,604	618,926
Interest rate delta(+1bp)	70,398	(361,634)	806,332	23,621	323,109
Inflation delta (+1 bp)	61,533	13,360	75,255	34,296	13,743
Exchange rate delta (+1%) (*)	417,485	(186,596)	786,363	373,354	703,114
Credit delta (1 bp)	569,729	270,143	1,314,285	584,597	750,825

(*) Refers to the Euro gaining versus other currencies.

Trading Book VaR Trend



VaR Components Trend by Asset Class (Trading)



QUANTITATIVE INFORMATION

1. Supervisory trading book: financial assets and liabilities in the form of cash and financial derivatives by outstanding duration (repricing date)

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
1.1 Debt securities	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	330,564	—	20,000	214,664	104,380	—	—
+ short positions	—	330,564	—	20,000	214,664	104,380	—	—
3.2 Without underlying securities								
– Options								
+ long positions	—	68,143,493	53,258,332	2,903,586	3,162,509	2,514,942	1,031,820	—
+ short positions	—	68,143,493	53,258,332	2,903,586	3,162,509	2,514,942	1,031,820	—
– Others								
+ long positions	385,883	19,275,463	7,952,506	9,091,558	14,809,523	3,177,623	5,515,294	—
+ short positions	655,480	25,625,518	8,377,407	2,047,003	14,809,523	3,177,623	5,515,294	—

2. Supervisory trading book: exposures in equities and equity indexes to main countries by market of listing

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	1,737,767	—	46,476
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITs units			
B.1 Italian	—	—	2,526
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	2,526
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	20,114	—	88
- harmonized open	15,572	—	—
- non-harmonized open	—	—	88
- non-harmonized closed	4,542	—	—
B.3 Non-EU states	—	—	239
- open	—	—	239
- closed	—	—	—
Total	1,757,881	—	49,329

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 87% of the net exposure is to EU member states.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

Conversely, the sensitivity of economic value measures the impact of future flows on present value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS).

All the scenarios present a floor set by the EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from current account deposits for retail clients, which have been treated on the basis of proprietary behavioural models, and consumer credit items and mortgages which reflect the possibility of early repayment).

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the Group's banking book positions at 30 June 2020, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would not decrease at all (compared with a €35m reduction last year).

As for the analysis of the discounted value of future cash flows on the Group's banking book, the shock that determines the highest change occurs if the short-term part of the curve reduces ("short down"). In this scenario, estimated net interest income would reduce by €22m, due chiefly to the impact on CheBanca! (€32m) and Mediobanca (€1m), against an increase for Compass (of €5m). Last year the highest reduction was €65m in a "parallel up" scenario.

The data above has been summarized in the following table:

(€ m)

Data at 30/6/20	Banking Book					
	Maximum level scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Net interest income sensitivity	Parallel Down	45	37	9	(7)	6
Discounted value of expected cash flows sensitivity	Short Down	(22)	(1)	(32)	5	6

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/ estimated Group net interest income) and 3.5% (economic value sensitivity/ CET1).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months).[1]

[1] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Group uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

C. Foreign investment hedging activities

Foreign investment hedging activities involve hedging the exposure of a controlling interest and its related goodwill (including intangibles identified as a result of the Purchase Price Allocation process) to foreign currencies. Such hedges can be executed through derivative or other financial instruments denominated in different currencies, such as bond issues. The Exchange rate effect of the hedging instrument is taken through net equity to cover the effects of the hedged instrument. See section 1.2.3 Exchange rate risk below for a description of the only hedge of this kind entered into by the Group.

D. Hedging instruments

E. Hedged items

As for hedged and hedging instruments, they are already exhaustively described in the previous paragraphs and throughout the document.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future exposure. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) for all the time steps up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the presence of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different exposure limits split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book financial assets and liabilities by outstanding duration (repricing date)

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	8,975,172	18,112,481	7,599,108	3,456,407	14,219,659	4,202,822	2,758,070	—
1.1 Debt securities	—	672,531	993,754	928,277	2,632,088	1,300,237	48,616	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	—	672,531	993,754	928,277	2,632,088	1,300,237	48,616	—
1.2 Loans to banks	1,662,417	1,680,038	697,374	252,245	848,848	—	269,405	—
1.3 Loans to customers	7,312,755	15,759,912	5,907,980	2,275,885	10,738,723	2,902,585	2,440,049	—
- current accounts	1,133,175	310,907	—	—	—	—	—	—
- other loans	6,179,580	15,449,005	5,907,980	2,275,885	10,738,723	2,902,585	2,440,049	—
- with early repayment option	3,264,836	3,338,632	973,209	1,789,352	8,715,877	2,641,651	2,391,575	—
- others	2,914,744	12,110,373	4,934,771	486,533	2,022,846	260,934	48,474	—
2. Cash liabilities	20,199,354	15,149,088	3,952,291	5,702,180	9,139,383	3,886,293	871,121	—
2.1 Due to customers	19,032,581	3,331,661	1,535,175	889,986	1,053,309	51,370	604,379	—
- current accounts	16,333,202	662,172	—	7,396	—	—	—	—
- other amounts due	2,699,379	2,669,489	1,535,175	882,590	1,053,309	51,370	604,379	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	2,699,379	2,669,489	1,535,175	882,590	1,053,309	51,370	604,379	
2.2 Due to banks	1,165,936	4,660,632	1,455,310	1,779,611	3,613,844	296	104,577	—
- current accounts	565,809	—	—	—	—	—	—	—
- other amounts due	600,127	4,660,632	1,455,310	1,779,611	3,613,844	296	104,577	
2.3 Debt securities	837	7,156,795	961,806	3,032,583	4,472,230	3,834,627	162,165	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	837	7,156,795	961,806	3,032,583	4,472,230	3,834,627	162,165	
2.4 Other liabilities	—	—	—	—	—	—	—	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	—	—	—	—	—	—	—	—
3. Financial derivative products								
3.1 With underlying securities								
- Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
- Others								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
- Options								
+ long positions	—	—	—	—	1,905,287	119,894	—	—
+ short positions	—	—	—	—	1,905,287	119,894	—	—
- Others								
+ long positions	—	7,821,813	3,755,464	13,197,175	9,781,730	5,674,300	27,500	—
+ short positions	—	21,031,110	1,195,000	2,523,342	9,796,730	5,684,300	27,500	—
4. Other OTC trades								
+ long positions	615,265	3,181,139	645,103	394,294	8,145,373	356,828	306,062	—
+ short positions	1,897,734	1,518,916	639,033	324,633	8,240,389	448,066	575,293	—

2. Banking book: internal models and other sensitivity analysis methodologies

Type of exposure/Amounts	**Book value**		
	Level 1	**Level 2**	**Level 3**
A. Equities [1]			
A.1 Shares	115,912	—	30,678
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	45,585	—	116,060
- harmonized open	45,585	—	—
- non-harmonized open	—	—	—
- closed	—	—	107,068
- riserved	—	—	—
- speculative	—	—	8,992
B.2 Other EU states	260,125	—	236,686
- harmonized open	4,749	—	—
- non-harmonized open	—	—	76,377
- non-harmonized closed	255,376	—	160,309
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	421,622	—	383,424

[1] Of which 37% Italian and 53% other EU member states.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 304 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

As at 30 June 2020, a hedge was in place to cover the Exchange rate effect of the Group's investment in RAM AI, in accordance with the accounting standards in force on net investment of foreign operations, in order to neutralize volatility in the net equity reserve due to exchange rate differences arising on consolidation compared to the historical rate used for first-time recognition of the investment and the related goodwill. The hedge was made through the issue of a CHF 150m bond used as a hedge instrument for which the changes in value due to the exchange rate effect are suspended in a net equity reserve, to offset the impact of consolidating the company, including goodwill. The reserve must remain suspended in net equity until such a time as the investment is sold.

QUANTITATIVE INFORMATION

1. Assets/liabilities and derivatives by currency of denomination

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish Krona	Swiss Franc	Other currencies
A. Financial assets	3,364,456	1,227,620	13,451	4,318	628,988	86,116
A.1 Debt securities	821,930	20,633	—	—	94,305	—
A.2 Equity securities	293,613	617,637	—	—	1,873	—
A.3 Due from banks	256,788	47,076	9,721	1,778	36,498	34,074
A.4 Due from customers	1,870,840	539,830	3,720	2,540	355,447	52,010
A.5 Other financial assets	121,285	2,444	10	—	140,865	32
B. Other assets	72,670	14,283	371	324	10,634	42,519
C. Financial liabilities	4,175,134	557,653	3,395	2,401	309,555	75,903
C.1 Due to banks	269,729	318,591	—	—	2,642	27
C.2 Due to customers	1,459,133	204,230	3,325	2,401	96,800	75,757
C.3 Debt securities in issue	2,266,013	33,200	—	—	143,162	—
C.4 Other financial liabilities	180,259	1,632	70	—	66,951	119
D. Other liabilities	74,636	4,864	1,798	324	5,861	42,488
E. Financial derivatives						
- Options						
+ Long positions	170,104	82,593	13,846	—	9,516	1,523
+ Short positions	161,803	91,788	20,496	—	9,721	—
- Other derivatives						
+ Long positions	4,171,147	531,901	207,712	2,290	491,409	205,358
+ Short positions	3,383,151	1,208,767	217,921	481	789,922	192,511
Total assets	7,778,377	1,856,397	235,380	6,932	1,140,547	335,516
Total liabilities	7,794,724	1,863,072	243,610	3,206	1,115,059	310,902
Difference (+/-)	(16,347)	(6,675)	(8,230)	3,726	25,488	24,614

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level showed major changes in balances for the first six months of the financial year, before remaining stably at high levels until February 2020, after which there was a marked decrease in the absolute figures until the reporting date. Volatility for all major currencies remained at low levels until the Covid-19 crisis, which caused it to increase suddenly. Equally, the VaR for the exchange rate component fluctuated at low levels until mid-March 2020, when it reached a high, before decreasing slightly by end-June 2020. The average reading for VaR was around €10m, slightly lower than last year (€11.7m); while the point-in-time reading at 30 June 2020 was €11.8m (30/6/19: €9.2m).

1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

In the following tables, the figures for certificates as at 30 June 2019 have been reclassified by underlying instrument, to enable better comparison with the data as at 30 June 2020.

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Attività sottostanti/Tipologie derivati	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clea-ring arrange-ments			with clearing arrangements	without clea-ring arrange-ments	
1. Debt securi-ties and inter-est rate	28,752,849	29,232,071	2,121,512	122,834,994	24,330,615	38,947,552	1,767,838	99,014,423
a) Options	—	7,096,081	260,000	120,846,902	—	8,025,805	280,000	96,703,913
b) Swap	28,752,849	19,590,946	1,861,512	—	24,330,615	22,811,367	1,487,838	—
c) Forward	—	389,044	—	—	—	124,380	—	—
d) Futures	—	—	—	1,988,092	—	—	—	2,310,510
e) Others	—	2,156,000	—	—	—	7,986,000	—	—
2. Equities and stock indexes	—	21,501,170	2,022,780	18,380,123	—	14,396,817	2,910,398	14,159,122
a) Options	—	19,718,025	603,365	17,881,937	—	12,277,206	2,182,737	13,822,601
b) Swap	—	1,665,996	—	—	—	2,002,462	—	—
c) Forward	—	117,149	—	—	—	117,149	—	—
d) Futures	—	—	—	498,186	—	—	—	336,521
e) Others [1]	—	—	1,419,415	—	—	—	727,661	—
3. Currencies and gold	—	8,208,828	741,884	—	—	9,087,175	112,866	—
a) Options	—	654,466	1,233	—	—	1,534,191	—	—
b) Swap	—	2,977,113	379,295	—	—	2,912,799	105,448	—
c) Forward	—	4,577,249	361,356	—	—	4,640,185	7,418	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	28,752,849	58,942,069	4,886,176	141,215,117	24,330,615	62,431,544	4,791,102	113,173,545

[1] Regards exclusively certificates issued.

A.2 Trading financial derivatives: positive and negative fair values by product

Tipologie derivati	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Coun-terparties	Without central counterparties			Central Coun-terparties	Without central counterparties		
		With clearing arrangements	Without clea-ring arrange-ments			With clearing arrangements	Without clea-ring arrange-ments	
1. Positive fair value								
a) Options	—	1,163,164	7,224	824,337	—	568,610	6,427	487,169
b) Interest rate swap	220	620,759	75,933	—	2,489	743,161	73,492	—
c) Cross currency swap	—	151,279	12,491	—	—	323,693	10,067	—
d) Equity swap	—	139,911	—	—	—	9,181	—	—
e) Forward	—	43,723	10,037	—	—	43,299	6,165	—
f) Futures	—	—	—	43,620	—	—	—	10,352
g) Others	—	—	—	—	—	—	—	—
Total	220	2,118,836	105,685	867,957	2,489	1,687,944	96,151	497,521
2. Negative fair value								
a) Options	—	1,050,845	16,385	1,232,182	—	677,049	60,315	629,169
b) Interest rate swap	133,085	440,477	14,253	—	228,968	413,582	7,946	—
c) Cross currency swap	—	113,339	—	—	—	97,932	—	—
d) Equity swap	—	25,574	—	—	—	20,436	—	—
e) Forward	—	139,099	3,522	—	—	159,058	988	—
f) Futures	—	—	—	10,490	—	—	—	20,479
g) Others [1]	—	—	1,196,624	—	—	—	713,336	—
Total	133,085	1,769,334	1,230,784	1,242,672	228,968	1,368,057	782,585	649,648

[1] Regards exclusively certificates issued.

A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	70,000	969,086	1,082,426
- positive fair value	X	62,919	6,414	9,155
- negative fair value	X	87	14,323	3,817
2) Equities and stock indexes				
- notional value	X	1,930,958	91,802	20
- positive fair value	X	9,348	643	3,044
- negative fair value	X	1,209,299	91	1,995
3) Currencies and gold				
- notional value	X	220,679	17,050	504,154
- positive fair value	X	534	42	13,586
- negative fair value	X	831	202	138
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	28,752,849	15,125,155	8,016,883	6,090,033
- positive fair value	220	437,775	155,150	334,199
- negative fair value	133,085	415,801	332,146	45,362
2) Equities and stock indexes				
- notional value	—	12,225,138	7,524,014	1,752,018
- positive fair value	—	446,248	293,217	255,575
- negative fair value	—	506,775	311,197	9,994
3) Currencies and gold				
- notional value	—	4,870,551	1,841,387	1,496,890
- positive fair value	—	75,543	67,024	54,108
- negative fair value	—	80,708	15,833	51,518
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

[1] Of which certificates with a nominal value of €1,419,415,000 and fair value of minus €1,196,624,000.

A.4 OTC financial derivatives: outstanding duration (notional values)

Underlying / residual maturity	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt secu-rities and interest rates	12,921,726	30,133,026	17,051,680	60,106,432
A.2 Financial derivative contracts on equity securities and stock indexes	8,071,439	14,421,686	1,030,825	23,523,950
A.3 Financial derivatives on currencies and gold	5,417,283	2,997,621	535,810	8,950,714
A.4 Financial derivatives on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/20	26,410,448	47,552,333	18,618,315	92,581,096
Total 30/6/19	27,739,587	43,857,996	19,955,678	91,553,261

B. Credit derivatives

B.1 Trading credit derivatives: reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Hedge purchases		
a) Credit default products	3,926,295	22,413,129
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other1	167,600	—
Total 30/6/20	4,093,895	22,413,129
Total 30/6/19	4,637,734	17,549,942
2. Hedge sales		
a) Credit default products	2,635,022	22,442,171
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 30/6/20	2,635,022	22,442,171
Total 30/6/19	3,380,660	17,549,944

[1] Regards exclusively certificates issued.

The column headed “Basket” shows the positions in skew that hedge issues open, both benchmark index and with single-name underlying, and are balanced between buys and sales. The derivative embedded in the issues, for the hedge buys, is represented by individual constituents, with notional value equal to the nominal value of the issues.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/20	30/6/19
1. Positive fair value		
a) Credit default products	187,200	490,498
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	187,200	490,498
2. Negative fair value		
a) Credit default products	246,146	549,896
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	172,228	151,104
Total	418,374	701,000

[1] Regards exclusively certificates issued.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not covered by clearing agreements				
1) Hedge purchases				
– notional value [1]	X	2,226,453	698,955	—
– positive fair value	X	52,145	7,157	—
– negative fair value [1]	X	174,620	—	—
2) Hedge sales				
– notional value	X	14,526	—	—
– positive fair value	X	55,610	—	—
– negative fair value	X	10,111	—	—
Contracts covered by clearing agreements				
1) Hedge purchases				
– notional value	3,676,182	8,518,761	11,386,674	—
– positive fair value	—	5,231	14,501	—
– negative fair value	3,611	83,494	75,719	—
2) Hedge sales				
– notional value	3,626,146	10,254,063	11,182,458	—
– positive fair value	—	4,030	48,526	—
– negative fair value	14,009	41,087	15,721	—

[1] Of which certificates with a notional value of €167,600 and a fair value of minus €172,228.

B.4 OTC credit derivatives: outstanding duration (notional values)

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Hedge sales	1,084,304	23,498,167	494,722	25,077,193
2 Hedge purchases	549,768	25,450,034	507,223	26,507,025
Total 30/6/2020	1,634,072	48,948,201	1,001,945	51,584,218
Total 30/6/2019	1,554,766	38,227,205	3,336,309	43,118,280

1.3.2 ACCOUNTING HEDGES

QUANTITATIVE INFORMATION

A. Hedge financial derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying as-sets / Type of derivatives	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central coun-terparties	Without central counterparties			Central coun terparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Debt securi-ties and interest rate	37,256,065	4,683,649	30,000	—	26,470,556	5,821,291	35,000	—
a) Options	—	2,025,181	—	—	—	130,000	—	—
b) Swap	37,256,065	2,658,468	30,000	—	26,470,556	5,591,291	35,000	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	100,000	—	—
2. Equities and stock index-es	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	313,449	—	—	—	308,436	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	313,449	—	—	—	308,436	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	37,256,065	4,997,098	30,000	—	26,470,556	6,129,727	35,000	—

A.2 Hedge financial derivatives: gross positive and negative fair values by product

Type of derivatives	*Fair value positivo e negativo*								Change in the value used to measure the ineffectiveness of the hedging	
	30/6/20				30/6/19				30/6/20	30/6/19
	Over the counter			Established markets	*Over the counter*			Established markets		
	Central Counter-parts	Without central counterparties			Central Counter-parts	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	5,093	—	—	—	6,505	—	—	—	—
b) Interest rate swap	416,547	42,396	318	—	305,510	98,618	463	—	238,804	356,619
c) Cross currency swap	—	365	—	—	—	1,138	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	416,547	47,854	318	—	305,510	106,261	463	—	238,804	356,619
2. Negative fair value										
a) Options	—	8,140	—	—	—	14,209	—	—	—	—
b) Interest rate swap	416,915	35,918	4,252	—	50,302	343,986	5,643	—	119,783	57,495
c) Cross currency swap	—	—	—	—	—	101	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	416,915	44,058	4,252	—	50,302	358,296	5,643	—	119,783	57,495

A.3 OTC hedge financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlyings	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	30,000	—	—
- positive fair value	X	318	—	—
- negative fair value	X	4,252	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	37,256,065	4,210,720	472,929	—
- positive fair value	416,547	41,887	5,601	—
- negative fair value	416,915	34,613	9,445	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	298,268	15,181	—
- positive fair value	—	331	35	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 OTC hedging financial derivatives: outstanding duration (notional values)

Underlying/residual maturity	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	9,529,277	21,889,535	10,550,902	41,969,714
A.2 Financial derivative contracts on equity securi-ties and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	313,449	—	313,449
A.3 Financial derivative on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/20	9,529,277	22,202,984	10,550,902	42,283,163
Total 30/6/19	6,816,866	18,142,932	7,675,485	32,635,283

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives, by accounting portfolio and hedge type

	Book Value			Change in the value used to measure the ineffectiveness of the hedge		
	Fair value hedge	Cash flow hedge	Foreign investments hedge	*Fair value hedge*	Cash flow hedge	Foreign investments hedge
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading assets	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/20	—	—	—	—	—	—
Total 30/6/19	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	142,552	—	—	5,116
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	142,552	—	—	5,116
Total 30/6/20	—	—	142,552	—	—	5,116
Total 30/6/19	—	—	135,086	—	5,417	—

D. Instruments hedged

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to measure hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with impact taken to other comprehensive income - hedges of:	1,080,087	—	9,557	—	333	—
1.1 Debt securities and interest rate	1,080,087	—	9,557	—	333	X
1.2 Equity and stock indixes	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	7,627,808	—	333,384	—	163,239	—
1.1 Debt securities and interest rate	3,481,519	—	17,760	—	10,666	X
1.2 Equity and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	4,146,289	—	315,624	—	152,573	X
1.5 Other	—	—	—	—	—	X
Total 30/6/20	8,707,895	—	342,941	—	163,572	—
Total 30/6/19	4,707,905	2,699,965	187,608	—	215,761	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	23,760,802	—	426,747	—	123,210	—
1.1 Debt securities and interest rate	23,760,802	—	426,747	—	123,210	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/20	23,760,802	—	426,747	—	123,210	—
Total 30/6/19	14,731,229	—	304,272	—	270,791	—

D.2 Cash flow and foreign investment hedges

	Change in value used to measure hedging ineffectiveness	Hedging reserves	Ending of hedging: residual value of hedging reserves
A. Cash flows hedge			
1. Assets	—	—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indixes	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits	—	—	—
1.5 Other	—	—	—
2. Liabilities	15,612	(30,571)	—
2.1 Debt securities and interest rate	15,612	(30,571)	—
2.2 Currencies and gold	—	—	—
2.3 Other	—	—	—
Total (A) 30/6/20	15,612	(30,571)	—
Total (A) 30/6/19	(42,704)	(41,843)	—
B. Foreign Investments hedge	X	(7,050)	—
Total (A+B) 30/6/20	15,612	(37,621)	—
Total (A+B) 30/6/19	(42,704)	(45,039)	—

E. Effects of hedging taken through net equity

E.1 Reconciliation of net equity constituents

	Riserva da copertura dei flussi finanziari					Riserva da copertura di investimenti esteri				
	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others
Opening balance	(41,201)	—	—	—	—	—	—	(3,838)	—	—
Changes in Fair value (effective)	10,630	—	—	—	—	—	—	(3,212)	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction no-more expected	—	—	—	—	—	X	X	X	X	X
Other variations	—	—	—	—	—	—	—	—	—	—
of which: trans-fer at initial book value of the hedged in-struments	—	—	—	—	—	X	X	X	X	X
Closing balance	(30,571)	—	—	—	—	—	—	(7,050)	—	—

1.3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	66,008,914	19,435,875	9,458,897	7,172,459
- positive fair value	416,767	542,899	167,164	343,355
- negative fair value	550,000	454,754	355,914	49,179
2) Equity instrument and stock index				
- notional amount	—	14,156,095	7,615,817	1,752,038
- positive fair value	—	455,596	293,860	258,618
- negative fair value	—	1,716,074	311,287	11,989
3) Currency and gold				
- notional amount	—	5,389,498	1,873,618	2,001,044
- positive fair value	—	76,408	67,101	67,694
- negative fair value	—	81,539	16,035	51,656
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchases				
- notional amount	3,676,182	10,745,213	12,085,629	—
- positive fair value	—	57,376	21,658	—
- negative fair value	3,611	258,114	75,719	—
2) Hedge sales				
- notional amount	3,626,146	10,268,589	11,182,458	—
- positive fair value	—	59,640	48,526	—
- negative fair value	14,009	51,198	15,721	—

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process which is a typical part of banking activity.

Liquidity risk has different timing profiles:

- The current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term ("liquidity risk");
- The risk of the Bank not having stable sources of financing in the medium or long term, meaning it is unable to meet its financial requirements without incurring an excessive increase in the cost of financing ("funding risk").

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Group and the financial system in general, given that a single bank's difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

The Group Liquidity Risk Management Policy (the "Policy") approved by the Board of Directors of Mediobanca S.p.A. sets the objective of having an adequate level of highly liquid assets to cover the cash flows to be maintained over the short and medium/long term.

The Policy also sets out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system, and the contingency funding plan.

The Policy assigns various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The Group ALM Committee also discusses the issues most relevant to liquidity risk, defining the asset and liability structure and related risk of mismatch between them taken on, directing operations in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated level.

The parent company units responsible for ensuring that the Policy is applied accurately are:

– Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;

– Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;

– Risk Management which, in accordance with the principles of separation and independence, is responsible for the Group's second-level integrated control for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

The Group manages its liquidity position actively, through Group Treasury, with the objective of meeting its payment obligations by the time requested.

Intraday liquidity risk is the risk of a mismatch in terms of timing within a single day between payments made by Mediobanca and those received from other market counterparties. Management of this risk requires careful and ongoing monitoring of cash flows exchanged, and, more importantly, adequate liquidity reserves. To mitigate this risk, the Group has implemented a system of indicators and monitoring to check the availability of reserves at the start of the day and their capacity to meet possible situations of stress that could involve other market counterparties or the value of the assets used in the risk mitigation.

The metric adopted for monitoring over time horizons longer than intra-day is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds, receivables eligible for refinancing with the ECB and marketable securities available post-haircut) and cumulative net cash flows.

The system of limits is structured on the basis of the normal course of business up to a time horizon of three months, with an early warning system if the limit is approached.

The short-term liquidity monitoring is supplemented by stress testing which assumes three scenarios:

– Italy downgrade: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on uncommitted credit lines. The counterbalancing capacity is impacted by the adverse changes to Italian government securities observed during the crisis period referred to;

– Name crisis: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Major outflows from demand deposits are also assumed. The counterbalancing capacity is impacted by the adverse change to the securities issued by Mediobanca (ABS and covered bonds) during the crisis period;

– Combined: combined name crisis-Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the Group's assets eligible for refinancing with the European Central Bank.

Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that on average the cumulative inflows cover the cumulative outflows for maturities of more than one and up to three years.

Throughout the financial year under review, both indicators, short- and long-term, have shown that the Group has maintained an adequate level of liquidity at all times.

In accordance with the Policy, the Group calculates and monitors the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the twelve months both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, at all times remained above the regulatory limits set. In response to the Covid-19 pandemic, in March 2020 the European Central Bank introduced temporary measures to increase banks' reserves in order to help address the crisis. Banks were therefore allowed to let their liquidity indicators fall to below the regulatory limits, and measures were adopted to relax the criteria for collateral eligibility at the Eurosystem level, to help credit institutions maintain and mobilize sufficient collateral to take part in the liquidity injection operations. These measures, which were adopted by the ECB's Governing Council on 7 April 2020, were then reinforced on 22 April 2020 in order to mitigate the adverse impact of possible rating downgrades due to the economic consequences of Covid-19 on the availability of collateral for the Eurosystem.

Throughout the observation period, the Mediobanca Group has managed to keep its liquidity indicators well above the limits set by the regulators, closing 4Q with an LCR of 165% (compared with 166% at 31 March 2020 and 193% at 31 December 2019).

The LCR includes the prudential estimate of "additional liquidity outflows for other products and services" as required by Article 23 of Commission Delegated Regulation (EU) 2015/61. The Group has also adopted Commission Delegated Regulation (EU) 2018/1620 starting from 1 April 2020.

At end-June 2020 the NSFR was 109% (30/6/19: 107%), as a result of liability structure optimization, with particular attention being focused on strengthening retail and private funding.

As the above indicators are included in Group Risk Appetite Framework, their sustainability is also analysed in preparing the Group Funding Plan, through future analysis over a three-year time horizon, with monitoring and half-yearly updates.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors and/or from situations which are specific to the Banking Group itself.

To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

- An adequate level of high-quality, highly liquid assets to offset any mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable pre-alarm indicator system.

During the past twelve months, against redemptions and buybacks of securities totalling €4.4bn, issues were placed in an amount of €4.6bn, €3.2bn of which unsecured (€2.7bn senior preferred, €500m senior non-preferred), €600m in securitizations of Compass receivables, and €750m in covered bonds with CheBanca! mortgages as the underlying instrument. Following the Covid-19 pandemic, ECB funding was increased through participation in the refinancing facilities to €5.7bn, and greater use was made of medium-/long-term bank funding (for expiries of 24 months or more, new loans of €1.2bn were taken out, €586m of which secured).

As at 30 June 2020, the counterbalancing capacity stood at €13.3bn, higher than last year (€9.9bn) in part due to the accommodative measures introduced by the ECB referred to above, and includes €9.5bn in the form of bonds exchangeable for cash from the ECB to obtain immediate liquidity. The balance of liquidity reserves established at the European Central Bank amounted to approx. €10.9bn, some €5.3bn of which in the form of cash not used, and hence qualifying as part of the counterbalancing capacity.

QUANTITATIVE INFORMATION

1 Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	4,597,522	473,149	1,128,940	1,693,792	3,203,390	3,991,779	5,041,176	29,555,843	13,896,639	237,891
A.1 Government securities	1,338	788	1,623	2,351	8,005	532,155	406,712	3,515,960	1,612,191	—
A.2 Other debt securities	—	26,867	5,523	26,626	279,484	228,892	410,857	1,971,841	957,902	—
A.3 UCITS units	22,324	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	4,573,860	445,494	1,121,794	1,664,815	2,915,901	3,230,732	4,223,607	24,068,042	11,326,546	237,891
- to banks	1,615,774	283,572	387,236	348,599	90,329	417,944	78,697	1,140,384	770,006	237,891
- to customers	2,958,086	161,922	734,558	1,316,216	2,825,572	2,812,788	4,144,910	22,927,658	10,556,540	—
Cash liabilities	20,175,970	1,106,005	1,037,409	998,597	1,660,117	3,883,788	6,186,027	20,448,501	6,033,369	—
B.1 Deposits and currentaccounts	18,883,677	979,138	320,798	498,471	1,155,393	1,326,903	774,843	151,776	—	—
- to banks	565,797	—	—	—	—	—	—	8,000	—	—
- to customers	18,317,880	979,138	320,798	498,471	1,155,393	1,326,903	774,843	143,776	—	—
B.2 Debt securities	837	136	146,627	104,366	277,516	965,047	2,291,163	10,693,387	4,990,999	—
B.3 Other liabilities	1,291,456	126,731	569,984	395,760	227,208	1,591,838	3,120,021	9,603,338	1,042,370	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	433,129	178,672	109,612	2,761,805	877,029	808,800	528,051	2,345,064	267,905	—
- short positions	102,728	174,420	123,738	2,084,997	789,118	490,275	512,242	3,501,512	267,905	—
C.2 Financial derivatives without principal exchange of										
- long positions	3,030,971	6,999	10,180	3,946	28,806	44,976	118,655	—	—	—
- short positions	2,890,851	4,051	2,757	7,521	18,131	33,754	77,596	—	—	—
C.3 Deposits and loans for collection										
- long positions	508,749	121,256	370,128	46,939	84,952	217,695	75,049	109,381	—	—
- short positions	—	—	—	44,651	81,557	168,649	73,747	822,266	343,281	—
C.4 Irrevocable commitments to disburse funds *										
- long positions	15,062	22,841	1,849	56,736	1,340,950	287,881	5,004	953,724	1,339,678	—
- short positions	1,943,194	76,080	421,621	338,503	113,263	348,149	75,313	150,224	557,377	—
C.5 Financed guarantees issued	177	—	70	369	1,100	2,372	6,913	12,565	1,902	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
- long positions	—	—	—	—	4,000	438,650	90,186	2,102,453	266,204	—
- short positions	—	—	—	—	4,000	444,650	120,186	2,274,731	57,926	—
C.8 Credit derivatives without exchange of principal										
- long positions	1,586,341	—	—	—	—	—	—	—	—	—
- short positions	1,666,442	—	—	—	—	—	—	—	—	—

* This item does not include hedge sales perfectly matched by buys of the same amount.

1.5 OPERATIONAL RISKS

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirements

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at 30 June 2020 was €323m (30/6/19: €321.6m).

Risk mitigation

Operational risks are managed, in Mediobanca and the main Group companies, by a specific Operational risk management team within the Risk Management unit.

The processes of identifying, assessing, collecting and analysing loss data and mitigating operational risks are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

The operating losses recorded in the course of the financial year have been low and account for under 1% of the Group's total income.

s for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.

Event Type	% su Total Loss
Clients, products and business practices	53%
Execution, delivery and process management	32%
External fraud	6%
Employment practices and workplace safety	4%
Other	5%

More than half of the operating losses derive from the “Clients, products and business practices” event type, which includes losses deriving from complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. The second category by amount of losses materializing was instances relating to process risk (“Execution, delivery and process management”), followed by external fraud on retail financing products (fake documentation and/or cards), in connection with which mitigation action has been implemented to ensure the phenomenon remains at residual levels, plus provisions and expenses for managing relations with staff.

Although it has not generated significant losses, an increase has been recorded in instances, or classes, of operational risk such as IT & cyber risk and outsourcing risk, plus conduct risk.

It is an increase that has been observed at industry as well as Group level. The monitoring frameworks have been stepped up accordingly, in co-ordination with the other control units involved. With regard to the IT incidents generated by the outsourcer responsible for managing the Group’s technology infrastructure, a series of activities are currently in progress which, pending a more wide-ranging revision of the contract in force, include measures to strengthen governance of the service provided, and schedule actions in the short and medium term to guarantee the systems’ levels of resilience still further.

In terms of business line, operational risks were most linear in Consumer Banking and Wealth Management, albeit potentially increasing due to the stricter regulations and guidelines exposing the Group to conduct risks, plus the growth in the commercial channels and networks.

The Group continues to be exposed to the potential risk of low frequency/ high severity inherent in businesses that feature non-standard and large-sized transactions, such as CIB and Wealth Management.

* * *

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Strategic risk, i.e. exposure to current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Risk from equity investments held as part of the "Hold to collect and sell" banking book ("HTC&S"), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);
- Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;
- Compliance risk, attributable to the possibility of incurring legal or administrative penalties, significant financial losses or damages to the Bank's reputation as a result of breaches of external laws and regulations or self-imposed regulations;
- Reputational risk, due to reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities.
- Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management committees.

* * *

The United Kingdom officially withdrew from the European Union on 31 January 2020, though the withdrawal itself will only become effective on 31 December 2020. Throughout this transitional period, Mediobanca will continue to implement the plan to adjust to the new scenario which, in accordance with the recommendations made by the European Central Bank, and in view of the fact that the Group's activities in the United Kingdom are relatively minor (accounting for approx. 3% of its total revenues), provides for a total of fifteen staff members, including key function holders, to be moved back to EU territory (mainly to the Milan, Paris and Madrid offices).[2] The Mediobanca Group will continue to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. under a different authorization regime ("third country") and Group company Cairn Capital (alternative fund management), without prejudice to further changes that could arise in connection with the ongoing negotiations and which continue to be monitored by an internal working group which is co-operating with the competent authorities.

[2] Six of these staff members have already been moved, and the others will move by end-September 2020.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

*B.1 Consolidated net equity: breakdown by type of company **

Net equity items	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
1. Share capital	460,250	—	—	—	460,250	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,340,222	—	—	—	6,340,222	74,362
4. Equity instruments	—	—	—	—	—	—
5. (Treasury shares)	(231,538)	—	—	—	(231,538)	—
6. Valuation reserves:	372,256	—	—	—	372,256	(2,394)
- Equity instruments valued at fair value with impact taken to comprehensive income	62,778	—	—	—	62,778	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	8,771	—	—	—	8,771	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(7,050)	—	—	—	(7,050)	—
- Hedging of cash flows	(32,719)	—	—	—	(32,719)	(2,148)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange rate differences	389	—	—	—	389	(5)
- Non-current assets and group of assets being sold	—	—	—	—	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	(1,724)	—	—	—	(1,724)	—
- Actuarial gains (losses) on defined benefits pension schemes	(9,530)	—	—	—	(9,530)	(241)
- Valuation reserves share of equity-accounted interests	341,709	—	—	—	341,709	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	601,429	—	—	—	601,429	1,047
Total	9,740,073	—	—	—	9,740,073	91,492

* Includes Compass RE (insurance) and R&S (other companies), equity-consolidated.

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	19,410	(10,639)	—	—	—	—	—	—	19,410	(10,639)
2. Equity securities	65,886	(3,108)	—	—	—	—	—	—	65,886	(3,108)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 30/6/20	85,296	(13,747)	—	—	—	—	—	—	85,296	(13,747)
Total at 30/6/19	91,644	(7,068)	—	—	—	—	—	—	91,644	(7,068)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	24,161	60,415	—
2. Additions	14,793	21,441	—
2.1 Increases in fair value	11,311	21,441	—
2.2 Writedowns for credit risk	3,178	—	—
2.3 Profit and loss reversal of negative reserves from realize	304	X	—
2.4 Transfers to other equity components (equity instruments)	—	—	—
2.5 Other variations	—	—	—
3. Reductions	30,183	19,078	—
3.1 Reductions in fair value	15,383	19,078	—
3.2 Writebacks for credit risk	321	—	—
3.3 Profit and loss reversal from positive reserves: from disposal	14,479	X	—
3.4 Transfers to other equity components (equity instruments)	—	—	—
3.5 Other reductions	—	—	—
4. Closing balance	8,771	62,778	—

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its capital structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2019.

The regulator requires Mediobanca to maintain a CET1 ratio of 7.94% [1] on a consolidated basis (8.25% until end-December 2019), which includes the capital conservation buffer of 2.50% and an additional Pillar 2 (“P2R”) requisite of 1.25%, unchanged from last year and only 75% of which is met by tier 1 instruments as provided by the measures recently adopted by the European Central Bank in response to the ongoing Covid-19 crisis; the Overall Capital Requirement (OCR) was unchanged from last year at 11.75%.

2.1 Scope of application for regulations

Based on the new regulatory framework of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV), Capital Requirements Regulation (CRR/CRR II) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285 as amended,[2] the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024.[3]

[1] The calculation does not include the countercyclical capital buffer and the P2 Guidance.

[2] Including the recent updates in response to the current economic situation contained in the “Quick Fix” banking package approved by the European Parliament and Commission on 19 June 2020.

[3] Application of Article 471 is limited to the book value recorded in December 2012 and compliance with the concentration limit towards the insurance group. The most recent update to Bank of Italy circular no. 285 has amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the “Danish Compromise”) are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group’s investment in Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, since last year last year (IFRS 9 first-time adoption) the Group has applied the static approach provided by Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of neutralizing the effect of the increase in loan loss provisions for performing loans for a transitional period of five years,[4] by including a decreasing amount of loan loss provisions in CET1 over that time.

For the moment the Group has decided not to take up the option to extend the phase-in regime (for another five years) to mitigate the impact on own funds of higher IFRS 9-related adjustments due to Covid-19, as well as the option to neutralize the impact deriving from changes in the valuation reserves for sovereign debt securities and the filter for excluding certain exposures to central banks from the those used to calculate the leverage ratio.

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €612.1m of the positive FVOCI financial assets reserves, €1.5m in government securities, and €540.6m deriving from Assicurazioni Generali being equity-accounted), plus profit for the period (€601.4m) which has been included in full in the calculation of CET1 following the ECB Recommendation[5] not to pay dividends during the Covid-19 pandemic (the dividend policy unveiled by the Group in November 2019 as part of the Strategic Plan has not been confirmed).

The deductions regard:

– Treasury shares as to €267.1m, or 3% of the Bank's share capital;

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

[5] On 27 March 2020 the European Central Bank (ECB) issued the "Recommendation of the European Central Bank of 27 March 2020 on dividend distribution during the COVID-19 pandemic and repealing Recommendation ECB/2020/1 (ECB/2020/19)", recommending that no dividends be paid, nor any irrevocable commitment to do so be undertaken by credit institutions for the 2019 and 2020 financial years, until 1 October 2020. The "Recommendation of The European Central Bank of 27 July 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35)" subsequently extended the time horizon for the recommendation from 1 October 2020 to 1 January 2021.

– Intangible assets as to €152.4m, up €19.4m following completion of the PPA process for Messier Maris and goodwill of €666.5m, following the impairment charges taken for RAM plus the MMA effect;

– Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €46m, virtually unchanged from last year (€48.3m) despite the market turmoil, due to the lower weighting temporarily introduced by the regulator to mitigate the effects of post-Covid volatility;[6]

– Significant investments in financial companies (banking and insurance firms) as to €1,196.0m, €990.8m of which for the investment in Assicurazioni Generali and €117.7m for subsidiary Compass RE. The sharp reduction from last year (€2,004.9m) chiefly refers to Assicurazioni Generali (€1,704m) due to the new calculation of the concentration limit versus related parties.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes subordinated liabilities, down in the twelve months from €1,522.7m to €1,225.1m due to amortization for the period (€296.2m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483 of the CRR.

Issue	**30/6/20**		
	ISIN	**Nominal value**	**Calculated amount ***
MB Subordinato Mar 29	XS1579416741	50,000	48,502
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	45,194
MB OPERA 3.75 2026	IT0005188351	299,577	291,632
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	73,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,129
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	275,975
Total subordinated debt securities		2,359,032	1,225,145

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus is €78.6m but is included as €71m (equal to the regulatory limit which is 0.6% of the amounts of the risk-weighted exposures calculated using advanced models; cf. Article 159 of the CRR).

[5] On 28 May 2020, the European Commission amended Commission Delegated Resolution (EU) no. 101/2016, setting aggregation factor “α” at 66%; at present the change is applicable until 31 December 2020.

QUANTITATIVE INFORMATION

	30/6/20	30/6/19
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,691,998	9,351,118
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(290)	7,317
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,691,708	9,358,435
D. Items to be deducted from CET1	(3,523,703)	(3,834,987)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,576,980	1,000,929
F. Total common equity tier 1 (CET1) (C-D+/-E)	7,744,985	6,524,377
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,296,147	1,561,228
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(22)	—
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,296,125	1,561,228
Q. Total own funds (F+L+P)	9,041,110	8,085,605

* Adjustments include application of the phase-in provisions for the introduction of IFRS 9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2020, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.13%, much higher than the same time last year (14.09%). The growth is attributable to retained earnings for the twelve months (€601.4m, corresponding to an increase of 130 bps), to lower deductions relating to Assicurazioni Generali as a result of the change in the concentration limit (which added 50 bps) and to the weighting of salary-backed exposures at 35% being brought forward (adding 22 bps, corresponding to a reduction of approx. €700m in RWAs).

RWAs in the twelve months rose from €46.3bn to €48bn, due to a higher contribution from the Assicurazioni Generali investment (up €2.4bn) in relation to the lower deductions, only in part offset by the decrease in RWAs for Consumer Banking related to the change in weighting of exposures to salary-backed finance (which accounted for €0.7bn) from 75% to 35%. The performance by the other business lines was stable overall: against increases in Wholesale Banking (up €0.2bn) and Wealth Management (up €0.4bn) there were reductions in Specialty Finance and Leasing.

Movements in RWAs

	Value
RWA as at 30 June 2019	**46,309,919**
Regulatory changes	**1,719,573**
Partecipation in Assicurazioni Generali	2,412,573
Weight reduction of exposures towards salary-backed loans (Consumer)	(693,000)
Volume effect	**991**
Corporate Investment Banking - CIB	(38,075)
Wholsale Banking - WS	230,653
Specialty Finance - SF	(268,728)
Wealth Manangement - WM	417,870
Holding Functions - HF - (Leasing)	(361,582)
Others	(17,223)
RWA as at 30 June 2020	**48,030,483**

The total capital ratio also increased from 17.46% to 18.82%.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €1,484.3m, including the indirect effects) and with full application of the IFRS 9 effect (which accounted for €92.7m, considering the higher deductions), the CET1 ratio was 14.50% and the total capital ratio 17.55%, also higher than the figures reported at end-June last year, which were 12.83% and 16.46% respectively.

The other indicators performed as follows during the twelve months under review:

- The Leverage Ratio, calculated without taking advantage of the temporary possibility allowed by the Regulator to exclude reserves held with central banks from the exposures, rose from 8.4% on 30 June 2019 to 9.7% as a result of the increase in regulatory capital, and once again was well above the regulatory limit set (3%);
- The MREL ratio was above 45%, considerably higher than the minimum level set by the Single Resolution Board for 2020, which was 21.60%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts [5]		Weighted amounts/requirements	
	30/6/20	30/6/19	30/6/20	30/6/19
A. RISK ASSETS				
A.1 Credit and counterpart risk	70,911,069	66,599,488	40,933,278	39,194,427
1. Standard methodology	42,018,276	40,763,545	28,909,850	27,909,222
2. Internal rating methodology	28,756,686	25,679,325	11,834,261	11,165,086
2.1 Basic	—	—	—	—
2.2 Advanced	28,756,686	25,679,325	11,834,261	11,165,086
3. Securitization	136,107	156,617	189,167	120,120
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,274,662	3,135,554
B.2 Credit valuation risk			43,586	42,695
B.3 Settlement risk			—	—
B.4 Market risk			201,195	204,897
1. Standard methodology			201,195	204,897
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			322,995	321,647
1. Basic Indicator Approach (BIA)			322,995	321,647
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,842,439	3,704,793
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			48,030,483	46,309,918
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			16.13%	14.09%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.13%	14.09%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.82%	17.46%

[5] For the standardized methodology, the “un-weighted amounts”, as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the “un-weighted amounts” correspond to the “exposure at default” (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

No new business combinations were completed during the twelve months.

However, the purchase price allocation process for acquisition of a controlling interest in Messier Maris & Associés executed in April 2019 was completed during the year under review.

For further details, please see Part B of the Notes to the Consolidated Balance Sheet, Section 13 "(Intangible Assets)".

SECTION 2:

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3:

Retrospective adjustments

No adjustments have been made to the accounts in connection with previous business combinations for the period under review.

Part H - Related party disclosure

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in June 2019 and last July. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

2.1 Regular financial disclosure: most significant transactions

There were no such transactions to report during the period under review.

2.2 Quantitative information

The exposure (sum of assets and guarantees and commitments) decreased from 1.4bn to 1.1bn following the exit of the Unicredit Group due to the sale of its investment in Mediobanca. The contribution to the total assets therefore decreases from 1.8% to 1.4% as well as the contribution to net interest income (from 1.3% to 0.7%).

Situation as at 30 June 2020

(€ m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.1	326.4	757.3	1.084.8
of which: other assets	—	*70.4*	*534.8*	*605.2*
loans and advances	*1.1*	*256.0*	*222.5*	*479.6*
Liabilities	16.5	0.1	41.2	57.8
Guarantees and commitments	—	14.0	22.8	36.8
Interest income	—	7.2	5.5	12.7
Interest expense	—	—	(1.6)	(1.6)
Net fee income	—	1.0	58.4	59.4
Other income (costs)	(46.4) [1]	(0.1)	(26.9)	(73.4)

[1] Of which: short-term benefits amounting to €40.8m and performance shares worth €4.4m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Situation as at 30 June 2019

(€ m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.3	355.8	1,059.9	1,417.0
of which: other assets	—	*138.8*	*787.5*	*926.3*
loans and advances	*1.3*	*217.0*	*272.4*	*490.7*
Liabilities	18.0	0.1	393.4	411.5
Guarantees and commitments	—	10.0	—	10.0
Interest income	—	9.1	15.5	24.6
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	0.6	64.6	65.2
Other income (costs)	(41.6) [1]	0.3	(38.6)	(79.9)

[1] Of which: short-term benefits amounting to €37.5m and performance shares worth €4m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved by shareholders in extraordinary general meetings reflect the following situation:

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded	
For use in connection with stock options schemes					
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000	
Of which directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000*	[2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000	
For use in connection with performance share schemes					
28 October 2015	20,000,000	X	28 October 2020	5,255,453	[3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.
[2] Of these, 2,000,000 were granted to one former director.
[3] In respect of awards made in 2016, 2017, 2018, 2019 and 2020.

2. Description of stock option and performance stock option schemes

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with a dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allocated are taken in view of the role performed by the person concerned within the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2019 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2015).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure in line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
– Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the same annual general meeting, with up to 20 million new Mediobanca shares being issued; the 26,611,288 treasury shares owned by the Bank may also be used for this purpose.

On 19th December 2019, the Board of Directors approved the Long-Term Incentive (LTI) plan, addressed to the Mediobanca Chief Executive Officer and - Group General Manager and to the Chief Executive Officer of Compass and CheBanca! The beneficiaries of the LTI plan were awarded up to 338,841 Mediobanca shares, to be attributed over a five-years period after the finalization of the plan itself, from the performance shares approved by shareholders in Annual General Meeting.

During the period under review, a total of 1,964,004 performance shares were awarded, of which: 338,841 related to LTI 19/23 scheme, 50,635 to new arrivals within the Group and 1,574,528 as part of staff variable remuneration for the 2019 financial year; the shares, which are conditional upon certain performance targets being met over a three- or five-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches (FY 2020-21 up to 30,381; FY 2021/22 up to 770,156; FY 2022/23 up to 436,784; FY 2023/24 up to 304,522 and FY 2024/2025 up to 83,320).

Beneficiaries were also awarded a total of 1,759,772 shares (treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015).

After the reporting date, as part of the variable remuneration for the financial year 2020, a total of 1,363,953 performance shares with a total cost of 8.1 million relating to the variable remuneration component only; the shares, subject to performance objectives over a time horizon of up to 5 years, will be made available in tranches in November 2021 (up to 663.013) November 2022 (up to 170.033), November 2023 (up to 289.986), November 2024 (up to 120,968) and November 2025 (up to 119,953).

QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

Items/Nr. of stock options and strike prices	30/6/20			30/6/19		
	No. of performance shares	Avg. price	Avg. expiry	No. of performance shares	Avg. price	Avg. expiry
A. Opening balance	—	—	X	642,500	6.51	October 18
B. Increases						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Decreases						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	—	—	X	642,500	6.43	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	—	—		—	—	
E. Performance shares exercisable as at reporting date	—	—	X	—	—	X

2. Changes in performance share scheme during the year

Items/Performance shares	30/6/20		30/6/19	
	No. of performance shares	Avg. price	No. of performance shares	Avg. price
A. Opening balance	5,081,612	6.84	5,096,209	6.69
B. Increases				
B.1 New issues	1,964,004	7.37	1,835,703	6.78
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,759,772	7.02	1,850,300	6.35
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	30,391	6.82	—	—
D. Closing balance	5,255,453	6.98	5,081,612	6.84

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€ m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Writeoffs [1]	Group
Net interest income	271.0	948.0	271.4	(7.1)	(55.0)	13.9	1.442.2
Net trading income	6.7	—	77.9	15.6	37.5	(1.4)	136.3
Net fee and commission income	306.1	122.6	225.8	—	10.6	(34.9)	630.2
Share in profits earned by equity-accounted companies	—	—	—	304.3	—	—	304.3
Total income	**583.8**	**1.070.6**	**575.1**	**312.8**	**(6.9)**	**(22.4)**	**2.513.0**
Personnel costs	(236.5)	(102.0)	(141.0)	(3.3)	(116.5)	—	(599.3)
Administrative expenses	(214.3)	(201.2)	(135.2)	(1.0)	(56.3)	18.4	(589.6)
Operating costs	**(450.8)**	**(303.2)**	**(276.2)**	**(4.3)**	**(172.8)**	**18.4**	**(1.188.9)**
Loan loss provisions	(20.5)	(324.7)	(20.0)	—	(9.7)	—	(374.9)
Provisions for other financial assets	(0.5)	—	(3.5)	(10.9)	(5.6)	—	(20.5)
Other income (losses)	1.8	(4.7)	—	—	(64.3)	(66.2)	(133.4)
Profit before tax	**113.8**	**438.0**	**275.4**	**297.6**	**(259.3)**	**(70.2)**	**795.3**
Income tax for the period	(32.6)	(141.4)	(92.4)	(2.6)	76.3	1.6	(191.1)
Minority interest	(0.8)	—	(2.3)	—	(0.7)	—	(3.8)
Net profit	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**(68.6)**	**600.4**
Cost/income ratio (%)	*77.2*	*28.3*	*48.0*	*n.m.*	*n.m.*	*n.m.*	*47.3*

Notes:

Divisions comprise:

- Wealth Management (WM): this division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and CMB Monaco private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- Consumer Banking (CB): this division provides retail clients with the full range of consumer credit products, from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE, plus the newly-incorporated Compass Rent);
- Corporate and Investment Banking (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris et Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions, plus the newly-incorporated MBContact Solutions;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which includes SelmaBipiemme Leasing, MIS, Spafid Connect and other minor companies, plus the following Group functions: Treasury and ALM, operations, support and control, plus the senior management of Mediobanca S.p.A.; for further details please refer to p. 74.

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €3.5m), and, this year, the net impact of the RAM goodwill impairment charges taken through profit and loss (€65.1m).

A.2 Balance-sheet data by business segment

(€ m)

Balance-sheet data	Wealth Management	Consumer	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	17.3	—	8,801.3	—	—	8,818.6
Treasury funds	—	—	1,648.0	—	7,609.0	9,257.0
Banking book debt securities	362.0	232.8	618.1	—	5,611.6	6,824.5
Loans and advances to customers	13,183.6	13,037.4	18,644.2	—	1,819.9	46,685.1
Equity investments	24.1	2.6	76.4	3,878.5	28.1	4,009.7
Tangible and intangible assets	251.6	87.4	46.2	—	926.6 [1]	1,311.8
Other assets	343.8	588.7	59.5	—	1,051.0	2,043.0
Total assets	**14,182.5**	**13,948.9**	**29,893.6**	**3,878.5**	**17,046.2**	**78,949.7**
Funding	(23,807.4)	(3,769.6)	—	—	(27,340.0)	(54,917.0)
Treasury funding	—	—	(1,365.6)	—	(2,622.4)	(3,988.0)
Financial liabilities held for trading	—	—	(7,956.9)	—	—	(7,956.9)

[1] Includes Group goodwill.

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss figures by business segment

(€ m)

Profit-and-loss figures	Italy	Abroad [1]	Group
Net interest income	1,393.2	49.0	1,442.2
Net trading income	124.6	11.7	136.3
Net fee and commission income	427.8	202.4	630.2
Share in profits earned by equity-accounted companies	304.3	—	304.3
Total income	**2,249.9**	**263.1**	**2,513.0**
Personnel costs	(466.7)	(132.6)	(599.3)
Administrative expenses	(514.7)	(74.9)	(589.6)
Operating costs	**(981.4)**	**(207.5)**	**(1,188.9)**
Net loss provisions	(378.9)	(16.5)	(395.4)
Other income (losses)	(131.4)	(2.0)	(133.4)
Profit before tax	**758.2**	**37.1**	**795.3**
Income tax for the period	(173.4)	(17.7)	(191.1)
Minority interest	(0.6)	(3.2)	(3.8)
Net profit	**584.2**	**16.2**	**600.4**
Cost/income ratio (%)	*43.6%*	*78.9%*	*47.3%*

[1] This heading includes the earnings results of Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier Maris et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data by business segment

(€ m)

Balance-sheet data	Italy	Abroad [1]	Group
Financial assets held for trading	8,659.5	159.1	8,818.6
Treasury funds	4,851.4	4,405.6	9,257.0
Banking book debt securities	6,012.2	812.3	6,824.5
Loans and advances to customers	39,835.7	6,849.4	46,685.1
Equity investments	3,999.7	10.0	4,009.7
Tangible and intangible assets	1,253.3	58.5	1,311.8
Other assets	1,825.5	217.5	2,043.0
Total assets	**66,437.3**	**12,512.4**	**78,949.7**
Funding	(44,692.9)	(10,224.1)	(54,917.0)

[1] This heading includes the balance-sheet data for Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier Maris et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Frankfurt, Madrid and London); in particular "Funding" includes €4.6bn in intercompany accounts.

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13
Situation at 30 June 2020

Business Line	Composition	Heading 120 Total income *			Full Time Employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	452	78	530	224	152	376
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions	101	—	101	249	—	249
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	941	3	944	1,372	1	1,373
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	316	—	316	1,364	4	1,368
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	107	154	261	231	345	576
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	(2)	—	(2)	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS Spafid Connect and R&S).	(13)	—	(13)	769	24	793
Adjustments [2]		(25)	(28)	(53)	—	—	—
Group total		1,877	207	2,084	4,220	526	4,746

[*] Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 357 and 358, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Situation at 30 June 2019

Business Line	**Composition**	**Heading 120 Total income ***			**Full Time Employees [1]**		
		Italy	**International**	**Group**	**Italy**	**International**	**Group**
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	488	46	534	196	166	362
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions	105	—	105	255	—	255
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	884	3	887	1,357	1	1,358
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	296	2	298	1,311	5	1,316
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	77	169	246	224	331	555
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	8	—	8	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	(3)	—	(3)	765	25	790
Adjustments [2]		(18)	(17)	(35)	—	—	—
Group total		1,837	203	2,040	4,119	528	4,647

* Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 357 and 358, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Part M - Disclosure on leasing

SECTION 1

Lessee

QUALITATIVE INFORMATION

With reference to IFRS 16 coming into force and the contracts which fall within its scope of application, virtually the only leases the Mediobanca Group has outstanding in this connection are for properties and company cars, plus some hardware leases for only a residual amount. The property leases mostly involve premises used as offices. Such leases normally have durations of more than twelve months, and typically contain renewal or termination clauses which both lessor and lessee can exercise in accordance with the provisions of law and/or specific contractual arrangements, if any. Generally speaking such leases do not contain an option to buy at expiry or entail substantial reinstatement costs for the Group. As for the car leases, these are long-term agreements for the fleet of company cars available for use by staff members for work-related purposes in accordance with Group policy in this area.

At the first-time adoption stage for IFRS 16, some simplifications have been used. In particular, leases with duration of twelve months or less ("short-term leases") have been excluded, as have those involving amounts of less than €5,000 ("low value leases"), and those for intangibles. It has also been decided not to strip out the service component from the lease proper; hence the full contract has been recognized. The discount rate used has been derived from the Funds Transfer Pricing curve used in treasury management by the Group Treasury unit.

In cases where the original lease has been replicated with another counterparty (i.e. sub-leased), the related liability is matched by an amount receivable from the counterparty at the date rather than by its value in use. Sub-leasing arrangements involve only negligible amounts.

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the following sections of the Notes to the Accounts:

- Information on rights of use acquired, in "Notes to the consolidated balance sheet - Assets - Section 9";
- Information on amounts due under leases, in the "Notes to the consolidated balance sheet - Liabilities - Section 1";
- For the effects on earnings, "Part C Notes to the consolidated profit and loss account", in particular the headings for interest income and expense and net adjustments to tangible assets.

The value in use recorded in the balance sheet at 30 June 2020 was €207.9m, broken down as follows:

- Value in use of properties: €196.1m;
- Value in use of vehicles: €11.7m;
- Value in use of other assets: €0.1m;

The increase in assets on the balance sheet had a 7 bps impact on RWAs at 30 June 2020.

SECTION 2

Lessor

QUALITATIVE INFORMATION

The Group has operations in finance leasing through its subsidiary SelmaBipiemme. These mostly involve property, core goods and registered movable assets. The contracts are represented in the accounts by the amount receivable under the finance lease being recorded under Heading 40, Financial assets recognized at amortized cost, the income received under Heading 10, Interest and similar income, determined by accrual, with the provisions for any losses expected on the account being recognized under Heading 130, Net value adjustments for credit risk.

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the relevant sections of the Notes to the Accounts. In particular, the book value of the leases is found in Part B - Notes to the consolidated balance sheet - Assets - Section 4 - Heading 40: Financial assets recognized at amortized cost. During the twelve months under review, these leases generated interest income as shown in Part C - Notes to the consolidated profit and loss account - Section 1 - Headings 10 and 20: Net interest income and Section 14 - Heading 210: Net adjustments to tangible assets of the Notes to the Consolidated Accounts.

1. Balance-sheet and earnings data

2. Finance leases

2.1. Maturity analysis of lease payments receivable by timing bracket and reconciliation of undiscounted lease payments to the net investment in the lease

Time bands	30/6/20 Lease payment to be received
Up to 1 year	391,477
Between 1 and 2 years	326,049
Between 2 and 3 years	243,243
Between 3 and 4 years	269,143
Between 4 and 5 years	121,292
Over 5 years	347,973
Total lease payments to be received	**1,699,177**
Reconciliation with loans	**77,693**
Not accrued gains (+)	(179,162)
Unguaranteed residual value (-)	256,855
Loans for leases	**1,776,870**

As permitted by IFRS 16, the Group has decided not to restate comparative data in connection with the first-time adoption of the new standard. Accordingly, the table does not contain the equivalent balances as at 30 June 2019.

The table provides a maturity analysis of the lease payments receivable, and a reconciliation of the undiscounted lease payments to the net investment in the lease, as required by IFRS 16, paragraph 94. In particular it should be noted that the payments receivable under the lease, which consist of the sum of minimum payments due by way of principal and interest, are stated net of any provisions and the unguaranteed residual value due to the lessor. These are reconciled with the net investment in the lease, recognized in the balance sheet under financial assets recognized at amortized cost, by subtracting financial profits not accrued and adding the unguaranteed residual value. Non-performing leases acquired are not included.

2.2 Other information

In finance leasing operations, the credit risk associated with the contract is managed in accordance with the principles described in Part E - Information on risks and related hedging policies - Section 2 - Prudential consolidated risk - 1.1. Credit quality in the Notes to the Consolidated Accounts to which reference is made.

Contracts are classified as finance leases based on whether the risks and benefits associated with ownership of the asset in question are transferred to the lessee throughout the duration of the contract, whether the contract itself contains a final option to acquire the asset on terms that would make its failure to exercise such an option uneconomic, and whether the contract has a duration which is basically the same as the economic life of the asset itself. The same may also apply in cases where the contracts do not contain options to buy or have a duration which is significantly shorter than the asset's economic life, but are accompanied by arrangements with third party buyers to ensure the asset will be bought when the lease expires.

3. Operating leases

The Group currently has no operating leases outstanding.

ANNUAL GENERAL MEETING
28 OCTOBER 2020

AGENDA

Extraordinary business

1. Proposal to amend Articles 2, 4, 7, 9, 13, 15, 16, 17, 18, 19, 21, 23, 24, 25, 27 and 28 of the Company's Articles of Association; related resolutions.
2. Renewal of authorization to the Board of Directors to increase the company's share capital pursuant to Article 2443 of the Italian Civil Code as permitted by Article 4 of the Articles of Association; related resolutions:
   a. Renewal of authorization to the Board of Directors pursuant to Articles 2443 and 2420-ter of the Italian Civil Code to increase the Company's share capital by means of rights and/or bonus issues in an amount of up to €100m, and to issue bonds convertible into ordinary shares and/or cum warrants, in an amount of up to €2bn. Amendments to Article 4 of the Company's Articles of Association and related resolutions.
   b. Renewal of authorization to the Board of Directors pursuant to Article 2443 of the Italian Civil Code to increase the Company's share capital by means of rights issues in an amount of up to €40m, including via warrants, via the issue of up to 80 million shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441, paragraph four, second sentence, of the Italian Civil Code. Amendment to Article 4 of the company's Articles of Association and related resolutions.
   c. Renewal of authorization pursuant to Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge by an amount of up to €10m through the award, as permitted by Article 2349 of the Italian Civil Code, of an equivalent amount of profits or profit reserves as shown in the most recent financial statements approved, through the issue of no more than 20 million shares to be reserved to Mediobanca Group employees in execution of the performance share schemes in force at the time. Amendment to Article 4 of the Company's Articles of Association and related resolutions.

Ordinary business

1. Financial statements as at 30 June 2020, Board of Directors' Review of Operations, reports by external auditors and Statutory Audit Committee:
   a. Approval of financial statements for the year ended 30 June 2020;
   b. Allocation of profit for the year.
2. Appointment of Board of Directors for 2021-23 three-year period:
   a. Establishment of number of Directors;
   b. Appointment of Directors;
   c. Establishment of their annual remuneration.
3. Appointment of Statutory Audit Committee for 2021-23 three-year period:
   a. Appointment of Committee members and Chairman;
   b. Establishment of their annual remuneration.
4. Remuneration:
   a. Report on remuneration and compensation paid: Section I – Mediobanca Group staff remuneration and incentivization policy FY 2020-21;
   b. Report on remuneration and compensation paid: resolution not binding on Section II – Report on compensation paid in FY 2019-20;
   c. Policy in the event of the beneficiary leaving office or the employment arrangement being terminated;
   d. 2021-25 incentivization system for Group staff through use of financial instruments: (performance share scheme).
5. Engagement of auditor for period from 30 June 2022 – 30 June 2030 and establishment of remuneration.

Extraordinary business

Report by Board of Directors on item no. 1 on the agenda

PROPOSAL TO AMEND ARTICLES 2, 4, 7, 9, 13, 15, 16, 17, 18, 19, 21, 23, 24, 25, 27 AND 28 OF THE COMPANY'S ARTICLES OF ASSOCIATION; RELATED RESOLUTIONS

Dear Shareholders,

We have called you together in extraordinary general meeting to submit to your approval the proposed changes to Articles 2, 4, 7, 9, 13, 15, 16, 17, 18, 19, 21, 23, 24, 25, 27 and 28[a] of the Company's Articles of Association. The changes are related to certain governance issues linked to changes in the ownership structure, and intended to achieve closer alignment with best International practices in the banking industry, by providing greater flexibility in the process of selecting the Chief Executive Officer, and strengthening the independence criteria for non-executive Directors. We also plan to take the opportunity to incorporate changes to the share capital also in connection with the possibility of treasury shares owned by the Bank being cancelled, plus other minor changes.

Such amendments do not involve the traditional management and control system based on the Board of Directors (body with strategic supervisory functions) and the Statutory Audit Committee (control body), which will continue as in the past. Ten years since it was implemented, the traditional system has shown that it works smoothly and effectively fosters the necessary debate between the Board's executive and strategic supervisory functions, with the control body, despite not being part of the Board, nonetheless participating actively in discussions at meetings of the Board itself, Executive Committee, Risks Committee and Remunerations Committee.

a Please note that art. 9, 16 and 21 are amended in the Italian version of the Articles of Association only, in order to reflect minor wording adjustments.

Governance-related changes

Removal of the conditions that the CEO and the General Manager must be selected from among Directors who are also Group Employees; related changes to composition of the Executive Committee and the Committee instituted pursuant to Article 18 paragraph 4 (Articles 15, 18, 23, 24 and 25)

The clauses regarding the Chief Executive Officer and the General Manager provided for in Articles 24 and 25 of the existing Articles stem from the two-tier corporate governance system implemented in 2007 concurrently with the merger between Unicredit and Capitalia, in order to ensure ownership and management remained separate, and to mitigate conflicts of interest between the Bank and its largest shareholder in an industry where, since the mid-1990s, the regulator had adopted the universal bank model. The clauses were retained, given that the ownership structure remained unchanged, when the Bank returned to the traditional governance model in 2008, when, in order to ensure the above purposes continued to be met, it was stipulated that members of the Group's management should included as Board and Executive Committee members, from among whose number the Chief Executive Officer and General Manager were appointed. Unicredit has recently sold its investment and so exited our ownership, leading to a new shareholder structure, removing the conflict of interest at its root and so doing away with the need for restrictions in the choice of the Group's management, who must in any case continue to meet the strictest requirements set by the regulations in force in terms of professional qualifications.

We therefore propose removing the conditions, set in Articles 24 and 25 of the Articles of Association, which stipulate that the CEO and the General Manager must be selected from among the Directors who are also Group Employees.

The composition of the Executive Committee and the Committee instituted pursuant to Article 18, paragraph 4 of the Articles of Association is also being adapted accordingly, to ensure that the CEO and the Directors who have been members of the Group's senior management for at least three years are still included.

Finally, to provide for the possibility of a CEO and/or General Manager being recruited from outside the Group during the term of office of those currently in the post, paragraph 19 of Article 15 of the Articles of Association has been amended to specify that the Board's composition will comply with the Articles even if it includes fewer Directors who have been members of the Group's senior management for at least three years.

Number of Executive Directors (Article 15)

The requisite that members of the senior management with at least three years' experience in the Group are represented on the Board of Directors is consistent with the Bank's tradition of valorizing its management, and ensures that the governing body has the benefit of specific knowledge of the businesses in which the Group operates.

The number varies according to the size of the Board itself: if the Board consists of thirteen or fewer than thirteen members, the number of executives will be reduced from three to two, in order to ensure the correct balance is maintained between the executive and strategic supervisory functions within the Board itself.

Furthermore, an addition has been made to specify that Executive Directors are disqualified from office automatically if their employment with Mediobanca ceases but only due to their resignation or dismissal.

It is therefore proposed to amend Article 15 of the Articles of Association accordingly.

Criteria for Directors' independence (Article 19

The qualifications set out in Article 19 are fully aligned with those of the Code of Conduct for Listed Companies as recently revised. As for the Board's composition, a restriction has been introduced to ensure that independent Directors make up the majority of the Board (cf. paragraphs 3 and 10 of Article 15.

The definition of significant shareholders has also been raised to 3%, in line with the European regulations on transparency obligations for issuers, which have increased the limit at which the market must be informed from 2% to 3%. For this reason, shareholders with stakes of between 2% and 3% would be almost impossible to identify.

It is therefore proposed to amend Article19 of the Articles of Association accordingly.

Other governance changes

Changes to the ownership structure, and the right which the Board now has to submit its own list, mean the Board itself is now responsible, after consulting with the Statutory Audit Committee, to decide on the remuneration payable to Directors with particular duties as permitted by Article 2389, paragraph 3, of the Italian Civil Code, in addition to the collective emoluments that are decided on by shareholders in general meeting (Article 13).

In accordance with the Supervisory Instructions now in force, the Board's duties have been increased to include the appointment and dismissal of the Head of AML (Article 18).

The restriction on de jure Executive Committee members from holding other management, direction, control or other positions in other banking or insurance groups has also been lifted, as it is already provided for under the regulations in force.

In order to avoid votes being cast on individual Directors in general meeting, by prioritizing the appointment of candidates from lists for which the suitability documentation has already been made available to shareholders prior to the general meeting, the list-based voting mechanism for the Board described in Article 15, paragraphs 15, 16 and 17, has been changed to make provision for the possibility of the required number of Directors not being appointed, or for the composition requisites set for the Board by the law or the Articles of Association not being met.

Deletion of reference to nominal value of price per share for ordinary Mediobanca shares

The proposed addition here serves to simplify and speed up operations involving the share capital by preventing a possible cancellation of shares from requiring a reduction of the share capital. In particular, in cases where shares are cancelled, the lack of a nominal value means the number of shares in issue can be reduced and the amount implied by the shares booked in the accounts increased accordingly, as derived from the ratio between the nominal share capital, which remains unchanged, and the total number of shares issued.

Minor changes

These are changes that have been made to align the Articles either with changes to the regulations in force or other business needs, and include the following:

- Extension of the company's duration from 2050 to 2100 (Article 2;
- Revision of Article 7 to reflect more closely the legislation in force on the methods by which voting proxies for AGMs are issued and notified;
- Rewording of Article 13, paragraph 3, to refer the cap on the ratio between individual staff members' variable and fixed remuneration that can be decided by shareholders in general meeting to the applicable regulations;
- Amendment to Article 17, paragraph 2, to allow for participation in Board meetings via remote channels;
- Changes to Article 27, to simplify the process of issuing and withdrawing powers to sign on behalf of the company, with such powers being issued not just to the Board of Directors and senior management, but also to "Authorized Staff" by the Board itself;
- Deletion of the temporary provision which has now ceased to apply;
- The paragraphs of each article have been numbered to make the document easier to read and facilitate cross-references and alignment in the use of certain terms.

In terms of the technique used, once again we have chosen to adopt a text for the Articles which is succinct and limited to the essential provisions that define the specific aspects involved in governing the company, and so avoid potential discrepancies with the regulatory framework (including the Code of Conduct) which obviously presides over the company's operations.

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It should be noted that the amendments are not such as to grant shareholders the right of withdrawal and are subject to authorization from the European Central Bank.

Accordingly, the Board of Directors invites you to adopt the following resolution regarding the above.

Resolutions submitted to the approval of shareholders in extraordinary general meeting

Dear shareholders,

In view of the foregoing, we invite you to:

a) Amend Articles 2, 4, 7, 9, 13, 15, 16, 17, 18, 19, 21, 23, 24, 25, 27 and 28[b] of the Company's Articles of Association, as follows:

CURRENT TEXT	PROPOSED TEXT
SECTION I	**SECTION I**
Establishment, Head Office, Duration and Purpose of the Company	**Establishment, Head Office, Duration and Purpose of the Company**
Article 1	Article 1
A Company is hereby established under the name of MEDIOBANCA - Banca di Credito Finanziario Società per Azioni, in abbreviated form MEDIOBANCA S.p.A.	1. 1. A Company is hereby established under the name of MEDIOBANCA - Banca di Credito Finanziario Società per Azioni, in abbreviated form MEDIOBANCA S.p.A.
The Company's Head Office is located at Piazzetta Enrico Cuccia 1, Milan.	2. 2. The Company's Head Office is located at Piazzetta Enrico Cuccia 1, Milan.
Article 2	Article 2
The duration of the Company shall be until 30 June 2050.	1. The duration of the Company shall be until 30 June ~~2050~~ 2100.
Article 3	Article 3
The purpose of the Company shall be to raise funds and provide credit in any of the forms	1. The purpose of the Company shall be to raise funds and provide credit in any of the

b Please note that art. 9, 16 and 21 are amended in the Italian version of the Articles of Association only, in order to reflect minor wording adjustments..

permitted, especially medium- and long-term credit to corporates.
Within the limits laid down by current regulations, the Company may execute all banking, financial and intermediation-related transactions and/or services and carry out any transaction deemed to be instrumental to or otherwise connected with achievement of the Company's purpose.

As part of its supervisory and co-ordinating activities in its capacity as parent company of the Mediobanca Banking Group within the meaning of Article 61, paragraph 4, of Legislative Decree No. 385 dated 1 September 1993, the Company shall issue directives to member companies of the Group to comply with instructions given by the Bank of Italy in the interests of maintaining the Group's stability.

forms permitted, especially medium- and long-term credit to corporates.
Within the limits laid down by current regulations, the Company may execute all banking, financial and intermediation-related transactions and/or services and carry out any transaction deemed to be instrumental to or otherwise connected with achievement of the Company's purpose.

2. As part of its supervisory and co-ordinating activities in its capacity as parent company of the Mediobanca Banking Group within the meaning of Article 61, paragraph 4, of Legislative Decree No. 385 dated 1 September 1993, the Company shall issue directives to member companies of the Group to comply with instructions given by the Bank of Italy in the interests of maintaining the Group's stability.

SECTION II

Share Capital and Shares

Article 4 [c]

The Company's subscribed and fully paid up share capital is Euro 443,609,935.00, represented by 887,219,870 Euro 0.50 par value shares.
The share capital may also be increased as provided under legal provisions, including Article 2441, paragraph 4, point 2 of the Italian Civil Code, in compliance with the terms and procedure set forth therein.
Profits may, in the ways and forms permitted by law, be awarded to employees of the Company or Group companies via the issuance of shares, under Article 2349 of the Italian Civil Code.

SECTION II

Share Capital and Shares

Article 4 [c]

1. The Company's subscribed and fully paid up share capital is Euro 443,609,935.00, represented by 887,219,870 ~~Euro 0.50 par value shares~~ **shares with no nominal value**.
   The share capital may also be increased as provided under legal provisions, including Article 2441, paragraph 4, point 2 of the Italian Civil Code, in compliance with the terms and procedure set forth therein. Profits may, in the ways and forms permitted by law, be awarded to employees of the Company or Group companies via the issuance of shares, under Article 2349 of the Italian Civil Code.

c The addition of a new paragraph 13 to art. 4 is being filed with the Companies Register to reflect that, on 16 September 2020, the Board of Directors resolved to increase share capital free of charge for an amount of € 681,976.50 by issuing no. 1,363,953 new shares in execution of powers vested with the Board itself in accordance with paragraph 5 of this Article 4.

The shares shall be registered.

As a result of resolutions adopted at Extraordinary General Meetings held on 25 June 2004 and 28 October 2004, the Bank's share capital was increased by up to a further Euro 7.5m via the issue of up to 15 million par value Euro 0.50 ordinary shares, ranking for dividends *pari passu* and for subscription no later than 1 July 2020, pursuant to paragraphs 8 and 5 Article 2441 of the Italian Civil Code, to be set aside as follows:

– Up to 11 million shares for employees of the Mediobanca Group;
– Up to 4 million shares for Bank Directors, carrying out particular duties. Of these, a total of 2,500,000 new shares have still to be subscribed.

At an Extraordinary General Meeting held on 27 June 2007, shareholders approved a resolution to increase the company's share capital in an amount of up to Euro 20m through the issue of up to 40 million ordinary par value Euro 0.50 new shares, ranking for dividends *pari passu*, to be set aside for subscription by Mediobanca Group employees by and no later than 1 July 2022 pursuant to Article 2441, paragraph 8 of the Italian Civil Code. Of these 40 million shares, a total of 15,585,000 new shares have to date been subscribed.

The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge as permitted by Article 2349 of the Italian Civil Code, in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 10m through the issue of no more than 20 million ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be awarded to Mediobanca Group employees in execution of and in compliance with the terms of the performance share schemes approved by shareholders in general meeting.

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5. The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge as permitted by Article 2349 of the Italian Civil Code, in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 10m through the issue of no more than 20 million ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be awarded to Mediobanca Group employees in execution of and in compliance with the terms of the performance share schemes approved by shareholders in general meeting.

The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights or bonus issues in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 100m, including via warrants, through the issue of up to 200 million ordinary par value Euro 0.50 shares, to be offered in option or otherwise allotted to shareholders, and also to establish the issue price of such new shares from time to time, including the share premium, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising warrants, and is further authorized under Article 2420-ter of the Italian Civil Code to issue bonds convertible into ordinary shares and/or shares cum warrants in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 2bn to be offered in option to shareholders, establishing that exercise of such authorizations shall not, without prejudice to the foregoing, lead to the issue of a total number of shares in excess of 200 million.

The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights issues in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 40m including via warrants, through the issue of up to 80 million ordinary par value Euro 0.50 shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441 paragraph 4 point 2 of the Italian Civil Code and in compliance with the procedure and conditions precedent set forth therein.

At a Board meeting held on 21 September 2016, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the

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8. At a Board meeting held on 21 September 2016, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the

Italian Civil Code, in an amount of up to Euro 4,771,609.50, by withdrawing the equivalent amount from the statutory reserve, with the issue of up to 9,543,219 ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force. Of these a total of 6,023,920 shares have been issued.

At a Board meeting held on 15 September 2017, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 877,179, by withdrawing the equivalent amount from the statutory reserve, with the issue of up to 1,754,358 ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force. Of these a total of 8,356 shares have been issued.

At a Board meeting held on 20 September 2018, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 935,542, by withdrawing the equivalent amount from the statutory reserve, with the issue of up to 1,871,084 ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force.

At a Board meeting held on 19 September 2019, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 858,098.50, by withdrawing the equivalent amount from

Italian Civil Code, in an amount of up to Euro 4,771,609.50, by withdrawing the equivalent amount from the statutory reserve, with the issue of up to 9,543,219 ordinary ~~par value Euro 0.50~~ shares, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force. Of these a total of 6,023,920 shares have been issued.

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11. At a Board meeting held on 19 September 2019, the directors of Mediobanca adopted a resolution to increase the Bank's share capital by means of a bonus issue as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 858,098.50, by withdrawing

the statutory reserve, with the issue of up to 1,716,197 ordinary par value Euro 0.50 shares, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force.

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At a Board meeting held on 19 December 2019, the directors adopted a resolution to increase the Bank's share capital by means of a bonus issue, as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 169,420.50, by withdrawing an equivalent amount from the statutory reserve, by issuing up to 338,841 ordinary shares with a nominal par value of Euro 0.50 (zero point fifty Euros) per share, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force.

12. At a Board meeting held on 19 December 2019, the directors adopted a resolution to increase the Bank's share capital by means of a bonus issue, as permitted by Articles 2443 and 2349 of the Italian Civil Code, in an amount of up to Euro 169,420.50, by withdrawing an equivalent amount from the statutory reserve, by issuing up to 338,841 ordinary shares ~~with a nominal par value of Euro 0.50 (zero point fifty Euros) per share~~, ranking for dividends *pari passu*, to be allocated to identified staff in accordance with the provisions of the performance share schemes in force.

SECTION III

General Meetings

Article 5

General Meetings shall be called in Milan or elsewhere in Italy, as indicated in the notices convening such Meetings.

Article 6

Ordinary General Meetings shall be called at least once a year within 120 days of the close of the Company's financial year.

Ordinary and Extraordinary General Meetings shall pass resolutions on matters attributable to each under regulations in force or these Articles of Association.

Resolutions in respect of mergers, as provided for by Articles 2505 and 2505-bis of the Civil Code, including in the cases

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3. Resolutions in respect of mergers, as provided for by Articles 2505 and 2505-bis of the Civil Code, including in the cases

referred to in Article 2506-ter of the Civil Code, the institution or removal of branch offices, reductions in the Company's share capital as a result of shareholders exercising their right of withdrawal, amendments to the Company's Articles of Association to comply with regulatory requirements, and transfer of the Company's headquarters within Italian territory, are by law the sole competence of the Board of Directors.	referred to in Article 2506-ter of the Civil Code, the institution or removal of branch offices, reductions in the Company's share capital as a result of shareholders exercising their right of withdrawal, amendments to the Company's Articles of Association to comply with regulatory requirements, and transfer of the Company's headquarters within Italian territory, are by law the sole competence of the Board of Directors.
The procedures for calling and powers to call meetings shall be those laid down by the law.	4. The procedures for calling and powers to call meetings shall be those laid down by the law.
Such notice also includes an indication of the sole date scheduled for the Meeting.	5. Such notice also includes an indication of the sole date scheduled for the Meeting.
Article 7	Article 7
The right to attend and vote at General Meetings shall be governed by the law.	1. The right to attend and vote at General Meetings shall be governed by the law.
Shareholders are authorized to attend and vote at General Meetings if, by the end of the third open market day prior to the meeting, the issuer has received notification in respect of them from an authorized intermediary based on evidence as at the close of business on the seventh open market day prior to the date set for the general meeting in the only instance.	2. Shareholders are authorized to attend and vote at General Meetings if, by the end of the third open market day prior to the meeting, the issuer has received notification in respect of them from an authorized intermediary based on evidence as at the close of business on the seventh open market day prior to the date set for the general meeting in the only instance.
Without prejudice to the foregoing, a shareholder is authorized to attend and to vote at a general meeting if such notification reaches the issuer after the terms indicated in the above paragraph, provided that it does so by the start of proceedings on the single date called for the general meeting.	Without prejudice to the foregoing, a shareholder is authorized to attend and to vote at a general meeting if such notification reaches the issuer after the terms indicated in the above paragraph, provided that it does so by the start of proceedings on the single date called for the general meeting.
Shareholders authorized to attend and vote at general meetings may elect to have themselves be represented in such a meeting via a proxy issued in writing or made electronically in cases where such possibility is provided for by regulations in force and in accordance therewith, subject to cases of incompatibility and the limits prescribed by law.	3. Shareholders authorized to attend and vote at general meetings may elect to have themselves be represented in such a meeting **by the means and up to the limits established by the regulations in force**.~~via a proxy issued in writing or made electronically in cases where such possibility is provided for by regulations in force and in accordance therewith, subject to cases of~~

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Proxies may be notified electronically using the relevant section of the Company's website or by email, in accordance with the instructions provided in the notice of meeting.

Proxies may be notified electronically ~~using the relevant section of the Company's website or by email,in accordance with the instructions provided in the notice of meeting~~ **or by other means provided for by the regulations in force, as stated in the notice of meeting.**

Article 8

Shareholders shall be entitled to one vote for each share held.

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Article 9

General Meetings shall be presided over by the Chairman of the Board of Directors or, in his stead, by the elder Deputy Chairman, the other Deputy Chairman, if appointed, or by the most senior of the other Board members, in that order. The Chairman shall be assisted by a Secretary. In cases where Article 2375 of the Civil Code applies, and in any other case where he considers it advisable, the Chairman shall call upon a notary to compile the minutes.

Article 9

1. General Meetings shall be presided over by the Chairman of the Board of Directors or, in his stead, by the elder Deputy Chairman, the other Deputy Chairman, if appointed, or by the most senior of the other Board members, in that order.
   The Chairman shall be assisted by a Secretary. In cases where Article 2375 of the Civil Code applies, and in any other case where he considers it advisable, the Chairman shall call upon a notary to compile the minutes.

The Chairman shall be responsible for establishing that a quorum has been reached, ascertaining the identity of those in attendance and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken thereat.

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Article 10

An ordinary general meeting shall be validly constituted regardless of the percentage of the share capital represented, with resolutions being adopted on an absolute majority basis. For resolutions adopted pursuant to Article 13, paragraph 3, at least two-thirds of the share capital represented

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is required to vote in favour if the quorum of at least half the share capital has been reached, or with at least three-quarters of the share capital represented if less than one-half of the share capital is represented at the meeting. An extraordinary general meeting is validly constituted if at least one-fifth of the company's share capital is represented, and resolutions are adopted with at least two-thirds of the share capital in attendance voting in favour.

Members of the Board of Directors and Statutory Audit Committee shall be appointed in accordance with the procedures set out respectively in Articles 15 and 28 hereof.

Article 11

Transactions with related parties, including those which fall within the jurisdiction of shareholders in general meeting or otherwise required to be submitted to the approval of shareholders under Article 2364 of the Italian Civil Code, are approved in compliance with the procedures adopted by the Board of Directors as required by law.

In urgent cases, transactions (including of Group companies) with related parties other than those which fall within the jurisdiction of shareholders in general meeting or otherwise required to be submitted to the approval of shareholders under Article 2364 of the Italian Civil Code may be approved in derogation of the procedures referred to in the previous paragraph, provided — without prejudice to the effectiveness of the resolutions adopted and compliance with the additional conditions set forth in the same procedure — that they are subsequently submitted to non-binding resolution by shareholders in general meeting to be adopted on the basis of a report by the Board and the Statutory Audit Committee's opinion on the reasons for the urgency.

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2. In urgent cases, transactions (including of Group companies) with related parties other than those which fall within the jurisdiction of shareholders in general meeting or otherwise required to be submitted to the approval of shareholders under Article 2364 of the Italian Civil Code may be approved in derogation of the procedures referred to in the previous paragraph, provided — without prejudice to the effectiveness of the resolutions adopted and compliance with the additional conditions set forth in the same procedure — that they are subsequently submitted to non-binding resolution by shareholders in general meeting to be adopted on the basis of a report by the Board and the Statutory Audit Committee's opinion on the reasons for the urgency.

Article 12

Resolutions shall be taken by a show of hands, or by any other clear and transparent method, including electronic, that may be proposed by the Chairman, save where legal provisions require otherwise without exception.
Resolutions passed at General Meetings in accordance with the law and these Articles of Association shall be binding on all Members, including those who dissent or are absent.

Shareholders voting against resolutions to approve:
a) An extension to the Company's duration;
b) The introduction and/or removal of restrictions on the trading of securities, shall not have the right of withdrawal in respect of all or part of their shares.

Members are entitled to inspect all deeds deposited at the Company's Head Office in respect of General Meetings that have already been called, and to obtain copies of such deeds at their own expense.

Article 12

1. Resolutions shall be taken by a show of hands, or by any other clear and transparent method, including electronic, that may be proposed by the Chairman, save where legal provisions require otherwise without exception.
   Resolutions passed at General Meetings in accordance with the law and these Articles of Association shall be binding on all Members, including those who dissent or are absent.

2. Shareholders voting against resolutions to approve:
   a) An extension to the Company's duration;
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3. Members are entitled to inspect all deeds deposited at the Company's Head Office in respect of General Meetings that have already been called, and to obtain copies of such deeds at their own expense.

Article 13

Shareholders in general meeting shall determine the fixed annual remuneration payable to members of the Board of Directors, upon their appointment and for the entire duration of their term of office, to be shared between the individual Board members in accordance with the decisions of the Board of Directors itself. Directors who are not members of the Group's senior management are entitled to receive refunds for the expenses incurred by them in the exercise of their duties.

Article 13

1. Shareholders in general meeting shall determine the fixed annual remuneration payable to members of the Board of Directors, upon their appointment and for the entire duration of their term of office, to be shared between the individual Board members in accordance with the decisions of the Board of Directors itself. **<u>The Board of Directors establishes the remuneration payable to Directors with specific duties, after hearing the Statutory Audit Committee's opinion, as permitted by Article 2389, paragraph 3 of the Italian Civil Code</u>**. Directors who are not members of the Group's senior management are entitled to receive refunds for the expenses incurred by them in the exercise of their duties.

Shareholders in general meeting, in accordance with the terms provided for in the regulatory provisions in force at the time, also approve remuneration policies and compensation schemes based on financial instruments operated for Directors, Group staff and collaborators, and the criteria for determining the compensation to be agreed in the event of early termination of the employment relationship or term of office.

2. Shareholders in general meeting, in accordance with the terms provided for in the regulatory provisions in force at the time, also approve remuneration policies and compensation schemes based on financial instruments operated for Directors, Group staff and collaborators, and the criteria for determining the compensation to be agreed in the event of early termination of the employment relationship or term of office.

At the Board of Directors' proposal, shareholders in general meeting may, with the majorities provided for under Article 10 paragraph 1, cap the variable remuneration of Group staff and collaborators within the limit of 200% of their fixed salary or any other limit set by law and/or the regulations in force at the time.

3. At the Board of Directors' proposal, shareholders in general meeting may, with the majorities provided for under Article 10 paragraph 1, ~~cap the variable remuneration of Group staff and collaborators~~ **choose to set a ratio between fixed and variable remuneration for individual Group staff members and collaborators which is above 1:1, provided that such ratio does not exceed the limit set by the regulations in force on this subject at the time**.~~within the limit of 200% of their fixed salary or any other limit set by law and/or the regulations in force at the time~~.

SECTION IV

Management

Article 14

The Board of Directors shall be responsible for management of the company, and shall exercise such management through the Executive Committee if appointed, the Managing Director and the General Manager, if appointed, in accordance with the provisions hereof.

1. 1. The Board of Directors shall be responsible for management of the company, and shall exercise such management through the Executive Committee if appointed, the Managing Director and the General Manager, if appointed, in accordance with the provisions hereof.

Sub-section I - Board of Directors

Article 15

The Board of Directors comprises between nine and fifteen members. The duration of their term of office shall be three financial years, save where otherwise provided in the resolution approved for their appointment.

1. The Board of Directors comprises between nine and fifteen members. The duration of their term of office shall be three financial years, save where otherwise provided in the resolution approved for their appointment.

Members of the Board of Directors shall be in possession of the requisite qualifications for holding such office expressly stipulated under regulations in force at the time and the Articles of Association, failing which they shall become ineligible or, in the event of such circumstances materializing subsequently, shall be disqualified from office.

A number of Directors at least corresponding to the number stipulated in the Code of Conduct for Listed Companies shall also qualify as independent as defined in Article 19. If a Director qualifying as independent ceases to do so, this shall not result in him/her being disqualified from office provided the minimum number of Directors required to be independent under the present Articles of Association in compliance with regulations in force is still represented.

Three Directors are chosen from among employees with at least three years' experience of working for Mediobanca Banking Group companies at senior management level.

No director aged seventy-five or over may be elected.

Directors are appointed on the basis of lists in which the candidates are numbered consecutively. Lists may be submitted by the Board of Directors and/or by shareholders representing in the aggregate at least the percentage of the Company's share capital established under regulations in force at the time and specified in the notice of general meeting. Ownership of the minimum percentage of the Company's share capital required to submit a list is established on the basis of shares recorded as being in the shareholders' possession at the date on which the lists are filed with the issuer and is stated in accordance with the terms of the

2. Members of the Board of Directors shall be in possession of the requisite qualifications for holding such office expressly stipulated under regulations in force at the time and the Articles of Association, failing which they shall become ineligible or, in the event of such circumstances materializing subsequently, shall be disqualified from office.

3. ~~A number of Directors at least corresponding to the number stipulated in the Code of Conduct for Listed Companies~~ The majority of the Board's members shall also qualify as independent as defined in Article 19. If a Director qualifying as independent ceases to do so, this shall not result in him/her being disqualified from office provided the minimum number of Directors required to be independent under the present Articles of Association in compliance with regulations in force is still represented.

4. Three Directors, **or two Directors, if the Board of Directors itself consists of thirteen or less than thirteen members**, are chosen from among employees with at least three years' experience of working for Mediobanca Banking Group companies at senior management level.

5. No director aged seventy-five or over may be elected.

6. Directors are appointed on the basis of lists in which the candidates are numbered consecutively. Lists may be submitted by the Board of Directors and/or by shareholders representing in the aggregate at least the percentage of the Company's share capital established under regulations in force at the time and specified in the notice of general meeting. Ownership of the minimum percentage of the Company's share capital required to submit a list is established on the basis of shares recorded as being in the shareholders' possession at the date on which the lists are filed with the issuer and is stated in accordance with the terms of the law.

law. Statement of ownership may also be made subsequent to the list's filing, provided that it is forthcoming within the term provided for the issuer to make the lists public.	Statement of ownership may also be made subsequent to the list's filing, provided that it is forthcoming within the term provided for the issuer to make the lists public.
The lists undersigned by the shareholder or shareholder submitting them (including by means of a proxy to one of them) shall contain a number of candidates not to exceed the maximum number of directors to be elected, and must be lodged at the Company's head office at least twenty-five days prior to the date scheduled for the general meeting only instance, to be stipulated in the notice of meeting.	7. The lists undersigned by the shareholder or shareholder submitting them (including by means of a proxy to one of them) shall contain a number of candidates not to exceed the maximum number of directors to be elected, and must be lodged at the Company's head office at least twenty-five days prior to the date scheduled for the general meeting only instance, to be stipulated in the notice of meeting.
The list submitted by the Board of Directors, if any, shall be lodged and made public using the same methods provided as the lists submitted by shareholders at least thirty days prior to the date scheduled for the general meeting to take place in the only instance.	8. The list submitted by the Board of Directors, if any, shall be lodged and made public using the same methods provided as the lists submitted by shareholders at least thirty days prior to the date scheduled for the general meeting to take place in the only instance.
Lists containing a number of candidates equal to or above two-thirds of the Directors to be appointed shall contain three candidates numbered consecutively starting from the first in possession of the requisites stipulated under the foregoing paragraph 4.	9. Lists containing a number of candidates equal to or above two-thirds of the Directors to be appointed shall contain three candidates, **or two if the number of Directors to be appointed is equal to or less than three**, numbered consecutively starting from the first in possession of the requisites stipulated under the foregoing paragraph 4.
Lists containing a number of candidates equal to or above three must ensure that the balance between male and female candidates complies with at least the minimum requirement stipulated by the regulations in force at the time.	10. Lists containing a number of candidates equal to or above three must ensure that the balance between male and female candidates complies with at least the minimum requirement stipulated by the regulations in force at the time **and a majority of the candidates must qualify as independent under the definition provided in Article 19 of the Articles of Association**.
Along with each list a *curriculum vitae* shall be filed for each candidate, along with all the other information and statements required under regulations in force at the time. Such	11. Along with each list a *curriculum vitae* shall be filed for each candidate, along with all the other information and statements required under regulations in force at the time. Such

curriculum vitae shall contain an indication of the candidate's professional credentials, together with statements whereby each candidate declares, under his/her own responsibility, that there are no grounds for his/her being incompatible with or ineligible for the post under consideration, and that he/she is in possession of the requisites specified under law and these Articles, and a list of the management or supervisory roles held by him/her at other companies.	*curriculum vitae* shall contain an indication of the candidate's professional credentials, together with statements whereby each candidate declares, under his/her own responsibility, that there are no grounds for his/her being incompatible with or ineligible for the post under consideration, and that he/she is in possession of the requisites specified under law and these Articles, and a list of the management or supervisory roles held by him/her at other companies **or entities**.
Lists submitted which do not conform to the above specifications shall be treated as null and void.	12. Lists submitted which do not conform to the above specifications shall be treated as null and void.
Outgoing Directors who have served their terms of office may be re-elected.	13. Outgoing Directors who have served their terms of office may be re-elected.
One individual shareholder may not submit or vote for more than one list, including via proxies or trustee companies. Shareholders belonging to the same group – that is, the parent company, subsidiaries and companies subject to joint control – and shareholders who are parties to a shareholders' agreement in respect of the issuer's share capital as defined in Article 122 of Italian Legislative Decree 58/98 may not submit or vote for more than one list, including via proxies or trustee companies. Individual candidates may only feature in one list, failing which they shall become ineligible.	14. One individual shareholder may not submit or vote for more than one list, including via proxies or trustee companies. Shareholders belonging to the same group – that is, the parent company, subsidiaries and companies subject to joint control – and shareholders who are parties to a shareholders' agreement in respect of the issuer's share capital as defined in Article 122 of Italian Legislative Decree 58/98 may not submit or vote for more than one list, including via proxies or trustee companies. Individual candidates may only feature in one list, failing which they shall become ineligible.
The procedure for the appointment of Directors is as follows: all Directors save two are chosen on the basis of the consecutive number in which they are ordered from the list obtaining the highest number of votes; the other Directors are chosen from the list which ranks second in terms of number of votes cast and which is not submitted or voted for by shareholders who are related, as defined under regulations currently in force, to the shareholders who submitted or voted for the list ranking first in terms of number of votes cast, again on the basis of the consecutive number in which the candidates are ordered.	15. The procedure for the appointment of Directors is as follows: all Directors save two are chosen on the basis of the consecutive number in which they are ordered from the list obtaining the highest number of votes; the other **two** Directors are chosen from the list which ranks second in terms of number of votes cast and which is not submitted or voted for ~~by the Board of Directors or~~ by shareholders who are related, as defined under regulations currently in force, to the shareholders who submitted or voted for the list ranking first in terms of number of votes

	cast, again on the basis of the consecutive number in which the candidates are ordered. **If it is not possible to appoint a sufficient number of Directors using this method, other candidates are added from the lists which received most votes out of those that obtained at least 5% of the votes cast in general meeting, based on the consecutive order in which they were ranked. If the number of candidates appointed in this way included in the lists that have been submitted, minority and majority, is still below the number required to be appointed, the other Directors are elected under a resolution to be adopted by shareholders in general meeting based on the majority set by law, ensuring that the minimum number of Directors qualifying as independent, the requisite number of Directors from the least represented gender, and with the qualifications stipulated in point 4 above, are all met**.
In the event of an equal number of votes being cast, a ballot shall be held.	In the event of an equal number of votes being cast, a ballot shall be held.
In the event that following the procedure set out above does not result in a sufficient number of Directors in possession of the requisites stipulated under the foregoing paragraphs 3 and 4 hereof being elected and if the number of Directors of one or other gender proves to be fewer than the number required by the regulations in force, the procedure shall be to replace the necessary number of candidates elected from among those in the majority list in the last consecutive positions with candidates in possession of the requisite qualifications or characteristics, from the same list based on their consecutive numbering. If it proves impossible to complete the number of Directors required via this procedure, again in order to comply with the provisions of the foregoing paragraphs 3 and 4 and the regulations in force in respect of equal gender representation, the remaining Directors shall be appointed by shareholders in general meeting on the basis of the legal majority, at the proposal of the shareholders in attendance.	16. ~~In the event that following the procedure set out above does not result in a sufficient number of Directors in possession of the requisites stipulated under the foregoing paragraphs 3 and 4 hereof being elected and if the number of Directors of one or other gender proves to be fewer than the number required by the regulations in force, the procedure shall be to replace the necessary number of candidates elected from among those in the majority list in the last consecutive positions with candidates in possession of the requisite qualifications or characteristics, from the same list based on their consecutive numbering. If it proves impossible to complete the number of Directors required via this procedure, again in order to comply with the provisions of the foregoing paragraphs 3 and 4 and the regulations in force in respect of equal gender representation, the remaining Directors shall be appointed~~

In the event of just one list being submitted, the Board of Directors is taken from this list in its entirety, providing the quorum established by law for ordinary general meetings has been reached.

For the appointment of those Directors who for whatever reason could not be elected to comply with the provisions set forth in the foregoing paragraphs, or in the event that no lists are submitted, the Board of Directors is appointed by shareholders in general meeting on the basis of the legal majority, again without prejudice to the requirements stipulated in Article 15, paragraphs 3 and 4 hereof and the regulations in force in respect of equal gender representation.

~~by shareholders in general meeting on the basis of the legal majority, at the proposal of the shareholders in attendance~~. **If the minimum number of Directors qualifying as independent, the requisite number of Directors from the least represented gender, and with the qualifications stipulated in point 4 above are not appointed, the Directors elected from the list with the most votes and the highest consecutive number but without the necessary qualifications will be replaced by the candidates who come after them but who do have the necessary qualifications taken from the same list. If by this method it is still not possible to appoint Directors with the necessary qualifications, the replacement criterion described above will be applied to the minority lists which received most votes, in order. If by applying the above criteria it is still not possible to identify suitable replacements, the shareholders shall adopt a resolution in general meeting based on the majority set by law. In this case, the candidates will be replaced one by one starting from the lists which received most votes and the candidates with the highest consecutive number.**

17. In the event of just one list being submitted, the Board of Directors is taken from this list in its entirety, providing the quorum established by law for ordinary general meetings has been reached.

~~For the appointment of those Directors who for whatever reason could not be elected to comply with the provisions set forth in the foregoing paragraphs, or in the event that no lists are submitted, the Board of Directors is appointed by shareholders in general meeting on the basis of the legal majority, again without prejudice to the requirements stipulated in Article 15, paragraphs 3 and 4 hereof and the regulations in force in respect of equal gender representation.~~

Directors who are also members of the Banking Group's senior management must leave office if and when they cease to be employed by the companies which make up the Banking Group.	18. Directors who are also members of the Banking Group's senior management must leave office if and when they cease to be employed by the companies which make up the Banking Group **as a result of either resignation (not by mutual consent) or dismissal.**
In the event of one or more Directors leaving office before their term expires, the procedure shall be as described in Article 2386 of the Italian Civil Code, without prejudice to the obligation to comply with the provisions of Article 15, paragraphs 3 and 4 hereof and the regulations in force in respect of equal gender representation. Directors co-opted by the Board shall remain in office until the next successive annual general meeting, where shareholders will appoint a new Board member to replace the Director who has left office. Shareholders in general meetings shall adopt resolutions based on a relative majority, in compliance with the provisions in respect of the Board's composition set forth in Article 15, paragraphs 3 and 4 herein and the regulations in force in respect of equal gender representation. If the Directors being replaced had been elected from a minority list, where possible they are replaced with unelected Directors taken from the same list while respecting the regulations in force in respect of equal gender representation.	19. In the event of one or more Directors leaving office before their term expires, the procedure shall be as described in Article 2386 of the Italian Civil Code, without prejudice to the obligation to comply with the provisions of Article 15, **paragraph 3 only** of Article 15_, ~~paragraphs 3 and 4~~ hereof and and the regulations in force in respect of equal gender representation. Directors co-opted by the Board shall remain in office until the next successive annual general meeting, where shareholders will appoint a new Board member to replace the Director who has left office. Shareholders in general meetings shall adopt resolutions based on ~~a relative~~ **the** majority **required by law**, in compliance with the provisions in respect of the Board's composition set forth in Article 15, paragraph~~s~~ 3 ~~and 4~~ and the regulations in force in respect of equal gender representation. If the Directors being replaced had been elected from a minority list, where possible they are replaced with unelected Directors taken from the same list while respecting the regulations in force in respect of equal gender representation.
For the purposes hereof, control shall be defined, including with respect to entities not incorporated as companies, as in the cases listed under Article 93 of Italian Legislative Decree 58/98.	20. For the purposes hereof, control shall be defined, including with respect to entities not incorporated as companies, as in the cases listed under Article 93 of Italian Legislative Decree 58/98.
The foregoing shall be without prejudice to other and/or further provisions regarding the appointment of, and qualifications for, members of the Board of Directors required without exception under law and/or regulations in force.	21. The foregoing shall be without prejudice to other and/or further provisions regarding the appointment of, and qualifications for, members of the Board of Directors required without exception under law and/or regulations in force.

In the event of more than half of the Board of Directors leaving office before its term expires, whether as a result of resignations being tendered or for any other reason, the entire Board shall be deemed to have tendered its resignation and a general meeting called to appoint new Directors. However, the Board shall remain in office until shareholders have approved its reappointment in general meeting and until at least half the new Directors have accepted the position.

22. In the event of more than half of the Board of Directors leaving office before its term expires, whether as a result of resignations being tendered or for any other reason, the entire Board shall be deemed to have tendered its resignation and a general meeting called to appoint new Directors. However, the Board shall remain in office until shareholders have approved its reappointment in general meeting and until at least half the new Directors have accepted the position.

Article 16

The Board of Directors shall approve from among its own number a Chairman and one or two Deputy Chairmen and the Managing Director provided for in Article 24 hereunder, who shall remain in office for the entire duration of their terms as Directors.

No person aged seventy or over may be elected as Chairman, and no person aged sixty-five or over may be elected as Managing Director.

In the event of the Chairman being absent or otherwise impeded, his duties shall be discharged by, in order, the elder of the two Deputy Chairmen, the other Deputy Chairman if appointed, and the most senior of the Directors in attendance.

Meetings of the Board are called by the Chairman who is responsible for setting the agenda, presiding over the proceedings, and ensuring that all Directors are provided with adequate information regarding the business to be transacted.

The Chairman is also responsible for ensuring that the corporate governance system runs smoothly in practice, guaranteeing due balance between the powers of the Managing Director and the other executive Directors; he is the counterparty for dialogue with the bodies with duties of control and the internal committees.

Article 16

1. The Board of Directors shall approve from among its own number a Chairman and one or two Deputy Chairmen and the Managing Director provided for in Article 24 hereunder, who shall remain in office for the entire duration of their terms as Directors.
2. No person aged seventy or over may be elected as Chairman, and no person aged sixty-five or over may be elected as Managing Director.
3. In the event of the Chairman being absent or otherwise impeded, his duties shall be discharged by, in order, the elder of the two Deputy Chairmen, the other Deputy Chairman if appointed, and the most senior of the Directors in attendance.
4. Meetings of the Board are called by the Chairman who is responsible for setting the agenda, presiding over the proceedings, and ensuring that all Directors are provided with adequate information regarding the business to be transacted.

   The Chairman is also responsible for ensuring that the corporate governance system runs smoothly in practice, guaranteeing due balance between the powers of the Managing Director and the other executive Directors; he is the counterparty for dialogue with the bodies with duties of control and the internal committees.

The Board also appoints a Secretary, who may be chosen from outside its number. In the event of the Secretary being absent or otherwise impeded, the Board designates the person to replace him/her.

Article 17

Meetings of the Board of Directors are called at the head office of the Company or elsewhere by the Chairman or the Acting Chairman, on his own initiative or when requisitioned by at least three Directors. As a rule the Board of Directors meets at least six times a year.

Board meetings may also be called by the Statutory Audit Committee, provided the Chairman of the Board has been notified to such effect in advance.

Board meetings are called by notice in writing to be given by electronic mail, facsimile transmission, letter or telegram dispatched at least five clear days prior to the date scheduled for the meeting. In urgent cases this may be reduced to two days. The notice in writing shall contain an indication of the place, day and time of the meeting, along with an agenda briefly setting out the business to be transacted.

Board meetings may also be held via video- or tele-conference, provided that the persons entitled to attend may be properly identified, speak in real time on items on the agenda, and receive or transmit documents, and further provided that the Chairman or acting Chairman and Secretary are in attendance at the place where the meeting is being held.

The Board may also pass valid resolutions without a formal meeting being called, provided that all the Directors and standing auditors in office take part.

Article 18

The Board of Directors, as described below, delegates management of the Company's day-

5. The Board also appoints a Secretary, who may be chosen from outside its number. In the event of the Secretary being absent or otherwise impeded, the Board designates the person to replace him/her.

Article 17

1. Meetings of the Board of Directors are called at the head office of the Company or elsewhere by the Chairman or the Acting Chairman, on his own initiative or when requisitioned by at least three Directors. As a rule the Board of Directors meets at least six times a year.

   Board meetings may also be called by the Statutory Audit Committee, provided the Chairman of the Board has been notified to such effect in advance.

   Board meetings are called by notice in writing to be given by electronic mail, ~~facsimile transmission,~~ letter or telegram dispatched at least five clear days prior to the date scheduled for the meeting. In urgent cases this may be reduced to two days. The notice in writing shall contain an indication of the place, day and time of the meeting, along with an agenda briefly setting out the business to be transacted.

2. Board meetings may also be held via video- or tele-conference, provided that the persons entitled to attend may be properly identified, speak in real time on items on the agenda, and receive or transmit documents.~~,~~ ~~and further provided that the Chairman or acting Chairman and Secretary are in attendance at the place where the meeting is being held.~~

3. The Board may also pass valid resolutions without a formal meeting being called, provided that all the Directors and standing auditors in office take part.

Article 18

1. The Board of Directors, as described below, delegates management of the Company's day-

to-day business to the Executive Committee, if appointed, and Managing Director, who execute such management in accordance with the guidelines and directives formulated by the Board of Directors.

Without prejudice to legal and regulatory provisions in force from time to time, and without prejudice to those matters which are reserved to the sole jurisdiction of shareholders in general meeting, the following matters fall within the remit of the Board of Directors:
1) Definition and approval of the strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
2) Appointment and dismissal of the Executive Committee, Managing Director, General Manager, Head of Company Financial Reporting, and the heads of the Group Audit, Compliance and Risk Management units;
3) Approval of quarterly and interim accounts and of draft individual and consolidated financial statements;
4) The Bank's organization, ensuring clear distinction of duties and functions and avoiding conflicts of interest;
5) Approval of acquisition and disposals of investments which are equal to at least 10% of the investee company's share capital and at the same time involve an amount in excess of 5% of the Group's own consolidated regulatory capital.

Without prejudice to each Director's entitlement to submit proposals, the Board of Directors normally adopts resolutions based on the proposal of the Executive Committee, if appointed, or the Managing Director.

The Board of Directors delegates a committee consisting of the three Banking Group senior management members and two Directors who qualify as independent pursuant to Article 19 hereof, in respect of decisions to be taken in general meetings of the investee companies referred to in paragraph 5 above, if the companies are listed, with reference to the

to-day business to the Executive Committee, if appointed, and Managing Director, who execute such management in accordance with the guidelines and directives formulated by the Board of Directors.

2. Without prejudice to legal and regulatory provisions in force from time to time, and without prejudice to those matters which are reserved to the sole jurisdiction of shareholders in general meeting, the following matters fall within the remit of the Board of Directors:
   1) Definition and approval of the strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
   2) Appointment and dismissal of the Executive Committee, Managing Director, General Manager, Head of Company Financial Reporting, and the heads of the Group Audit, Compliance **and AML** and Risk Management units;
   3) Approval of quarterly and interim accounts and of draft individual and consolidated financial statements;
   4) The Bank's organization, ensuring clear distinction of duties and functions and avoiding conflicts of interest;
   5) Approval of acquisition and disposals of investments which are equal to at least 10% of the investee company's share capital and at the same time involve an amount in excess of 5% of the Group's own consolidated regulatory capital.

3. Without prejudice to each Director's entitlement to submit proposals, the Board of Directors normally adopts resolutions based on the proposal of the Executive Committee, if appointed, or the Managing Director.

4. The Board of Directors delegates **decisions to be taken at general meetings of companies listed on the stock market under paragraph 2, point 5) above on appointments to governing bodies**, to a committee consisting of, in accordance with the regulations in force~~, the three Banking Group senior management members and~~

appointments to be made to their governing bodies. The committee adopts resolutions with a majority of its members voting in favour.	~~two Directors who qualify as independent pursuant to Article 19 hereof,~~ **the Managing Director, the Executive Directors referred to under Article 15, paragraph 4, and two other Directors, at least one of whom must qualify as independent pursuant to Article 19 hereof.**~~in respect of decisions to be taken in general meetings of the investee companies referred to in paragraph 5 above, if the companies are listed, with reference to the appointments to be made to their governing bodies.~~ The committee adopts resolutions with a majority of its members voting in favour.
The Board of Directors may take resolutions on matters falling within the remit of powers delegated by it.	5. The Board of Directors may take resolutions on matters falling within the remit of powers delegated by it.
Article 19	Article 19
The Board of Directors assesses the independence of its own non-executive members, bearing in mind that a Director does not qualify as independent in the following cases: a) If they hold, directly or indirectly, including through subsidiaries, fiduciaries or other intermediaries, a shareholding of over 2% in the company or is a significant representative of the group to which the company belongs; b) If they are, or have been in the three preceding financial years, a significant representative of the company or of one of its strategically relevant subsidiaries;	1. The Board of Directors assesses the independence of its own non-executive members, bearing in mind that a Director does not qualify as independent in the following cases: a) If they hold, directly or indirectly, including through subsidiaries, fiduciaries or other intermediaries, a shareholding of over ~~2~~**3**%~~ or is a significant representative of the group to which the company belongs~~; b) If they are, or have been in the three preceding financial years, ~~a significant representative of the company or of one of its strategically relevant subsidiaries~~ **an executive director or employee of:** **- The company itself, one of its subsidiaries with strategic significance, or a company subject to joing control;** **- A shareholder which directly or indirectly, including via subsidiaries, fiduciary companies or another intermediary, owns an interest of over 3% in the company**;

c) If they have or have had in the past three financial years, directly or indirectly, a significant commercial, financial or professional relationship with the group;

d) If they receive or have received in the past three financial years, significant additional remuneration from the group compared to their fixed emolument as non-executive director;

e) If they have been a Director for more than nine of the last twelve years

f) If they are partner or director of a company or entity forming part of the network of the company retained by the issuer as its external auditor;

g) If they are a close relative of a person in one or other of the situations listed under the points above.

c) If they have or have had in the past three financial years, directly or indirectly, a significant commercial, financial or professional relationship with:
- ~~With the Group~~ **The company itself or its subsidiaries or with their respective executive directors or senior management;**
-An individual that controls the company, *inter* alia with others by means of a shareholders' agreement; or, if the parent company is a company or entity, with their respective executive directors or senior management;

d) If they receive or have received in the past three financial years, **from the company itself, a subsidiary** ~~from the Group~~ **or the parent company**, significant additional remuneration ~~compared to their fixed emolument as non-executive director~~**to the fixed emolument due to them in respect of the role held by them and the fee receivable for participation in Committees recommended by the Code of Conduct or otherwise provided by the regulations in force**;

e) If they have been a Director for more than nine **(not necessarily consecutive)** of the last twelve ~~years~~ **financial years**;

f) **If they are executive directors of another company in which an executive director of the company is also a director;**

g) If they are partner or director of a company or entity forming part of the network of the company retained by the issuer as its external auditor;

h) If they are a close relative of a person in one or other of the situations listed under the points above.

Article 20

The Board of Directors shall establish among its own number the Committees envisaged by the regulations in force and the

Article 20

1. The Board of Directors shall establish among its own number the Committees envisaged by the regulations in force and the

other internal committees, including, if no Executive Committee has been appointed, the managerial committees it is deemed appropriate to institute, establishing their powers and composition in accordance with the regulations in force.

Article 21

For Board resolutions to be valid, a majority of the Directors in office must be present. The Board of Directors adopts resolutions with a majority of those in attendance voting in favour.
In the event of an equal number of votes being cast, the Chairman of the Board of Directors shall have the deciding vote.

In the event of Directors abstaining from votes owing to an interest which such Directors may have in the transaction concerned, either themselves or through third parties, the Directors so abstaining are included for purposes of establishing the quorum required for the meeting to be validly constituted, but are not included for determining the majority required to pass the resolution.

As required under Articles 2381 of the Italian Civil Code, the appointed bodies report to the Board of Directors every three months on general operating performance and prospects, as well as on the most significant transactions in terms of size or characteristics carried out by the Company or its subsidiaries.

Art. 22

Resolutions shall be recorded in the minutes of the meeting and entered in the book required to be kept by law, shall be signed by the Chairman or whoever presides over the meeting in his stead, by another Director and by the Secretary.

Excerpts from the minutes signed by the Chairman or by two Directors and countersigned by the Secretary constitute full proof.

other internal committees, including, if no Executive Committee has been appointed, the managerial committees it is deemed appropriate to institute, establishing their powers and composition in accordance with the regulations in force.

Article 21

1. For Board resolutions to be valid, a majority of the Directors in office must be present. The Board of Directors adopts resolutions with a majority of those in attendance voting in favour.
   In the event of an equal number of votes being cast, the Chairman of the Board of Directors shall have the deciding vote.

   In the event of Directors abstaining from votes owing to an interest which such Directors may have in the transaction concerned, either themselves or through third parties, the Directors so abstaining are included for purposes of establishing the quorum required for the meeting to be validly constituted, but are not included for determining the majority required to pass the resolution.

2. As required under Articles 2381 of the Italian Civil Code, the appointed bodies report to the Board of Directors every three months on general operating performance and prospects, as well as on the most significant transactions in terms of size or characteristics carried out by the Company or its subsidiaries.

Art. 22

1. Resolutions shall be recorded in the minutes of the meeting and entered in the book required to be kept by law, shall be signed by the Chairman or whoever presides over the meeting in his stead, by another Director and by the Secretary.

   Excerpts from the minutes signed by the Chairman or by two Directors and countersigned by the Secretary constitute full proof.

Sub-section II - Executive Committee

Article 23

The Board of Directors may appoint an Executive Committee ranging in number from a minimum of three to a maximum of five Directors, establishing the Committee's composition and rules of functioning in accordance with the regulations in force. If appointed, the Executive Committee is responsible for the ordinary management of the Company, with all powers – including to extend credit – not reserved by the applicable regulations or these Articles of Association to the collegiate jurisdiction of the Board of Directors, or which the latter has not otherwise delegated to the Managing Director.

The Executive Committee may delegate its powers to approve resolutions to committees made up of the Company's management or individual managers up to certain pre-established limits.

Save in cases of incompatibility and up to the limits set by the regulations in force, the Directors who are members of the Group's management with the requisites stipulated under the foregoing Article 15 and elected from the list which receives the highest number of votes are members of the Executive Committee *de jure*.

Without prejudice to the provisions of the law, Executive Committee members in possession of the requisites stipulated under the foregoing Article 15 are bound to devote themselves solely to performance of activities involved in such office, and unless otherwise provided by the Board of Directors, may not perform duties of administration, management or control or of any other kind at companies or entities which are not investee companies of Mediobanca. Without prejudice to the provisions of the law, the other members of the Executive

Sub-section II - Executive Committee

Article 23

1. The Board of Directors may appoint an Executive Committee ranging in number from a minimum of three to a maximum of five Directors, establishing the Committee's composition and rules of functioning in accordance with the regulations in force. If appointed, the Executive Committee is responsible for the ordinary management of the Company, with all powers – including to extend credit – not reserved by the applicable regulations or these Articles of Association to the collegiate jurisdiction of the Board of Directors, or which the latter has not otherwise delegated to the Managing Director.

2. The Executive Committee may delegate its powers to approve resolutions to committees made up of the Company's management or individual managers up to certain pre-established limits.

3. Save in cases of incompatibility and up to the limits set by the regulations in force, ~~the Directors who are members of the Group's management with the requisites stipulated under the foregoing Article 15 and elected from the list which receives the highest number of votes~~ **<u>the Managing Director and executive directors referred to under Article 15, paragraph 4 above</u>** are members of the Executive Committee *de jure*.
   Without prejudice to the provisions of the law, ***<u>de jure</u>*** Executive Committee members ~~the requisites stipulated under the foregoing Article 15~~ are bound to devote themselves solely to performance of activities involved in such office, and unless otherwise provided by the Board of Directors, may not perform duties of administration, management or control or of any other kind at companies or entities which are not investee companies of Mediobanca. ~~Without prejudice to the provisions of the law, the other members of~~

Committee, save otherwise provided by the Board of Directors, may not perform duties of administration, management, control or of any other kinds for banking groups or insurance companies.

The Executive Committee is chaired by the Managing Director.

The Committee shall remain in office for the entire duration of the Board of Directors which appointed it.

The Chairman of the Board of Directors takes part in Executive Committee meetings as a guest, and the Statutory Audit Committee also takes part.

The Committee appoints a Secretary, who does not necessarily have to be one of its own number.

Sub-section III - Managing Director

Article 24

The Board of Directors appoints a Managing Director to be chosen from among the Directors in possession of the requisites specified under the foregoing Article 15, paragraph 4 hereof, determining his/her duties and powers. In particular the Managing Director has executive powers, and is responsible for implementing the resolutions adopted by the Board of Directors and the Executive Committee (if appointed).

Sub-section IV – General manager

Article 25

The Board of Directors may appoint a General Manager at the Managing Director's proposal along with a description of duties and powers. If appointed, the General Manager will be chosen from among the Directors in possession of the requisites specified under Article 15,

~~the Executive Committee, save otherwise provided by the Board of Directors, may not perform duties of administration, management, control or of any other kinds for banking groups or insurance companiesl.~~

4. The Executive Committee is chaired by the Managing Director.

5. The Committee shall remain in office for the entire duration of the Board of Directors which appointed it.

6. The Chairman of the Board of Directors takes part in Executive Committee meetings as a guest, and the Statutory Audit Committee also takes part.

   The Committee appoints a Secretary, who does not necessarily have to be one of its own number.

Sub-section III - Managing Director

Article 24

1. The Board of Directors appoints a Managing Director **with the requisite qualifications stipulated by the regulations in force at the time** ~~to be chosen from among the Directors in possession of the requisites specified under the foregoing Article 15, paragraph 4 hereof~~ determining his/her duties and powers. In particular the Managing Director has executive powers, and is responsible for implementing the resolutions adopted by the Board of Directors and the Executive Committee (if appointed).

Sub-section IV – General manager

Article 25

1. The Board of Directors may appoint a General Manager at the Managing Director's proposal along with a description of duties and powers. If appointed, the General Manager **shall have the requisite qualifications stipulated by the regulations in force at the time**

paragraph 4 of these Articles, and may not be more than sixty-five years old.

~~will be chosen from among the Directors in possession of the requisites specified under Article 15, paragraph 4 of these Articles~~ and may not be more than sixty-five years old.

Sub-section V – Head of company financial reporting

Article 26

On the proposal of the Managing Director and having sought the opinion of the Statutory Audit Committee, the Board of Directors appoints one person to act as head of financial reporting, who shall be chosen from among the Bank's management and who has held management positions for a period of at least three years in the field of accounting administration at the Bank itself or at other leading banks. The person identified to act as head of financial reporting shall put in place adequate administrative and accounting procedures for the preparation of the individual and consolidated accounts, and all other reporting which is financial in nature. The appointed bodies and the head of financial reporting issue the statements on the Company's capital, earnings and finances required under law.

The Board of Directors exerts supervision to ensure the head of financial reporting is vested with suitable powers and means to carry out the duties entrusted to him and to ensure that the administrative and accounting procedures are complied with in practice.

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2. The Board of Directors exerts supervision to ensure the head of financial reporting is vested with suitable powers and means to carry out the duties entrusted to him and to ensure that the administrative and accounting procedures are complied with in practice.

Sub-section VI - Powers to represent the Bank

Article 27

The corporate signature shall be vested in the Chairman of the Board of Directors, the Managing Director, the General Manager if appointed, and in such other employees of the Bank to whom such right has been specifically granted.

Sub-section VI - Powers to represent the Bank

Article 27

1. The corporate signature, **and powers to represent the company in a court of law**, shall be vested in the Chairman of the Board of Directors, the Managing Director, the General Manager if appointed, and ~~in such other employees of the Bank~~

"Authorized Staff" ~~to whom such right has been specifically granted~~ **the Board of Directors has specifically granted such right.**

The corporate signature shall be binding when it is jointly executed by two of the authorized persons appending their signatures under the Company's name, always provided that one of the two signatures is that of the Chairman, the Managing Director, or the General Manager or one of the employees of the Bank in whom such right has been specifically vested.

The corporate signature shall be binding when it is jointly executed by two of the authorized persons appending their signatures under the Company's name. ~~always provided that one of the two signatures is that of the Chairman, the Managing Director, or the General Manager or one of the employees of the Bank in whom such right has been specifically vested.~~

The Board of Directors may, however, empower the corporate signature to be appended to certain categories of the Company's instruments of day-to-day administration jointly by any two of the authorized persons. The Board of Directors may moreover delegate to its members or to one of the employees of the Bank expressly so authorized the power to sign severally certain specific instruments or contracts of the Company.

2. ~~The Board of Directors may, however, empower~~ **The Managing Director, the General Manager (if appointed), and any two "Authorized Staff" jointly, may in turn assign** the corporate signature **under the powers vested in them and inter alia on an ongoing basis, to members of the Mediobanca Group and to external third parties for certain categories of the company's instruments of day-to-day administration, to be excercised jointly by two of them; or to represent the Bank:**
   - As shareholder, on a proprietary basis and/or on behalf of third parties, in the incorporation of companies and at general meetings of other companies;
   - In court and administrative proceedings, to be exercised jointly by any two of them. ~~to certain categories of the Company's instruments of day-to-day administration jointly by any two of the authorized persons~~.

The Board of Directors may furthermore delegate to employees of the Bank specifically so authorized the power to sign severally certain categories of the Company's instruments of day-to-day administration.

~~The Board of Directors may moreover delegate to its members or to one of the employees of the Bank expressly so authorized the power to sign severally certain specific instruments or contracts of the Company.~~

The Board of Directors may also grant the right to sign in the name of the Company to

3. ~~The Board of Directors may also~~ **The Managing Director, the General**

other Banks, always provided that such right shall be exercised only in relation to services performed on the Company's behalf. In such cases the Banks so authorized shall insert the words "per procura della Mediobanca - Banca di Credito Finanziario" above their own Company signature executed in accordance with the provisions of their Articles of Association.

Manager (if appointed), and any two "Authorized Staff" jointly, may also, under the powers vested in them, grant the right to sign in the name of the Company to other Banks, always provided that such right shall be exercised only in relation to services performed on the Company's behalf. In such cases the Banks so authorized shall insert the words "per procura della Mediobanca - Banca di Credito Finanziario" above their own Company signature executed in accordance with the provisions of their Articles of Association.

The power to represent the Bank as a Member, whether on its own behalf or on behalf of third parties, at the time companies are established and at General Meetings of other companies may also be exercised severally by the Chairman, the Managing Director, the General Manager or by employees of the Bank specifically designated by the Board of Directors.

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The power to represent the Company in judicial and administrative procedures shall be vested severally in the Chairman, the Managing Director and General Manager if appointed, and in employees of the Bank specifically designated by the Board of Directors for such purpose.

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SECTION V

Statutory Audit Committee

Article 28

Shareholders in ordinary general meeting appoint three standing and three alternate auditors and establish the emoluments payable to each auditor for each financial year. Statutory Auditors are entitled to receive refunds for the expenses incurred by them in the exercise of their duties. Their term of office is governed by regulations in force.

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Members of the Statutory Audit Committee shall be in possession of the requisite qualifications for holding such office expressly stipulated under regulations in force at the time, failing which they shall become ineligible or, in the event of such circumstances materializing subsequently, shall be disqualified from office.

In particular, with reference to professional qualifications, these are understood as being strictly pertinent to those in respect of the company, those listed under Article 1 of the Italian Consolidated Banking Act, and the provision of investment services or collective portfolio management, both of which as defined in Italian Legislative Decree 58/98.

Members of the Statutory Audit Committee may not hold posts in governing bodies other than those with responsibility for control of other Group companies or in companies in which Mediobanca holds, including indirectly, an investment which is deemed to be strategic under supervisory requirements laid down by the Bank of Italy.

In addition, without prejudice to the provisions of the law, candidates who hold the post of director, manager or officer in companies or entities, or who otherwise work with the management of companies operating directly or indirectly (including through subsidiaries) in the same sectors as Mediobanca may not be elected, or if already elected are disqualified from office.

Outgoing Statutory Audit Committee members may be re-elected.

Appointments to the Statutory Audit Committee are made on the basis of lists in which each candidate is numbered consecutively. Each list consists of two sections: one for candidates to the post of Standing Auditor, the other for candidates to the post of Alternate Auditor. Lists containing a number of candidates equal to or above three must ensure that the balance between male and female candidates complies with at least the minimum requirement

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stipulated by the regulations in force at the time. Ownership of the minimum percentage of the Company's share capital required to submit a list, in accordance with the indications provided in Article 15 above in respect of appointments to the Board of Directors, is established on the basis of shares recorded as being in the shareholders' possession at the date on which the lists are filed with the issuer.

One individual shareholder may not submit or vote for any more than one list, including via proxies or trustee companies. Shareholders belonging to the same group – that is, the parent company, subsidiaries and companies subject to joint control – or shareholders who are parties to a shareholders' agreement in respect of the issuer's share capital as defined under Article 122 of Italian Legislative Decree 58/98, may not submit or vote for more than one list, including via proxies or trustee companies. Individual candidates may only feature in one list, failing which they become ineligible.

Lists are deposited at the Company's head office at least twenty-five days prior to the date scheduled for the general meeting to be held in only instance called to adopt resolutions in respect of the appointment of statutory auditors, and shall include:

a) Information on the identity of the shareholders submitting the lists, with an indication of the aggregate percentage shareholding; ownership of the shares must be stated in accordance with the terms of the regulations in force; statement of ownership may also be produced subsequently, provided that it is forthcoming within the term provided for the issuer to make the lists public;
b) A statement from shareholders submitting the list other than those who own, including jointly, a controlling interest or relative majority, declaring the non-existence or existence as the case may be, of relations with the latter, as required by the provisions

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   b) A statement from shareholders submitting the list other than those who own, including jointly, a controlling interest or relative majority, declaring the non-existence or existence as the case may be, of relations with the latter,

of Article 144-quinquies, paragraph 1, of Consob regulation no. 11971/99;

c) Full information on the personal and professional characteristics of the candidates, a list of the management and/or supervisory posts held by them in other companies, plus a statement by the candidates themselves to the effect that they are in possession of the qualifications required under law and these Articles and agree to stand as candidates.

Lists submitted which do not conform to the above specifications shall be treated as null and void.

In the event that by the date on which the term for submission of lists has passed, only one list has been submitted, or only lists submitted by shareholders who are related as defined in Article 144-quinquies, paragraph 1 of Consob regulation no. 11971/99 based on the statements referred to under the foregoing paragraph 9, letter b) hereof, lists may be presented up to the third calendar day subsequent to such date. In this case the minimum percentage shareholding for submitting lists referred to under the foregoing paragraph 7 is reduced by half.

The proposals for appointments are disclosed to the public on the terms and according to the methods prescribed by law.

Before voting commences, the Chairman presiding over the general meeting reminds shareholders of any statements made pursuant to the foregoing paragraph 9, letter b) hereof, and invites shareholders taking part in the meeting who have not submitted or contributed to submitting lists, to declare any relations, as defined in Article 144-quinquies, paragraph 1 of Consob regulation no. 11971/99, with those shareholders who have submitted lists or with those who hold, including jointly, a controlling interest or relative majority.

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c) Full information on the personal and professional characteristics of the candidates, a list of the management and/or supervisory posts held by them in other companies, plus a statement by the candidates themselves to the effect that they are in possession of the qualifications required under law and these Articles and agree to stand as candidates.

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In the event of an individual related to one or more shareholders who have submitted or voted for the list ranking first in terms of number of votes voting for a minority list, such relationship shall assume significance only if the vote was decisive in the appointment of the auditor.

The following procedure is adopted for the appointment of statutory auditors:

a) Two statutory auditors and two alternate auditors are chosen based on the consecutive order in which they are numbered from the list obtaining the highest number of votes;

b) One standing auditor and one alternate auditor are chosen based on the consecutive order in which they are numbered in the respective list sections, from the list ranking second in terms of number of votes in general meeting and which under regulations in force is not linked even indirectly with the shareholders who submitted or voted for the list which ranked first.

In the event of the same number of votes being cast for more than one list, a new vote is held in the form of a ballot between the lists, with the candidates from the list which obtains a simple majority in this case being elected.

The candidate ranking first in the section for election of standing auditors in the list ranking second in terms of the number of votes cast is appointed Chairman of the Statutory Audit Committee.

In the event of only one list being submitted, shareholders in general meeting express their opinion on it; if the list obtains the majority required by law for the ordinary general meeting, the three candidates numbered consecutively in the relevant section are appointed standing auditors, and the three candidates numbered consecutively in the relevant section are appointed alternate

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14. The following procedure is adopted for the appointment of statutory auditors:
    a) Two statutory auditors and two alternate auditors are chosen based on the consecutive order in which they are numbered from the list obtaining the highest number of votes;
    b) One standing auditor and one alternate auditor are chosen based on the consecutive order in which they are numbered in the respective list sections, from the list ranking second in terms of number of votes in general meeting and which under regulations in force is not linked even indirectly with the shareholders who submitted or voted for the list which ranked first.

15. In the event of the same number of votes being cast for more than one list, a new vote is held in the form of a ballot between the lists, with the candidates from the list which obtains a simple majority in this case being elected.

16. The candidate ranking first in the section for election of standing auditors in the list ranking second in terms of the number of votes cast is appointed Chairman of the Statutory Audit Committee.

17. In the event of only one list being submitted, shareholders in general meeting express their opinion on it; if the list obtains the majority required by law for the ordinary general meeting, the three candidates numbered consecutively in the relevant section are appointed standing auditors, and the three candidates numbered consecutively in the relevant section are appointed alternate

auditors; the candidate listed first in the section for candidates to the post of standing auditor in the list submitted is appointed as Chairman of the Statutory Audit Committee.

If the Committee's composition fails to respect the regulations in force on the subject equal gender representation, the necessary replacements will be made in the order in which the candidates are presented.

In the event of no lists being submitted, or if the voting mechanism by lists provides a lower number of candidates appointed than the number established in these Articles, the Statutory Audit Committee is appointed or completed by shareholders in general meeting with the majorities provided by law while respecting the regulations in force on the subject of equal gender representation.

If more than one list is submitted, and in the event of a standing auditor leaving office, an alternate auditor from the same list shall take his place based on the consecutive numbering in the list and in compliance with the principle of equal gender representation.

The procedure for shareholders in general meeting to replace the number of standing and/or alternate auditors to complete the Statutory Audit Committee is as follows (again in compliance with the principle of equal gender representation): if auditors elected from the majority list or sole list have to be appointed, or auditors elected directly by shareholders in general meeting, appointments are made by means of a vote passed by a relative majority without restrictions in terms of lists; if, however, auditors elected from the minority list are to be replaced, shareholders gathered in general meeting replace them by means of a vote passed by a relative majority, but choosing from among the candidates indicated in the list which included the auditor to be replaced, or failing this, from among the candidates contained in any further minority lists.

auditors; the candidate listed first in the section for candidates to the post of standing auditor in the list submitted is appointed as Chairman of the Statutory Audit Committee.

18. If the Committee's composition fails to respect the regulations in force on the subject equal gender representation, the necessary replacements will be made in the order in which the candidates are presented.

19. In the event of no lists being submitted, or if the voting mechanism by lists provides a lower number of candidates appointed than the number established in these Articles, the Statutory Audit Committee is appointed or completed by shareholders in general meeting with the majorities provided by law while respecting the regulations in force on the subject of equal gender representation.

20. If more than one list is submitted, and in the event of a standing auditor leaving office, an alternate auditor from the same list shall take his place based on the consecutive numbering in the list and in compliance with the principle of equal gender representation.

21. The procedure for shareholders in general meeting to replace the number of standing and/or alternate auditors to complete the Statutory Audit Committee is as follows (again in compliance with the principle of equal gender representation): if auditors elected from the majority list or sole list have to be appointed, or auditors elected directly by shareholders in general meeting, appointments are made by means of a vote passed by ~~a relative~~ **the** majority **set by law** without restrictions in terms of lists; if, however, auditors elected from the minority list are to be replaced, shareholders gathered in general meeting replace them by means of a vote passed by ~~a relative~~ **the** majority **set by law,** but choosing from among the candidates indicated in the list which included the auditor to be replaced, or failing this, from among the candidates contained in any further minority lists.

In the event of there being no candidates on the minority list or lists, the appointment is made by means of a vote based on one or more lists, comprising a number of candidates not to exceed the number of auditors to be elected and such as to ensure compliance with the principle of equal gender representation, to be submitted prior to the general meeting in accordance with the provisions hereof for appointments to the Statutory Audit Committee, provided that lists may not be submitted (and if submitted are treated as null and void) by shareholders who, based on the statements made as required by regulations in force, hold a relative majority, including indirectly, of the voting rights that may be exercised in general meeting, or by shareholders related to them as defined in regulations in force. The candidates featured in the list which obtains the highest number of votes are appointed.

In the event that no lists are submitted that comply with the foregoing provisions, appointments shall be made on the basis of a vote passed by a relative majority without restrictions in terms of lists in compliance with the principle of equal gender representation.

In all circumstances which require the Chairman of the Committee to be replaced, the auditor taking his place also takes on the role of Chairman to the Statutory Audit Committee.

Article 29

The Statutory Audit Committee performs the duties and functions provided for under the regulations in force. In particular it is responsible for monitoring:

a) Compliance with legal, regulatory and statutory requirements, and observance of the principles of correct management;
b) The adequacy of the organizational and administrative/accounting structure of the company and its financial reporting process;

In the event of there being no candidates on the minority list or lists, the appointment is made by means of a vote based on one or more lists, comprising a number of candidates not to exceed the number of auditors to be elected and such as to ensure compliance with the principle of equal gender representation, to be submitted prior to the general meeting in accordance with the provisions hereof for appointments to the Statutory Audit Committee, provided that lists may not be submitted (and if submitted are treated as null and void) by shareholders who, based on the statements made as required by regulations in force, hold a relative majority, including indirectly, of the voting rights that may be exercised in general meeting, or by shareholders related to them as defined in regulations in force. The candidates featured in the list which obtains the highest number of votes are appointed.

22. In the event that no lists are submitted that comply with the foregoing provisions, appointments shall be made on the basis of a vote passed by ~~a relative~~ **<u>the</u>** majority **<u>set by law</u>** without restrictions in terms of lists in compliance with the principle of equal gender representation.

23. In all circumstances which require the Chairman of the Committee to be replaced, the auditor taking his place also takes on the role of Chairman to the Statutory Audit Committee.

Article 29

1. The Statutory Audit Committee performs the duties and functions provided for under the regulations in force. In particular it is responsible for monitoring:
   a) Compliance with legal, regulatory and statutory requirements, and observance of the principles of correct management;
   b) The adequacy of the organizational and administrative/accounting structure of the company and its financial reporting process;

c) The thoroughness, adequacy, functioning and reliability of the internal controls system and the risk appetite framework;
d) The legal auditing process for the annual and consolidated accounts;
e) The independence of the legal external auditors, in particular insofar as regards the provision of non-audit services;
f) The thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee is vested with the powers provided for under regulatory provisions in force, and reports to the Bank of Italy on operating irregularities or breaches of regulations detected in the course of its duties.

The Statutory Audit Committee is usually informed of the activities carried out and the most significant transactions in earnings, financial and capital terms, executed by the Company or its subsidiaries, and in particular transactions in which the Directors have an interest either in their own right or by means of third parties, including via the appointed bodies pursuant to Article 2381 of the Italian Civil Code, directly upon the occasion of meetings of the Board of Directors and Executive Committee (if appointed), which are held with the frequency established under the foregoing Article 21; note of this is duly made in the minutes of the respective meetings. Information is also furnished to the Statutory Audit Committee outside of meetings of the Board of Directors and Executive Committee (if appointed) in writing, addressed to the Chairman of the Statutory Audit Committee.

Statutory Audit Committee meetings may also be held via video- or tele-conference, provided that the persons entitled to attend may be properly identified, follow the discussions appropriately and speak in real time on items on the agenda; if such conditions are met, the Statutory Audit Committee is held to have met at the place where the Chairman is present.

c) The thoroughness, adequacy, functioning and reliability of the internal controls system and the risk appetite framework;
d) The legal auditing process for the annual and consolidated accounts;
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f) The thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee is vested with the powers provided for under regulatory provisions in force, and reports to the Bank of Italy on operating irregularities or breaches of regulations detected in the course of its duties.

2. The Statutory Audit Committee is usually informed of the activities carried out and the most significant transactions in earnings, financial and capital terms, executed by the Company or its subsidiaries, and in particular transactions in which the Directors have an interest either in their own right or by means of third parties, including via the appointed bodies pursuant to Article 2381 of the Italian Civil Code, directly upon the occasion of meetings of the Board of Directors and Executive Committee (if appointed), which are held with the frequency established under the foregoing Article 21; note of this is duly made in the minutes of the respective meetings. Information is also furnished to the Statutory Audit Committee outside of meetings of the Board of Directors and Executive Committee (if appointed) in writing, addressed to the Chairman of the Statutory Audit Committee.

3. Statutory Audit Committee meetings may also be held via video- or tele-conference, provided that the persons entitled to attend may be properly identified, follow the discussions appropriately and speak in real time on items on the agenda; if such conditions are met, the Statutory Audit Committee is held to have met at the place where the Chairman is present.

SECTION VI

Auditing

Article 30

Legal auditing shall be carried out by a duly registered external legal auditor, whose terms of appointment, duties and responsibilities shall be governed by law and regulations.

SECTION VII

Financial Year and Balance Sheet

Article 31

The Company's financial year shall begin on 1 July of each year and shall end on 30 June of the following year.

Article 32

The Board of Directors shall draw up the balance sheet for the year and shall submit it to shareholders in general meeting for approval.

In its Report to shareholders in general meeting, the Board shall refer to all matters which may assist in providing the most comprehensive account possible of the Company's operations and the state of its affairs.

Article 33

At least 10% of the net profit for each financial year shall be deducted therefrom and taken in the first instance to the Legal Reserve pursuant to Article 2430 of the Civil Code with any balance being allocated to the Statutory Reserve. Should the Board of Directors so propose, the General Meeting may then also resolve that any further sums be deducted

SECTION VI

Auditing

Article 30

1. Legal auditing shall be carried out by a duly registered external legal auditor, whose terms of appointment, duties and responsibilities shall be governed by law and regulations.

SECTION VII

Financial Year and Balance Sheet

Article 31

1. The Company's financial year shall begin on 1 July of each year and shall end on 30 June of the following year.

Article 32

1. The Board of Directors shall draw up the balance sheet for the year and shall submit it to shareholders in general meeting for approval.
2. In its Report to shareholders in general meeting, the Board shall refer to all matters which may assist in providing the most comprehensive account possible of the Company's operations and the state of its affairs.

Article 33

1. At least 10% of the net profit for each financial year shall be deducted therefrom and taken in the first instance to the Legal Reserve pursuant to Article 2430 of the Civil Code with any balance being allocated to the Statutory Reserve. Should the Board of Directors so propose, the General Meeting may then also resolve

which it is deemed prudent either to allocate to the Statutory Reserve for the purpose of increasing its resources, or to set aside in order to establish other reserves of an extraordinary or special nature.	that any further sums be deducted which it is deemed prudent either to allocate to the Statutory Reserve for the purpose of increasing its resources, or to set aside in order to establish other reserves of an extraordinary or special nature.
The remainder shall be shared among the shareholders, with the exception of any amounts carried forward.	2. The remainder shall be shared among the shareholders, with the exception of any amounts carried forward.
SECTION VIII	**SECTION VIII**
Winding-up	**Winding-up**
Article 34	Article 34
The liquidation of the Company shall be governed by the provisions of the law.	1) The liquidation of the Company shall be governed by the provisions of the law.
Temporary provision	~~**Temporary provision**~~
The amendments to Article 15 paras. 1, 3, 4, 9, 15 and Article 23 (the latter with reference only to the number of members) and the whole of Article 19 shall take effect starting from the first reappointments made to the governing bodies following the approval of the new version of the Articles of Association by the shareholders in general meeting.	~~The amendments to Article 15 paras. 1, 3, 4, 9, 15 and Article 23 (the latter with reference only to the number of members) and the whole of Article 19 shall take effect starting from the first reappointments made to the governing bodies following the approval of the new version of the Articles of Association by the shareholders in general meeting.~~

b) Vest the Chief Executive Officer and the General Manager, jointly and severally, with the widest powers to incorporate into this resolution any amendment, change or addendum that may be required or otherwise requested by the competent authorities;

c) Authorize the Chief Executive Officer and the General Manager, jointly and severally, to perform every formality necessary to ensure that the resolutions hereby adopted are duly registered in the Milan Companies' Register.

Milan, 16 September 2020

THE BOARD OF DIRECTORS

Extraordinary business

Report by Board of Directors on item no. 2 on the agenda

RENEWAL OF POWERS TO INCREASE SHARE CAPITAL PURSUANT TO ARTICLE 2443 OF THE ITALIAN CIVIL CODE ALREADY VESTED IN THE BOARD OF DIRECTORS UNDER ARTICLE 4 OF THE ARTICLES OF ASSOCIATION; RELATED RESOLUTIONS

Dear Shareholders,

We have called you together in extraordinary general meeting to submit to your approval the proposal to renew the powers already provided for in the Articles, in order to: (i) reduce the amount of time necessary to implement a capital increase, to allow the Bank to take advantage of any market opportunities (powers to increase the share capital via rights issues), or alternatively (ii) implement the performance share schemes in force at the time (powers to increase the share capital via bonus issues), while maintaining the same amounts.

Accordingly, we submit the three resolutions illustrated below to your approval.

1. **Renewal of authorization to the Board of Directors pursuant to Articles 2443 and 2420-ter of the Italian Civil Code to increase the Company's share capital by means of rights and/or bonus issues in an amount of up to €100m, and to issue bonds convertible into ordinary shares and/or cum warrants, in an amount of up to €2bn. Amendments to Article 4 of the Company's Articles of Association and related resolutions.**

Shareholders are reminded that, at an extraordinary annual general meeting held on 28 October 2015, the shareholders of Mediobanca authorized the Board of Directors, under Article 2443 of the Italian Civil Code, to increase the Company's share capital within a term of five years in an amount of up to €100m, including via warrants, and also, under Article 2420-ter of the Italian Civil Code, to issue bonds convertible into ordinary shares and/or shares cum warrants, in an amount of up to €2bn, provided that the exercise of said mandates did not lead to the issue of a total number of shares in excess of 200 million.

Given that the above powers will expire in October 2020 and have not yet been exercised even in part, we propose renewing the authorization concerned in respect of the same amount and for the same duration, with the new term being set for 28 October 2025.

The said powers allow the execution times for capital increases to be reduced, which are especially lengthy in comparison with European practice, and the size of such increases to be established on the basis of specific opportunities, and the risk of changes in share prices from the time of the announcement to the time when the deal is executed to be minimized.

In this connection, the amendment will allow market opportunities to be leveraged for the purpose of supporting the Group's growth in connection with the 2019-23 strategic plan approved last year.

2. **Renewal of authorization to the Board of Directors pursuant to Article 2443 of the Italian Civil Code to increase the Company's share capital by means of rights issues in an amount of up to €40m, including via warrants, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441, paragraph four, second sentence, of the Italian Civil Code. Amendment to Article 4 of the company's Articles of Association and related resolutions.**

Shareholders are reminded that, at an Extraordinary General Meeting held on 28 October 2015, shareholders approved a resolution authorizing the Board of Directors, under Article 2443 of the Italian Civil Code, to increase the company's share capital, on or prior to the fifth anniversary of the date of the said resolution in an amount of up to €40m, including via warrants, through the issue of up to 80 million par value €0.50 ordinary shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded, under and pursuant to the provisions of Article 2441, paragraph four, second sentence of the Italian Civil Code, in accordance with the procedure and conditions set forth therein, with the right to establish the issue price of the shares from time to time (again in accordance with the provisions of Article 2441, paragraph four, second sentence of the Italian Civil Code).

Given that the above powers will expire in October 2020 and have not yet been exercised even in part, we propose renewing the authorization concerned in respect of the same amount and for the same duration, with the new term therefore being set at 28 October 2025.

These powers too are intended to reduce the execution times for capital increases without option rights, and so allow potential market opportunities to be leveraged.

3. **Renewal of authorization pursuant to Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge by an amount of up to €10m through the award, as permitted by Article 2349 of the Italian Civil Code, of an equivalent amount of profits or profit reserves as shown in the most recent financial statements approved, through the issue of no more than 20 million shares to be reserved to Mediobanca Group employees in execution of the performance share schemes in force at the time. Amendment to Article 4 of the Company's Articles of Association and related resolutions.**

Shareholders are reminded that, at an annual general meeting held on 28 October 2015, the shareholders of Mediobanca approved the adoption of a performance share scheme – then updated by shareholders at the general meeting held on 28 October 2019 – and authorized the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the Company's share capital free of charge in order to implement the above scheme until 28 October 2020. In these five years, pursuant to the above authorization and in execution of the said scheme, the Board of Directors has increased the Company's share capital by an amount of € 8,293,826.00 via the issue of 16,587,652 new shares(1). As at the date hereof, a total of 6,045,853 of these shares have been issued.

As illustrated in the Board's report submitted to the approval of shareholders at today's ordinary general meeting, the Directors of Mediobanca have decided, at the Remunerations Committee's proposal, to submit the new performance share scheme to your approval.

In view of the fact that the existing powers to increase the Company's share capital expire in October 2020, you are invited to adopt the following proposal to authorize the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the Company's share capital free of charge, in one or more tranches and

([1]) Data have been updated following Board's resolution of 16/09/2020 which is being filed with the Companies' Register.

for a period of up to five years from the date hereof, and therefore until 28 October 2025, in accordance with the provisions of Article 2349 of the Italian Civil Code, in an amount of up to €10m, via the issue of up to 20 million ordinary shares, to be assigned to Mediobanca Group staff members in execution of the performance share schemes. Such capital increase is to be made via the use of profits or profit reserves as per the most recent financial statements approved from time to time. Shareholders are reminded that provision has already been made in the Articles of Association for the right, pursuant to Article 2349 of the Italian Civil Code, to award profits to employees of the Company or Group companies.

****

It is hereby specified that the amendments above are not such as to grant shareholders the right of withdrawal and are subject to authorization from the European Central Bank.

Accordingly, the Board of Directors invites you to adopt resolutions in respect of the foregoing.

Resolutions submitted to the approval of shareholders in extraordinary general meeting

Dear shareholders,

In view of the foregoing, we hereby invite you to:

Resolution no. 1

a) Authorize the Board of Directors:

- Under Article 2443 of the Italian Civil Code, to increase the Company's share capital, by means of rights issues and/or bonus issues in one or more tranches on or prior to the fifth anniversary of the date of this resolution in an amount of up to €100m, including via warrants, through the issue of up to 200 million ordinary shares to be offered as an option or assigned to shareholders, and accordingly, to establish from time to time the issue price of the new shares, including the share premium, if any, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising the warrants attached to the shares to be issued;

- Under Article 2420-ter of the Italian Civil Code, to issue bonds convertible into ordinary shares and/or shares cum warrants, in one or more tranches on or prior to the fifth anniversary of the date of this resolution, in an amount of up to €2bn, to be offered as an option to shareholders, and accordingly, to establish from time to time the conversion ratio of the bonds to be issued and any other feature thereof, and to authorize the corresponding increase in the Bank's share capital for use in the conversion of the bonds;

b) Establish that exercise of the mandates set forth under point a) above shall not, without prejudice to the foregoing, lead to the issue of a total number of shares in excess of 200 million;

c) Amend Article 4 of the Company's Articles of Association by deleting paragraph 6 thereof and adding a new paragraph as follows:

CURRENT TEXT	PROPOSED TEXT
Article 4	Article 4
omissis	*omissis*
The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights or bonus issues in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 100m, including via warrants, through the issue of up to 200 million ordinary par value Euro 0.50 shares, to be offered in option or otherwise allotted to shareholders, and also to establish the issue price of such new shares from time to time, including the share premium, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising warrants, and is further authorized under Article 2420-ter of the Italian Civil Code to issue bonds convertible into ordinary shares and/or shares cum warrants in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 2bn to be offered in option to shareholders, establishing that exercise of such authorizations shall not, without prejudice to the foregoing, lead to the issue of a total number of shares in excess of 200 million.	~~The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights or bonus issues in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 100m, including via warrants, through the issue of up to 200 million ordinary par value Euro 0.50 shares, to be offered in option or otherwise allotted to shareholders, and also to establish the issue price of such new shares from time to time, including the share premium, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising warrants, and is further authorized under Article 2420-ter of the Italian Civil Code to issue bonds convertible into ordinary shares and/or shares cum warrants in one or more tranches by and no later than 28 October 2020, in a nominal amount of up to Euro 2bn to be offered in option to shareholders, establishing that exercise of such authorizations shall not, without prejudice to the foregoing, lead to the issue of a total number of shares in excess of 200 million.~~
	The Board of Directors is also authorized under Article 2443 of the Italian Civil

	<u>Code, to increase the Bank's share capital by means of rights or bonus issues in one or tranches by and no later than 28 October 2025, in an amount of up to Euro 100m, including via warrants, throught the issue of up to 200 million ordinary shares, to be offered in option or otherwise allotted to shareholders, and also to establish the issue price of such new shares from time to time, including the share premium, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising warrants, and is further authorized under Article 2430-ter of the Italian Civil Code to issue bonds convertible into ordinary shares and/or shares cum warrants in one or more tranches by and no later than 28 October 2025, in an amount of up to Euro 2bn, to be offered in option to shareholders, establishing that exercise of such authorizations shall not, without prejudice to the foregoing, lead to the issue of a total number of shares in excess of 200 million.</u>
omissis	*omissis*

d) Authorize the Chief Executive Officer and the General Manager in office at the time, jointly and severally and to every legal effect, to adjust the figures contained in Article 4 of the Articles of Association regarding the Company's share capital to reflect the issuance of new shares, and to perform every formality necessary to ensure that the resolutions hereby adopted are duly registered in the Milan Companies' Register.

Resolution no. 2

a) Authorize the Board of Directors, under Article 2443 of the Italian Civil Code, to increase the company's share capital by means of rights issues, in one or more tranches, on or prior to the fifth anniversary of the date of this resolution in an amount of up to €40m, including via warrants, through the issue of up to 80 million shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded, under and pursuant to the provisions of 2441, paragraph four, second sentence of the Italian Civil Code, in accordance with the procedure and conditions set forth therein, with the right to establish the issue price of the shares from time to time (again in accordance with the provisions of Article 2441, paragraph four, second sentence of the Italian Civil Code);

b) Amend Article 4 of the company's Articles of Association, deleting paragraph 7 and adding a new paragraph as set forth below:

CURRENT TEXT	CURRENT TEXT
Article 4	Article 4
omissis	*omissis*
The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights issues in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 40m including via warrants, through the issue of up to 80 million ordinary par value Euro 0.50 shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441 paragraph 4 point 2 of the Italian Civil Code and in compliance with the procedure and conditions precedent set forth therein.	~~The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights issues in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 40m including via warrants, through the issue of up to 80 million ordinary par value Euro 0.50 shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441 paragraph 4 point 2 of the Italian Civil Code and in compliance with the procedure and conditions precedent set forth therein.~~ **The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital by means of rights issues in one or more tranches by and not later than 28 October 2025, in an amount of up to Euro 40m, including via warrants, through the issue of up to 80 million ordinary shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded under and pursuant to the provisions of Article 2441, paragraph 4 point 2 of the Italian Civil Code and in compliance with the procedure and conditions precedent set forth therein.**
omissis	*omissis*

c) Authorize the Chief Executive Officer and the General Manager in office at the time, jointly and severally and to every legal effect, to adjust the figures contained in Article 4 of the Articles of Association regarding the Company's share capital to reflect the issuance of new shares, and to perform every formality necessary to ensure that the resolutions hereby adopted are duly registered in the Milan Companies' Register.

Resolution no. 3

a) a)Authorize the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the Company's share capital free of charge, in one or more tranches and for a period of up to five years from the date hereof, and therefore until 28 October 2025, in an amount of up to €10m through the award, under the terms of Article 2349 of the Italian Civil Code, of the equivalent amount of profits or profit reserves as per the most recent financial statements approved from time to time, via the issue of up to 20 million shares, to be reserved to Mediobanca Group staff members in execution of the performance share schemes in force from time to time;

b) Amend Article 4 of the Company's Articles of Association by deleting paragraph 5 thereof and adding a new paragraph as follows:

CURRENT TEXT	CURRENT TEXT
Article 4	Article 4
omissis	omissis
The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge as permitted by Article 2349 of the Italian Civil Code, in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 10m through the issue of no more than 20 million ordinary par value Euro 0.50 shares, ranking for dividends pari passu, to be awarded to Mediobanca Group employees in execution of and in compliance with the terms of the performance share schemes approved by shareholders in general meeting.	~~The Board of Directors is also authorized under Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge as permitted by Article 2349 of the Italian Civil Code, in one or more tranches by and not later than 28 October 2020, in a nominal amount of up to Euro 10m through the issue of no more than 20 million ordinary par value Euro 0.50 shares, ranking for dividends pari passu, to be awarded to Mediobanca Group employees in execution of and in compliance with the terms of the performance share schemes approved by shareholders in general meeting.~~

	<u>The Board of Directors is also authorized, under Article 2443 of the Italian Civil Code, to increase the Bank's share capital free of charge as permitted by Article 2349 of the Italian Civil Code, in one or more tranches by and no later than 28 October 2025, in an amount of up to Euro 10m through the issue of no more than 20 million ordinary shares, ranking for dividends pari passu, to be awarded to Mediobanca Group employees in execution of and in compliance with the terms of the performance share schemes approved by shareholders in general meeting.</u>
omissis	*omissis*

c) To authorize the Chief Executive Officer and the General Manager in office at the time, jointly and severally and to every legal effect, to adjust the figures contained in Article 4 of the Articles of Association regarding the Company's share capital to reflect the issuance of new shares, and to perform every formality necessary to ensure that the resolutions hereby adopted are duly registered in the Milan Companies' Register.

Milan, 16 September 2020

The Board of Directors

ACCOUNTS OF THE BANK

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Overview

The Bank reported a net profit of €39.4m for the twelve months, representing a sharp reduction on last year (€386.2m), due chiefly to lower dividends on investments, in addition to the effects of the Covid-19 pandemic on net treasury income and provisions.

Revenues were down 33%, from €840.2m to €562.9m, and reflect the following trends:

– Net interest income rose by 8.8%, from €91.8m to €99.9m, on a lower Cost of funding and higher lending volumes which offset the widespread reduction in returns on assets;

– Net trading income was down 31.3%, from €184.9m last year (an especially positive result) to €127.1m; this item was affected by the market correction at end-March 2020 which was only recovered in part by end-June;

– Net fee and commission income was basically stable at €231.7m, helped by a healthy contribution from private banking which added €69.7m (€54.1m), offsetting the reduction in fees earned from investment banking to €162m (30/6/19: €177m);

– Dividends from investments reduced from €332.4m to €104.2m, reflecting the decision by Compass Banca to cancel this year's dividend (a €150m dividend was paid last year), plus the partial deferral of the Assicurazioni Generali 2019 dividend [1] (€101.4m, compared with €182.4m) last year.

Operating costs were down 4%, from €419.6m to €402.7m, in particular labour costs (down 7.8%, from €240.8m to €221.9m), reflecting the cut in the variable remuneration component; meanwhile administrative expenses were virtually unchanged, up 1.1% (from €178.8m to €180.8m).

[1] The Board of Directors of Assicurazioni Generali confirmed to the group's shareholders that a €0.96 dividend would be paid, in two tranches: one of €0.50 per share, paid in May 2020; and one of €0.46 per share, payable by the year-end subject to the Board verifying that the capital and regulatory requirements are met.

Loan loss provisions reflect the increase in provisioning for performing positions, calculated based on the new macroeconomic scenario [2] which led to a further approx. €42m being set aside, thus swallowing up the majority of the writebacks credited as a result of two substantial UTP positions returning to performing status; overall net writebacks of €15.7m were credited, much lower than the €58.6m booked last year.

Provisions for other financial assets totalled €21.8m (€4.8m), after downward adjustments to other funds and securities recognized at fair value amounting to €11.3m, and higher provisioning for the banking book portfolios (up from €3.6m to €10.5m) reflecting the impact of IFRS 9 and the downgrade in the republic of Italy's rating in May 2020 (€3.3m).

Writedowns to investments totalled €61.4m (€4.2m) mainly include the impairment charges to the investment in RAM (€56.9m), plus €4.5m to cover Cairn Capital's current operating losses recorded at end-2019.

Results for the year were impacted by higher payments to the resolution and deposit guarantee funds (up from €29m to €39.7m), €29.9m of which to the Single Resolution Fund.

On the balance-sheet side, total assets were down slightly from €65.9bn to €64.8bn, due to lower treasury asset volume: i.e. trading assets (from €10bn to €9.2bn) and banking book securities (from €10.8bn to €9.6bn). Conversely, customer loans grew from €28.7bn to €30.5bn, matched by growth in funding which reflects the increased use of T-LTRO facility (from €4.3bn to €5.7bn, €3bn of which in connection with the new programme).

Mediobanca's capital ratios as at 30 June 2020 reflect the most recent updates to the relevant regulations (the CRR, plus Bank of Italy circular no. 285 on related parties [3]) comfortably above the limits set by the regulations and higher than last year: the Common Equity Ratio increased from 14.37% to 14.81% despite the modest profit for the twelve months. Much of the increase is

[2] The internal scenario adopted assumes Italian GDP will fall by 11.6% in 2020, recover by 0.8% in 2021 and climb 5.2% in 2022; for the Eurozone the figures are respectively -9.2%, +0.1% and +4.7%, for the United States -10.8%, +7.6% and 6.0% (the Group's other two core geographies).

[3] The most recent update to Bank of Italy circular no. 285 amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the "Danish Compromise") are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group's investment in the Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

due to the new accounting treatment for the Assicurazioni Generali investment following changes to the regulations on related parties, application of which has resulted in direct and indirect deductions being approx. 35 bps lower. The total capital ratio remained stable at 18.25%. In view of the good performance in its capital ratios, Mediobanca has decided not to take up the option of using the additional phase-in measures (or "prudential filters") introduced by the regulator in recent months to neutralize the effect of the impairment charges taken under IFRS 9 and the reduction in valuation reserves for EU government securities.

The fully-loaded ratios, i.e. without weighting the Assicurazioni Generali investment at 370% and with full application of the IFRS 9 effect, stood at 13.7% (CET1 ratio) and 17.6% (total capital ratio), higher than last year (CET1 ratio: 13.1%; total capital ratio: 17.4%).

In view of the guidance issued by the regulators and the economic scenario being so uncertain, the Board of Directors has decided not to propose payment of a dividend this year.

Financial highlights

The profit and loss account and balance sheet have been restated to provide the most accurate reflection of the Bank's operations. The results are also presented in the format recommended by the Bank of Italy in the annex.

RESTATED PROFIT AND LOSS ACCOUNT

(€ m)

Profit-and-loss data	30/06/19	30/06/20	Chg. (%)
Net interest income	91.8	99.9	8.8%
Net treasury income	184.9	127.1	-31.3%
Net fee and commission income	231.1	231.7	0.3%
Dividends on investments	332.4	104.2	-68.7%
Total income	**840.2**	**562.9**	**-33.0%**
Labour costs	(240.8)	(221.9)	-7.8%
Administrative expenses	(178.8)	(180.8)	1.1%
Operating costs	**(419.6)**	**(402.7)**	**-4.0%**
Loan loss provisions	58.6	15.7	-73.2%
Provisions for other financial assets	(4.8)	(21.8)	n.m.
Impairment on investments	(4.2)	(61.4)	n.m.
Other income (losses)	(29.0)	(39.7)	36.9%
Profit before tax	**441.2**	**53.0**	**-88.0%**
Income tax for the period	(55.0)	(13.6)	-75.3%
Net profit	386.2	39.4	-89.8%

RESTATED BALANCE SHEET

(€ m)

	30/06/19	30/06/20
Assets		
Financial assets held for trading	10,047.3	9,214.7
Treasury financial assets	11,517.4	10,306.8
Banking book securities	10,779.3	9,592.2
Customer loans	28,671.0	30,507.4
Equity Investments	3,876.5	4,089.0
Tangible and intangible assets	147.6	168.4
Other assets	869.0	959.4
Total assets	**65,908.1**	**64,837.9**
Liabilities and net equity		
Funding	42,753.7	46,273.9
Treasury financial liabilities	8,636.2	4,614.1
Financial liabilities held for trading	8,280.3	8,351.7
Other liabilities	925.1	762.7
Provisions	126.0	121.6
Net equity	4,800.6	4,674.5
Profit of the period	386.2	39.4
Total liabilities and net equity	**65,908.1**	**64,837.9**
Regulatory capital (€ mln)	*4,456.2*	*4,617.7*
Solvency margin (€ mln)	*5,668.5*	*5,689.1*
RWA (€ mln)	*31,005.8*	*31,179.4*
Regulatory capital/RWA	*14.37%*	*14.81%*
Solvency margin/RWA	*18.28%*	*18.25%*
No. of shares outstanding (mln)	*887.2*	*887.2*
Market capitalization (€ mln)	*8,116.3*	*5,669.4*
No. of staff	*986*	*1,008*

Review of key items

Funding - funding grew from €42.8bn to €46.3bn, chiefly reflecting the increased use of the T-LTRO instrument (up from €4.3bn to €5.7bn, including €3bn for the most recent programme). There were also increases in deposits gathered via CheBanca! (from €11.7bn to €12.2bn) and the Private Banking channel (from €4bn to €4.3bn). The increase in debt security funding (from €15.8bn to €16.3bn) reflects the completion of the funding plan for the financial year, with new issues of €3.9bn, against redemptions and buybacks totalling €3.4bn. The Bank's first senior non-preferred bond was issued in January 2020 (maturing in five years at 1.125%), thus increasing the Group's already comfortable MREL position by €500m.

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Debt securities	15,785.8	37%	16,331.8	*35%*	*3.5%*
Interbank funding	5,744.9	13%	5,439.3	*12%*	*-5.3%*
ECB (T-LTRO / LTRO)	4,322.4	10%	5,660.8	*12%*	*31.0%*
Other funding	16,900.6	40%	18,842.0	*41%*	*11.5%*
- of which: CheBanca! intercompany	*11,685.5*	*27%*	*12,166.5*	*26%*	*4.1%*
- of which: private banking	*3,989.4*	*9%*	*4,330.3*	*9%*	*8.5%*
Total funding	**42,753.7**	**100%**	**46,273.9**	**100%**	**8.2%**

Loans and advances to customers - the 6.4% increase in customer loans, from €28.7bn to €30.5bn, chiefly regards loans to corporates, which rose from €11.1bn to €12.4bn, following new loans of €4.5bn against redemptions amounting to €3.2bn, €1.2bn of which were early redemptions; loans to Private Banking customers were basically stable at €1.1bn. The increase in exposures to Group companies (which rose from €16.5bn to €17bn) mainly involved CheBanca! and the decision to gradually transfer interest rate and liquidity risks on mortgages to treasury management at the parent company level.

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Corporate customers	11,057.4	39%	12,413.7	41%	12.3%
Private customers	1,156.3	4%	1,144.8	4%	-1.0%
Group companies	16,457.3	57%	16,948.9	55%	3.0%
Total loans and advances to customers	**28,671.0**	**100%**	**30,507.4**	**100%**	**6.4%**
– of which: impaired assets	*386.7*		*287.2*		*-25.6%*

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Italy	8,399.9	69%	9,020.6	67%	7.4%
France	1,245.5	10%	1,275.0	9%	2.4%
Spain	826.3	7%	892.0	7%	8.0%
Germany	648.0	5%	1,243.1	9%	91.8%
UK	500.0	4%	653.4	5%	30.7%
Other non-resident	594.0	5%	474.4	3%	-20.1%
Total loans and advances to customers	**12,213.7**	**100%**	**13,558.5**	**100%**	**11.0%**

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Compass Banca	4,840.9	29%	4,822.0	28%	-0.4%
CheBanca!	5,711.5	35%	6,974.3	42%	22.1%
Leasing	1,352.0	8%	1,091.6	6%	-19.3%
Mediobanca International	2,972.1	18%	2,341.8	14%	-21.2%
Others	1,580.8	*10%*	1,719.2	*10%*	8.8%
Total loans and advances to Group companies	**16,457.3**	**100%**	**16,948.9**	**100%**	**3.0%**

Gross non-performing loans totalled €469m (€643m), and largely involve four corporate exposures (two fewer than last year, with the nominal value €160m lower) and four Private Banking positions (unchanged); they account for 3.5% of total loans (30/6/19: 5.3%). Net NPLs meanwhile totalled €287m (€387m), equal to 2.1% of the total loan book (compared with 3.2% last year), with a coverage ratio of 38.7% (39.9%). Bad debts, all of which in relation to Private Banking activity, were unchanged at €11m and have been written off almost entirely (99.8%). The figures also include non-performing exposures for positions backed by intercompany guarantees issued to Mediobanca International involving a gross amount of €16.3m, with provisions of €3.9m.

In response to the economic crisis generated by the Covid-19 emergency, Mediobanca has adhered to the provisions introduced by the "Cura Italia" decree,[4] allowing all SME clients with mortgages to suspend repayments for a period of time.[5] Such items in any case involve only a residual number of clients: as at 30 June 2020, only three counterparties had taken up this option, involving a total amount of €1.2m.[6]

Mediobanca has received around thirty applications for waivers to financial covenants from corporate clients; only five of these resulted in a payment of principal amount or interest being postponed, involving a total of €12m. Given the

[4] Italian Decree Law 18/20 (known as the "Cura Italia" decree), as converted into Italian Law 27/20.

[5] Article 54 of the "Cura Italia" decree (the so-called "Gasparrini Fund") and Article 12 of the "Decreto Liquidità".

[6] Article 54 of the "Cura Italia" decree (the so-called "Gasparrini Fund") and Article 12 of the "Decreto Liquidità".

temporary nature of the difficulties and the lack of structural liquidity problems in these cases, the majority of the waivers granted have not been classified as forbearance measures, reducing the number of positions reclassified as Stage 2 to just four. The Stage 2 positions decreased from €527.9m to €437.2m (3.2% of total loans).

Equity investments - this heading includes controlling interests, interests in associates, shares held as part of the banking book and classified as Hold to Collect and Sell, and holdings in funds which under IFRS 9 have to be recognized at fair value through profit and loss.

(€ m)

	30/06/19		30/06/20	
	Book value	HTC&S reserve	Book value	HTC&S reserve
Associates and subsidiaries	3,191.7		3,150.7	
Other listed shares	102.6	52.7	112.5	62.5
Other unlisted shares	33.7	10.9	26.5	3.7
Other unlisted shares	0.0		160.0	
Seed capital	382.6		413.7	
Private equity	63.6		68.5	
Other funds	102.3		157.1	
Total equities	**3,876.5**	**63.6**	**4,089.0**	**66.2**

The increase in equity investments, from €3.9bn to €4.1bn, is chiefly attributable to Mediobanca subscribing to an Additional Tier 1 instrument issued by CheBanca! (€160m), the purpose of which is to optimize the individual leverage ratio, which includes intercompany positions.

Investments in associates are unchanged at €1,135.3m, and chiefly regard the stakes held in:

– Assicurazioni Generali, equal to 12.9% of the ordinary share capital booked at €1,096.3m, which reflects a gain at the reporting date of €1.634,3m (€1.470,1m based on current prices);

– Istituto Europeo di Oncologia (25.4% of the ordinary share capital), carried at €39m.

Interests in subsidiaries decreased from €2,056.4m to €2,015.4m, chiefly due to the impairment charges for RAM totalling €46.4m, which became necessary following the sharp contraction in the company's earnings due to redemptions by institutional clients and the reduced growth prospects as a result. During the twelve months Mediobanca's investment in Cairn Capital increased from 60.8%

to 70.9%, after subscribing to a capital increase by the company (in an amount of €4.5m, to cover the losses incurred by Cairn in 2019, which accordingly was written off entirely to earnings) and buying out minority interests (for €3.7m).

Equities (listed and unlisted) rose from €136.3m to €139m, due to upward adjustments to reflect fair value at the reporting date totalling €3m, which were taken through net equity reserves. Seed capital invested in funds managed by Group companies rose by €31.1m, representing the difference between net investments for the twelve months (adding €41m) and alignment to the investments' respective NAVs at the reporting date (accounting for a total of €12.1m). Holdings in private equity and other funds increased from €165.9m to €225.5m, following net payments of €57.5m (chiefly due to subscription to a new fund with ABS as underlying instrument) and upward value adjustments totalling €2.1m.

	Percentage shareholding	30/6/19	30/6/20
Associates			
Assicurazioni Generali	12.9	1,096.3	1,096.3
Istituto Europeo di Oncologia	25.4	39.0	39.0
Total associates		**1,135.3**	**1,135.3**
Total subsidiaries		2,056.4	2,015.4
- of which RAM		*143.4*	*97.0*
Total equity investments		**3,191.7**	**3,150.7**

Banking book securities – these include securities recognized at amortized cost (under the "Hold-To-Collect" business model, or "HTC") and FVOCI ("Hold-To-Collect and Sell", or HTC&S), and debt securities which have failed the SPPI test which, under IFRS 9, have to be recognized at FVPL.

	30/6/19		30/6/20	
	(€ m)	%	(€ m)	%
Hold to Collect	6,975.5	64.7%	6,053.2	63.1%
Hold to Collect & Sell	3,748.2	34.8%	3,485.9	36.3%
Other (mandatorily measured at FV)	55.6	0.5%	53.1	0.6%
Total banking book securities	**10,779.3**	**100%**	**9,592.2**	**100%**

This segment reflects a value of €9,592.2m following purchases of €5.2bn (mostly Italian government securities classified as HTC&S), with sales and redemptions totalling €6.4bn and profit-taking of €51.6m. The OCI reserve decreased from €36.2m to €13.1m, mainly due to the sales for the period referred to above, plus downward fair value measurements at the reporting date of €6.3m.

Roughly half this item consists of sovereign debt securities, which increased from €4.3bn to €4.4bn, €3bn of which Italian, with duration of approx. four years. The Group's securitizations (with Compass Banca receivables as the underlying instrument) represent almost 30% of the total, despite reducing in the twelve months from €3.9bn to €2.6bn in line with the repayment schedule.

Unrealized gains on securities classified as HTC (which are recognized at Cost) decreased from €61.9m to €49.6m.

	30/06/19			30/06/20		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government securities	920.4	1,161.3	4.8	1,293.1	1,740.0	2.6
Other government securities	534.2	1,701.8	5.0	533.0	873.6	(0.4)
Bonds issued by financial institutions	5,277.1	663.3	15.6	4,009.9	613.3	8.3
of which: Consumer Banking ABS securities	*3,851.8*			*2,574.3*		
Corporate bonds	243.8	221.8	10.8	217.2	259.0	2.6
Total banking book securities	**6,975.5**	**3,748.2**	**36.2**	**6,053.2**	**3,485.9**	**13.1**

Net treasury assets – the balance between financial instruments held for trading purposes and trading assets and liabilities totalled €6,555.7m, far higher than the €4,648.2m reported last year, due to the increased recourse to deposits held with the ECB which totalled €3.1bn (€632.1m), and were only part offset by a substantial reduction in the net balance of trading instruments, which halved (from €1,767m to €863m), reflecting both the decrease in equity investments (from €2,589.6m to €1,789.7m) and a rise in issues of certificates (from €864.4m to €1,357.1m).

	30/06/19	30/06/20	Chg.
	(€ m)	(€ m)	%
Financial assets held for trading	10,047.3	9,214.7	-8.3%
Treasury funds	11,517.4	10,306.8	-10.5%
Financial liabilities held for trading	(8,280.3)	(8,351.7)	0.9%
Treasury funding	(8,636.2)	(4,614.1)	-46.6%
Total Net treasury assets	**4,648.2**	**6,555.7**	**41%**

	30/06/19	30/06/20	Chg.
	(€ m)	(€ m)	%
Loan trading	6.9	3.9	-43%
Derivatives contract valuations	(95.5)	(170.9)	79%
Certificates	(864.4)	(1,357.1)	57%
Equities	2,589.6	1,789.7	-31%
Bond securities	130.4	597.4	n,m,
Financial instruments held for trading	**1,767.0**	**863.0**	**-51%**

	30/06/19	30/06/20	Chg.
	(€ m)	(€ m)	%
Cash and current accounts	402.7	1,179.7	n.m.
Cash available at ECB	632.1	3,101.4	n.m.
Deposits	1,846.4	1,411.6	-24%
Net treasury	**2,881.2**	**5,692.7**	**98%**

(€ m)

	30/06/19		30/06/20	
	Assets	Liabilities	Assets	Liabilities
Italian government securities	2,356.8	(2,126.7)	1,274.8	(1,109.2)
Other government securities	1,041.5	(2,021.0)	606.2	(1,828.4)
Bonds issued by financial institutions	627.2	—	1,291.3	—
Corporate bonds	161.2	—	333.7	—
Asset Backet Securities (ABS)	91.4	—	29.0	—
Shares	2,739.6	(150.0)	2,014.8	(225.1)
Total banking book securities	**7,017.7**	**(4,297.7)**	**5,549.8**	**(3,162.7)**

(€ m)

	30/06/19		30/06/20	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	1,062.3	(892.5)	1,073.2	(959.0)
Foreign exchange	387.9	(266.5)	223.2	(278.3)
Interest rate options/futures	10.4	(20.5)	43.6	(10.5)
Equity swaps e options	1,072.2	(1,387.7)	2,135.3	(2,337.0)
Credit derivaties	490.2	(551.3)	185.6	(247.1)
Derivative contract valuations	**3,023**	**(3,118.5)**	**3,660.9**	**(3,831.9)**

(€ m)

	30/06/19		30/06/20	
	Assets	Liabilities	Assets	Liabilities
Securities lending/Repos deposits	6.360,8	(4.005,1)	3.134,7	(2.596,1)
Stock lending deposits	672,3	(948,9)	324,4	(318,7)
Other deposits	3.449,5	(3.682,2)	2.566,6	(1.699,3)
Deposits	**10.482,6**	**(8.636,2)**	**6.025,7**	**(4.614,1)**

Tangible and intangible assets – the increase in this item for the twelve months (up 14%, from €147.6m to €168.4m) refers to the introduction of IFRS 16, which has led to a Right of Use being booked in respect of assets leased totalling €22.7m. Depreciation and amortization in particular rose to €9.2m, given that as from this year this item also includes the effect of IFRS 16 (€6m).

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Land and properties	111.1	75%	129.3	77%	16%
- of which: core	*86.2*	*58%*	*104.8*	*62%*	*22%*
Other tangible assets	4.0	3%	10.0	6%	150%
Other intangible assets	32.5	22%	29.2	17%	-10%
- Of which: goodwill	*12.5*	*8%*	*12.5*	*7%*	*0%*
- Of which: brand	*15.5*	*11%*	*15.5*	*9%*	*0%*
Total tangible and intangible assets	**147.6**	**100%**	**168.4**	**100%**	**14%**

A list of the Bank's core properties is provided below:

	Sqm.	Book value (€m)	Book value per sqm (€/000)
Milan:			
– Piazzetta Enrico Cuccia n. 1	9,318	14.5	1.6
– Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari 6	13,390	*62.7*	4.7
– Foro Buonaparte n. 10	2,926	*9.0*	3.1
Total core properties	**25,634**	**86.2**	

Provisions – provisions totalled €121.6m, slightly lower than the figure reported last year (€126m), despite the sharp increase in amounts set aside for commitments to disburse finance and guarantees (which rose from €22m to €42.5m) following adjustment to the new macroeconomic scenario. Indeed, other provisions totalling €27.1m were released during the twelve months, mostly those that had been set aside to cover tax risk, after the dispute over funds transfer pricing with Mediobanca International was settled, against new provisions of €2.2m (mostly to cover overdue invoices and liquidation costs in connection with the Frankfurt branch office). The staff severance component was basically in line with last year at €7.7m (€7.8m).

	30/06/19		30/06/20		Chg.
	(€ m)	%	(€ m)	%	
Commitments and financial guarantees given *	22.0	17%	42.5	35%	93.2%
Provisions for risks and charges	96.2	76%	71.4	59%	-25.8%
Staff severance provision	7.8	6%	7.7	6%	-1.3%
of which: staff severance provision discount	*0.8*	—	*0.9*	—	*12.5%*
Total provisions	**126.0**	**100%**	**121.6**	**100%**	**-3.5%**

* With the introduction of Bank of Italy circular no. 262/2005, fifth amendment, collective provisions in respect of commitments to disburse funds and guarantees issued, which previously were accounted for as "Other liabilities", are now treated as "Provisions for risks and charges".

Net equity – net equity reduced from €5,186.8m to €4,713.9m, reflecting reductions in the various components for the twelve months only in part offset by the profit for the year (€39.4m); the main movements included:

– Distribution of the 2019 dividend (€408.5m);

– Completion of the share buyback scheme, with the purchase of 13 million shares worth €105.5m, to reach the target of 3% of the share capital, i.e. 26.6 million shares, including the distribution of 1.7 million shares in November 2019 in connection with the performance share scheme;

– Lower valuation reserves, down from €85.7m to €74m, mostly due to the share of FVOCI assets (the balance of which declined from €80.3m to €70.5m).

Share capital was unchanged at €443.6m, while first-time adoption of IFRS 16 [7] had virtually no impact (involving only a charge of €32,000).

(€ m)

	30/06/19	30/06/20	Chg.
Share capital	443.6	443.6	0.0%
Other reserves	4,271.3	4,156.9	-2.7%
Valuation reserves	85.7	74.0	-13.7%
-of which: OCI	*80.3*	*70.5*	*-12.2%*
cash flow hedge	*(3.4)*	—	*n.m.*
Profit for the period	386.2	39.4	-89.8%
Total net equity	**5,186.8**	**4,713.9**	**-9.1%**

Of the OCI reserve, €66.3m involved shares and €13.1m bonds and other securities (€2.6m of which Italian government securities) net of the €8.9m tax effect.

(€ m)

	30/06/19	30/06/20	Chg.
Equity shares	63.6	66.3	4.2%
Bonds	36.2	13.1	-63.8%
of which: Italian government bonds	*4.8*	*2.6*	*-45.8%*
Tax effect	(16.1)	(8.9)	-44.7%
Total OCI reserve	**83.7**	**70.5**	**-15.8%**

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

Profit and loss account

Net interest income - Net interest income rose from €91.8m to €99.9m, an increase of 8.8%, due to the lower Cost of funding helped by use of less expenses funding sources (i.e. T-LTRO), despite the widespread reduction in returns on assets (in particular banking book securities and loans to large corporates) and the substantial liquidity position maintained to preserve the LCR and NSFR indicators.

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Interest income	644.2	585.9	-9.0%
Interest expense	(552.4)	(486.0)	-12.0%
Interest margin	**91.8**	**99.9**	**8.8%**

Net treasury income totalled €127.1m, down 31.3% on the outstanding performance delivered last year (€184.9m). The market crisis post-Covid 19 was reflected in all segments: Capital Market Solutions client activity decreased from €128.3m to €83m, impacted by the prohibition and/or postponement 2019 dividends on the valuation of options used to hedge certificates issued (the impact is estimated at approx. €30m); gains on the banking book reduced from €48.9m to €36.2m, following a negative performance by Derivatives used in connection with trading book management; proprietary trading delivered a €7.7m loss, representing a €10.6m reduction on last year; and dividends on OCI shares and other income from funds decreased from €18.3m to €15.6m.

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Dividends	18.3	15.6	-14.8%
Fixed-income trading profit	108.6	77.6	-28.5%
Equity trading profit	58.0	33.9	-41.6%
Net trading income	**184.9**	**127.1**	**-31.3%**

Net fee and commission income were virtually unchanged from last year at €231.7m (€231.1m), due to a good performance in Private Banking (up from €54.1m to €69.7m, following the resumption of performance fees which added €7.3m), offsetting the reductions posted by the other areas of investment banking: lending (down 16.1%, from €40.3m to €33.8m, due to reduced acquisition finance activities); capital markets (down 20.9%, from €28.9m to €22.9m, due to the difficult market conditions); and advisory business (down 4.4%, from €82.2m to €78.6m, despite signs of recovery in 4Q).

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Lending	40.3	33.8	-16.1%
Advisory M&A	82.2	78.6	-4.4%
Capital Market	28.9	22.9	-20.8%
Sales and Markets	9.2	9.6	4.3%
Private Banking	54.1	69.7	28.8%
of which perfomance fees	0.4	7.3	n.m.
Other income	16.4	17.1	4.3%
Net fee and commission income	**231.1**	**231.7**	**0.3%**

Dividends from equity investments and associates - these totalled €104.2m (€332.4m), consisting of the Assicurazioni Generali dividend (which reduced sharply, from €182.4m to €101.4m, given that payment of roughly half the 2019 dividend was postponed from May until November), plus a one-off distribution by Spafid in an amount of €2.8m (paid in cash as to €1.5m, with payment of the other €1.3m to be made by delivery of an equivalent amount in gold, to be booked under Other assets). It should be noted that the shareholders of Compass Banca, gathered in extraordinary general meeting, decided to cancel payment of the 2019 dividend (a €150m dividend was paid last year).

Operating costs - the decrease in operating costs, which were down 4% (from €419.6m to €402.7m), was due to labour costs (down 7.8%, from €240.8m to €221.9m), in particular to the sharp reduction in the variable remuneration component following the decision by members of the governing bodies to waive part of the emoluments due to them;[8] the aggregate saving (€640,000) has been earmarked for charitable initiatives supported by the Group. Administrative expenses rose by 1.1% (from €178.8m to €180.8m), including Covid-related expenses totalling €1m and donations to charity amounting to €1.8m.

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Labour costs	240.8	221.9	-7.8%
of which: directors	*3.4*	*2.8*	*-17.6%*
stock options and performance shares schemes	*11.2*	*11.2*	*0.0%*
Sundry operating costs and expenses	178.8	180.8	1.1%
of which: depreciations and amortizations	*9.9*	*13.6*	*37.4%*
administrative expenses	*168.6*	*166.5*	*-1.2%*
Operating costs	**419.6**	**402.7**	**-4.0%**

[8] Chairman Renato Pagliaro, Chief Executive Officer Alberto Nagel and Group General Manager Francesco Saverio Vinci all waived the emoluments due to them in respect of their positions as Board members, while the Directors and Statutory Auditors of Mediobanca elected to waive 20% of their annual emoluments.

The table below shows a breakdown of other administrative expenses by type.

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Legal, tax and professional services	11.8	11.6	-1.7%
Other consultancy expenses	21.1	16.8	-20.2%
Marketing and communication	4.4	3.8	-13.6%
Rent and property maintenance	10.2	4.8	-52.9%
EDP	61.6	65.8	6.8%
Financial information subscription	20.0	22.3	11.5%
Bank services, collection and payment commissions	2.0	2.9	45.0%
Operating expenses	5.9	6.3	6.8%
Other labour costs	9.9	6.5	-34.3%
Other costs	16.6	19.1	15.2%
Direct and indirect taxes	5.1	6.5	27.5%
Total administrative expenses	**168.6**	**166.5**	**-1.3%**

Overheads were basically flat at €180.8m (€178.8m), with administrative expenses reducing very slightly (down 1.3%), despite leasing instalments (including on company cars assigned to staff) and property renting charges being reclassified as depreciation and amortization (for a total of approx. €6m) following the adoption of IFRS 16. During the twelve months under review there were substantial savings in the area of spending on consultancy services (which were down 20.2%, from €21.1m to €16.8m); this, however, was more than offset by the planned increases in IT spending (info-provider and data processing costs).

Loan loss provisions (writebacks) - the sharp reduction in writebacks (from €58.6m to €15.7m) reflects the recalculation of the IFRS 9 provisioning for performing loans, which has been adapted to the new macroeconomic scenario, involving an amount of €42m, roughly €7m of which in connection with intercompany exposures. These adjustments eroded the €60m writebacks deriving from two substantial UTP positions returning to performing status.

Provisions for other financial assets[9] - During the year under review, provisions were taken in an amount of €21.8m, including €1m in intercompany accounts; €4.8m of which HTC&S, €3.6m HTC, and €2.1m other financial assets (principally time deposits and Repos). Recognition of holdings in funds at fair value, in particular seed capital invested in equity products (RAM) and credit products (Cairn) was in negative territory at €11.3m (€1.2m).

[9] Under IFRS 9, the impairment process is extended to include all financial assets (securities, Repos, deposits and current accounts) recognized at Cost (HTC) and debt securities recognized FVOCI (HTC&S), including intercompany accounts.

(€ m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Hold-to-Collect securities	(2.8)	(5.7)	n.m.
Hold-to-Collect & Sell securities	(0.8)	(4.8)	n.m.
Other	(1.2)	(11.3)	n.m.
Total	**(4.8)**	**(21.8)**	**n.m.**

Impairment charges to investments - this item totals €61.4m, and includes the effects of the €56.9m charge taken for the RAM investment (€10.5m of which in relation to the Swiss franc hedge), and the writeoff of the Bank's contribution to the capital increase by Cairn to cover the €4.5m operating loss incurred by the company in 2019.

Other gains and losses - this heading contains the contributions to the resolution and deposit guarantee funds, which impacted on the results for the year, rose from €29m to €39.7m, in particular the higher payment made to the Single Resolution Fund (which rose from €20.9m to €29.9m), reflecting the increase in deposits at system level, which also caused the one-off payment to the Italian national resolution system (which increased from €7.6m to €9.5m).

Income tax - income tax for the year decreased from €55m to €13.6m, a reduction which was significantly lower than the decline in profit before tax (from €441.2m to €53m), due to the lower percentage accounted for by dividends on investments assisted by partial exemption, and due to the fact that the impairment charges to investments are no longer tax-deductible. The tax rate too was affected by the fact that part of depreciation and amortization charges and other administrative expenses are no longer deductible for IRAP tax purposes, and rose from 12.5% to 25.7% as a result.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions, Futuro and Spafid Connect. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

* * *

Significant events that have taken place during the twelve months under review include:

- in October 2020 an agreement was reached with the Italian authority Agenzia delle Entrate regarding the dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International SA (based in Luxembourg) in the financial years from 2012-13 to 2016-17. The agreement entailed extra costs of €21m plus interest (but no fines). At the same time, Mediobanca agreed on a new funds transfer pricing methodology with the tax authority that should minimize tax risk in the future. The Bank also took the opportunity to voluntarily release profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, when the Italian transparency tax mechanism was not yet operative for companies headquartered in countries with favourable tax regimes (blacklisted countries). The impact on earnings was largely absorbed by amounts released from the provision for risks and charges resulting from the analysis of the tax risk subsequent to the agreement being finalized;
- a Crisis Unit was established to tackle the healthcare emergency, chaired by the Group General Manager, with the objective of ensuring the Group's operations while safeguarding the health and safety of staff and clients; working from home was encouraged, working hours were reduced at the retail branches (which remained open during the lockdown period but were operative basically by appointment only), and a specific healthcare policy was adopted;
- in this year, which will be remembered above all for the outbreak of the Covid-19 pandemic, the Group has continued to focus its attention on the communities in which it operates and their institutions. During phase 1 of the emergency, a total of €1.1m was donated to the region of Lombardy, the Milan municipality fund for mutual assistance, and the Luigi Sacco Hospital also in Milan (this sum includes contributions made by the Group's own staff). During June, a further €950,000 was donated to three solidarity initiatives selected by the Group CSR Committee: the "Sempre con Voi" fund to support the families of doctors and healthcare workers who lost their lives fighting Covid-19; the mutual assistance fund of the city of Bergamo, and non-profit organization "Mission Bambini" which provides IT equipment to children in need. These donations also reflect the decision on the part of management, directors and statutory auditors to forego or reduce their salaries.[10]

[10] Chairman Renato Pagliaro, Chief Executive Officer Alberto Nagel and Group General Manager Francesco Saverio Vinci all waived the emoluments due to them in respect of their positions as Board members, and committed to donating 30 percent of their fixed salaries for May-December 2020 to initiatives linked to the emergency. The statutory auditors of Mediobanca have also elected to support the initiatives, waiving 20% of their annual emoluments.

Related party disclosure

Financial accounts outstanding as at 30 June 2020 between companies forming part of the Mediobanca Group and related parties and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in respect of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts fall within the company's ordinary operations, are maintained on an arm's length basis, and are entered into in the interests of the Group itself. No atypical or unusual transactions have been entered into with these counterparties.

Other information

With regard to securities trading, a total of 35.2 million Mediobanca shares were traded on behalf of customers, worth €274.2m.

Information regarding the Bank's ownership structure as required under Article 123-bis of Italian Legislative Decree 58/98 is contained, as permitted by the regulations themselves, in a separate statement published together with the review of operations, which is available on the Bank's website (in the Governance section).

Assets which have been revalued and recorded in the balance sheet are listed in table A.

The other information on ratings and research is shown on p. 79 of the consolidated Review of Operations.

Information on the most important litigation pending involving the Bank is also provided in Liabilities, section 10.

Outlook

The outlook for the next financial year remains conditional upon the macroeconomic scenario which is weak and uncertain. The Bank has launched a series of initiatives to keep down the Cost of funding and increase the proprietary portfolio's contribution, including through temporary use of the T-LTRO programme which is expected to boost net interest income. Fee income should increase, driven by Corporate and Investment Banking, where the deal pipeline is decidedly robust, whereas Private Banking could see effects on performances and placements. In the absence of any market corrections which are not foreseeable, the contribution from net trading income should return to the levels seen in previous years, as should dividends from the equity investments. Costs are expected to increase slightly, as a result of the IT investment plan being confirmed. The Cost of risk should remain at positive levels, and again will be conditional upon the performance of the UTP positions.

Milan, 16 September 2020

THE BOARD OF DIRECTORS

Financial year ended 30 June 2020: proposal to approve financial statements and allocation of profit for the year

Dear shareholders,
The net profit for the year was €39,358,757.73.

In Recommendation 2020/35 of 27 July 2020, the ECB asked supervised banks not to pay dividends for the 2019 and 2020 financial years in view of the uncertainties over the extent and duration of the effects of the Covid-19 pandemic on the European and international economies.

Accordingly, you are invited to approve the following:

(i) Financial statements for the year ended 30 June 2020, including the balance sheet, profit and loss account and accompanying schedules; and

(ii) Allocation of the profit for the twelve months, as follows:

Net profit for the year	€ 39,358,757.73
To the Legal Reserve	€ 1,727.00
To the Statutory Reserve	€ 39,357,030.73

Milan, 16 September 2020

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

DECLARATION IN RESPECT OF THE INDIVIDUAL
FINANCIAL STATEMENTS
as required by Article 81-ter of Consob resolution no. 11971
issued on 14 May 1999 as amended

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the separate financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2020.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the separate financial statements as at 30 June 2020 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT framework).

3. It is further hereby declared that
   3.1 the separate financial statements:
      – have been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002
      – correspond to the data recorded in the company's books and account ledgers;
      – is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer
   3.2 the review of operations contains reliable analysis of the Mediobanca's operating performance and results, and of its situation, along with a description of the main risks and uncertainties to which it is exposed.

Milan, 16 September 2020

Chief Executive Officer	Head of Company Financial Reporting
Alberto Nagel	*Emanuele Flappini*

AUDITORS' REPORT

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Mediobanca SpA

Financial Statements as of 30 June 2020

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Mediobanca SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mediobanca SpA (the Company), which comprise the Balance Sheet as of 30 June 2020, the Profit and Loss Account, the Comprehensive Profit and Loss Account, the Statement of Changes to Net Equity, the Cash Flow Statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 30 June 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of equity investments in subsidiaries and associates *Notes to the accounts:* *Part A- Accounting policies, Section 2 paragraph "A.2 Significant accounting policies – Equity investments".* *Part B – Notes to the Individual Balance Sheet, "Section 7, Heading 70: Equity investments".* *Part C – Notes to individual profit and loss account, "Section 15, Heading 220: Gain (loss) on equity investments".* As at 30 June 2020 the carrying amount of equity investments amounted to Euro 3,150.7 million, of which Euro 2,015.4 million referred to subsidiaries pursuant to IFRS 10, and Euro 1,135.3 million related to associates pursuant to IAS 28. During the financial year, losses on equity investments were charged for Euro 50.9 million of which Euro 46.4 million due to the partial impairment of the carrying amount of the subsidiary RAM Active Investments S.A. The Directors are required to assess the recoverable amount of equity investments recognised in the financial statements, at least once a year, (so-called "impairment test"), whether there is any indication that an asset may be impaired during the year. In accordance with IAS 36 this assessment is based on the comparison between the carrying amount and the higher of the fair value less costs of disposal and the value in use of each cash generating unit ("CGU") to which the equity investments subject to impairment test relate. The recoverable amount of each equity investment was estimated by the Directors, also with the support of independent third-party experts, by applying consolidated and acknowledged methodologies consistent with the prevailing practice requiring the use of information, parameters and assumptions that	In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate to the circumstances, we took into account the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following activities were performed also with the support of experts belonging to the PwC network: • Understanding and evaluation of the process and methodology adopted by the Directors to carry out the impairment tests of the equity investments; • Verification that the valuation method adopted was in line with the requirements of IAS 36, taking account of the acknowledged practice, the distinctive characteristics of each equity investment, as well as the recent communications from the Supervisory Authorities issued following the Covid-19 health emergency; • Verification of the completeness of the scope of the equity investments tested for impairment and, on a sample basis: - Comparison of the forecast data prepared during the previous year with the actual data of the current year in relation to each equity investment, in order to verify the reasonableness of the Directors' assumptions ; - Critical analysis of the reasonableness of the future projections revised by the Directors in light of the uncertainty linked to the Covid-19 health emergency; - Assessment of the criteria to determine the main quantitative parameters (cost of capital, discount and growth rates) developed by the Directors also with the support of independent third party experts and used to perform impairment tests;

result in a high degree of complexity of the estimation processes, with particular reference to the expected future cash flows. For the current year the estimation process proved to be far more complex considering the exceptional macro-economic scenario due to the Covid-19 health emergency; when deemed necessary, the Directors have therefore adjusted their estimates of cash flows projections. For the reasons set out above, we considered the recoverable amount of equity investments in subsidiaries and associates as a key audit matter for the audit of the financial statements of Mediobanca as at 30 June 2020.	- Verification of the accuracy of the impairment tests prepared by the Directors through an independent recalculation and comparison between the recoverable amount of each equity investment with its carrying amount; - Examination of the sensitivity analyses performed by the Directors on the main quantitative parameters, whose change could significantly impact the estimated recoverable amount; - Verification of the appropriateness and completeness of disclosures provided by the Directors in the notes to the accounts as required by the International Financial Reporting Standards and the applicable regulatory framework, as well as the recent communications from the Supervisory Authorities issued in the aftermath of the Covid-19 health emergency.
Valuation of loans to customers measured at amortized cost *Notes to the accounts:* *Part A – Accounting policies.* *Part B – Notes to the Individual Balance Sheet, Assets, Section 4 and Section 12.* *Part C – Notes to Individual Profit and Loss Account, Section 8.* *Part E – Information on risks and related hedging policies – 1.1 Credit risk.* As of 30 June 2020 loans to customers were equal to Euro 18,142.4 million, corresponding to 78 per cent of line item "*40 b) Financial assets at amortized cost – due from customers*", equal to Euro 23,173.6 million and corresponding to 28 per cent of total assets in the individual financial statements. Net losses onloans to customers charged in the year amounted to Euro 3.9 million.	In performing our audit we considered internal control relevant to financial reporting. In order to define appropriate auditing procedures, we also took account of the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following main activities were performed also with the support of experts belonging to the PwC network: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software applications used; • Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of loans to custormers and tests of operating effectiveness of those controls; • Verification, on a sample basis, of the

We paid special attention to the measurement of the above assets in the course of our audit considering the materiality of the balance as well as the complexity of the measurement processes and methods.

Estimation processes require significant assumptions, aside from the verification of the SICR (Significant Increase in Credit Risk) and the allocation of the portfolios to the various risk stages (Staging), also when determining the hypotheses and inputs to the ECL (Expected Credit Loss) models and, in relation to the assets measured individually (third stage), when estimating the expected future cash flows, the timing of those cash flows, and the realisable value of any collateral.

During the current year these estimation processes proved to be far more complex considering the exceptional nature of the present macro-economic scenario due to the Covid-19 health emergency which required, as also pointed out in the recent communications from the Supervisory Authorities and the standard setters, the update of the processes and methods to measure loans, with particular regard to the SICR determination, and the reasonableness of the forward looking information used when defining the expected macro-economic scenarios for the determination of the ECL.

reasonableness of the policies, procedures and models used to measure the SICR, for the stage allocation and for determining the ECL, on both a collective and individual basis. Special attention was paid to the parties which adopted and benefited from supporting measures on the Company's initiative (typically waivers of covenants and rescheduling) following the Covid-19 health emergency;

- Understanding and verification of the criteria to determine the inputs used in the models for ECL calculation. Specifically, we verified the reasonableness of the estimates made by the Directors when defining the expected macro-economic scenarios with specific regard to the adjustments to the satellite model forecasts used to estimate the risk parameters such as the PD (Probability of Default) and the LGD (Loss Given Default), with a view to consider the increased risk in the current context linked to the Covid-19 health emergency. Specific tests were performed on the correct application of the credit conversion factors for off-balance sheet commitments and exposures;
- Verification of the correct application of the models defined for performing loans (first and second stage), of the completeness and accuracy of the data bases used in the ECL calculation and the accuracy of the calculation formulas of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification among performing loans (first and second stage) and among non-performing loans (third) based on the available information on the debtor's status and other available evidence,

including from external sources. With specific regard to non-performing loans (third stage), specific analyses were conducted in relation to the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collaterals securing those exposures and the estimated timing of recovery;

- Examination of the sensitivity analyses carried out by the Directors on the expected losses recorded at year-end compared with changes to the expected macro-economic scenario in the short/medium term;
- Verification of the completeness and adequacy of the disclosures provided in the notes to the accounts by the Directors in accordance with the requirements of the International Financial Reporting Standards and the regulatory framework as well as the recent communications issued by the Supervisory Authorities and the standard setters following the Covid-19 health emergency.

Measurement of complex financial instruments (securities and derivatives) not quoted in active markets and measured at fair value on a recurring basis

Notes to the accounts:
Part A – Accounting policies – A.2 Significant accounting policies and A.4 Information on fair value.
Part B – Notes to the Individual Balance Sheet, Assets, Section 2, Section 3 and Section 5, Liabilities, Section 1, Section 2, Section 3 and Section 4.
Part C – Notes to Individual Profit and Loss Account,
Section 4, Section 5 and Section 7.
Part E – Information on risks and related hedging policies
– 1.2 Market risks.

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, to address this key audit matter we performed the following main activities:

- Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software application used;
- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of financial instruments with fair value hierarchy levels 2 and 3 and test of the operating effectiveness of those

As part of our audit we paid special attention to the analysis of the valuation models of complex financial instruments not quoted in active markets and measured at fair value on a recurring basis.

Certain types of securities and derivative instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

As of 30 June 2020 financial instruments measured at fair value on a recurring basis with fair value hierarchy levels 2 and 3 showed a positive fair value equal to Euro 4,884.8 million, corresponding to about 7.5 per cent of total assets in the balance sheet and a negative fair value equal to Euro 4,682.2 million, corresponding to about 7 per cent of total balance sheet liabilities.

This was considered as a key audit matter due to the materiality of the amount, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used, beside being numerous and different in relation to the type of instruments, require specific qualitative and quantitative assumptions that can bring significantly different results.

controls;
- Understanding and verification of the appropriateness of the policies, procedures and valuation models used by the Company to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness of the qualitative and quantitative assumptions made and inputs used as well as the adjustments to certain parameters in order to reflect the use of updated macro-economic scenarios following the Covid-19 health emergency. These analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company’s ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 27 October 2012, the shareholders of Mediobanca SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 30 June 2013 to 30 June 2021.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Mediobanca SpA as of 30 June 2020, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Mediobanca SpA as of 30 June 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Mediobanca SpA as of 30 June 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 1 October 2020

PricewaterhouseCoopers SpA

Signed by

Raffaella Preziosi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

STATUTORY AUDITORS' REPORT

STATUTORY AUDIT COMMITTEE'S REPORT
as required under Article 153 of Italian Legislative Decree 58/98.

Dear Shareholders,

This report, which has been prepared as required under Article 153 of Italian Legislative Decree 58/98 (the "Italian Consolidated Finance Act"), refers to the activities carried out by the Statutory Audit Committee (the "Statutory Audit Committee") of Mediobanca S.p.A. ("Mediobanca", the "Bank" or the "Company") during the financial year ended 30 June 2020, in accordance with the relevant regulations, and taking into account the Rules of Conduct for Statutory Audit Committees recommended by the Italian national council of chartered accountants and accounting experts. During the course of the year, the Statutory Audit Committee met on a total of 28 occasions, 12 of which with the Risks Committee; it also took part in 9 Board meetings, 6 Executive Committee meetings, 10 Related Parties' Committee meetings, and 6 Remuneration Committee meetings.

1. Supervision of compliance with law and Articles of Association

The Statutory Audit Committee has received regular information from the directors, *inter alia* through participating in meetings of the Board of Directors, Executive Committee and the other Board committees, on the activities carried out, the management actions performed, and based on the information available, the Committee is able to provide reasonable confirmation that these transactions have been carried out in compliance with the provisions of the law and the company's Articles of Association.

Significant events during the twelve months under review which the Statutory Audit Committee considers appropriate to recall here in view of their relevance to assessment of the Bank's solidity and the consistency of the management decisions made with the strategic guidelines established in the 2019-23 business plan include the following:

– On 12 November 2019, the Board of Directors approved the guidelines of its 2019-23 Strategic Plan, with the objective of generating growth in revenues, earnings, profitability and shareholder remuneration, to the satisfaction of all the Group's stakeholders, while preserving its high risk/return profile;

– The results of the Supervisory Review and Evaluation Process conducted by the ECB (the “SREP Decision 2019”) confirmed the quantitative indicators set the previous year; the authority asked Mediobanca to maintain a Pillar 2 requirement (“P2R”) of 1.25%, one of the lowest in Italy; with the application of Article 105 of CRD V being brought forward, the minimum CET1 ratio to be maintained on a consolidated basis reduces from 8.25% to 7.94%, while the Total SREP Capital Requirement (“TSCR”) is unchanged at 11.75%;
– In order to address the outbreak of the Covid-19 pandemic, the Bank acted on three fronts: a Crisis Unit was set up, chaired by the Group General Manager, with the objective of ensuring the Group’s operations; it participated in the initiatives adopted by the Italian government and category associations to support households and businesses; and it supported entities, institutions and associations involved in the medical and social emergency by various donations.

With reference to relations with the authorities, the Statutory Audit Committee has at all times been kept updated by the relevant company units – in particular the Risk Management unit insofar as regards the ECB and the Bank of Italy, and the Compliance unit for Consob and the antitrust authorities – of the enquiries and checks made by the authorities. The Risk Management unit informs the Committee on a monthly basis of the various activities performed by the ECB, presents the results of such activities, and reports on the remediation actions in progress for problems raised by the authority.

Particular attention has been devoted by the Statutory Audit Committee to the action plans agreed with the ECB for work to be done in connection with managing data quality and the IT infrastructure, the 2019 SREP letter and the ECB Guidance on leveraged transactions.

As far as regards relations with the Bank of Italy, the Committee has reviewed the reports on the inspections carried out at Group companies during the course of the year and has sent its own considerations on them to the authority.

2. Monitoring compliance with principles of proper management

The Statutory Audit Committee has been informed regarding, and has monitored, the Bank’s compliance with the principles of proper management, by obtaining information from the heads of the control units and the Head of Company Financial Reporting, and through meetings with the External Auditors involving the mutual exchange of relevant data and information. It also met with the Chief Executive Officer and Group General Manager on several occasions in the course of the financial year, to obtain information on the operating performance, internal controls system and the principal risks facing the company. During these meetings the Committee was able to note that the reporting flows from the main company units had been regular, and that the Board of Directors had been kept informed on an ongoing basis.

The Statutory Audit Committee may therefore reasonably affirm that the operations performed have been carried out in accordance with the principles of proper management, and that the operating decisions have been taken on the basis of adequate reporting flows being made available and with awareness of the risks involved.

In particular, with regard to the most significant earnings, financial and capital transactions executed by the Bank and supervised by the Committee, the latter is able to reasonably confirm that the transactions referred to are compliant with the provisions of the law and the company's Articles of Association and are not manifestly imprudent, reckless, in conflict with the resolutions adopted by shareholders in annual general meeting, or such as to compromise the integrity of the company's capital. The transactions in which Directors had interests were approved in accordance with the provision of the law, regulations and Articles of Association in force. The disclosure required under Article 150 of the Italian Finance Act was made by the Chief Executive Officer and the Head of Company Financial Reporting in the disclosure provided in connection with the annual and interim financial statements.

The Statutory Audit Committee also noted that no atypical and/or unusual transactions have been entered into with Group companies, third parties or related parties, that is to say, no transactions that could give rise to doubts over the accuracy and/or thoroughness of the information contained in the financial statements, over conflicts of interest, the safe keeping of the company's capital, or the protection of minority shareholders.

Our meetings with members of the main Group companies' review Statutory Audit Committees and review of their annual reports on the financial statements revealed no critical issues. Equally, no such issues emerged from our meetings with the same Committees regarding the activities performed as supervisory bodies instituted pursuant to Italian Legislative Decree 231/01.

The Statutory Audit Committee also expressed its opinion on the remuneration of directors when requested.

3. Supervisory activity of the adequacy of the Bank's organizational structure

The Bank's organizational structure has not changed materially during the twelve months under review. In this period, however, work has continued on streamlining certain internal units, in particular as follows:

– A combined Mid-Corporate & Sponsor Solutions team has been set up, to enhance synergies in initiatives to promote Mediobanca's activities versus corporates and financial sponsors;

– A London Branch Oversight Committee has been set up, in accordance with the new Senior Managers Regime which is also applicable to European banks' branches. The Committee meets at least once a month and is chaired by the London branch office manager, and consists of the local control units, the local HR Officer, and the head of the local Staff and Operations unit (who acts as Secretary to the Committee).

In view of the United Kingdom's imminent departure from the European Union (commonly referred to as "Brexit"), Mediobanca has applied for the necessary clearances to be able to continue operating in a non-EU member state through its London branch office. The European Central Bank has granted the authorizations, although they shall not come into effect until the transitional period for the UK to leave the European Union has ended (31 December 2020). The UK Financial Conduct Authority has not yet said by what date Mediobanca will have to submit a formal request for authorization, even though it has already received formal notice from the Bank of its intention to continue operating in the UK.

To ensure continuity of operations for the Bank and to take account of the guidance/requirements set by the competent authorities, Mediobanca has transferred some of its staff from the London branch office to its offices in Milan, Paris and Madrid. It has also enhanced the organizational and control measures in place to ensure that the regulations on promoting and/or providing investment services from the United Kingdom in the EU and vice versa are not breached, if authorization to provide financial services is not released.

The Statutory Audit Committee has also supervised the performance of the parent company's activities of co-ordination and control over the Group companies. The Bank has adopted Group Regulations to define the organizational architecture, co-ordination mechanisms and governance instruments, and the areas for which the parent company's central units have jurisdiction and responsibility. Each individual legal entity's Board of Directors must also approve the Group Regulations, as well as any internal regulations of its own insofar as these are consistent with those of the Group.

The parent company performs its activities of direction and co-ordination through: a) issuing strategic guidelines for the Group as a whole and for each individual legal entity, via the preparation of three-year strategic plans and annual budgets; b) issuing Group Policies, Regulations and Directives compiled by the central units at parent company level; c) centralized coverage of the principal risks facing the Group. The individual legal entities' control units, where these have not been centralized, also report to the equivalent units at parent company level.

As mentioned earlier, when the medical crisis triggered by Covid-19 broke out, the Mediobanca Group immediately set up a Crisis Unit chaired by the Group General Manager, with the COO, CRO, and the heads of HR, Communications and Compliance also members. Work began immediately on implementing the provisions of the various decrees and regulations issued by the authorities. Staff members were enabled to work from home, thus limiting the physical presence on the company premises to isolated cases with specific restrictions requiring the staff members concerned to be there in person.

Employees were briefed via regular communications from Group HR, Group Safety and Group IT & Governance on how the emergency was developing, on safety measures for personnel, and on the guidelines for working securely from home.

The guidance issued in the early stages of the pandemic, followed by the Directive issued in conjunction with the so-called Phase 2, which came into force on 30 April 2020 (Group Directive – Protocol containing measures to prevent and limit the spread of the Covid-19 virus in working environments) enabled the effects of the pandemic to be managed in accordance with the provisions issued by the authorities.

The Statutory Audit Committee was kept informed of the initiatives taken at all times.

The Committee has also monitored the adequacy of the instructions given by the company to its subsidiaries, as required by Article 114, paragraph 2 of the Italian Finance Act.

4. Corporate governance

The Statutory Audit Committee has assessed the ways in which the Code of conduct in respect of listed companies operated by Borsa Italiana and adopted by Mediobanca on the terms illustrated in the “Annual statement on corporate governance and ownership structure” is implemented.

In March-July 2020, the Board of Directors carried out its own self-assessment exercise as required by the Supervisory Instructions on the Board’s functioning, size and composition and those of the Committees set up by it. The results of this exercise are described at length in the Annual Statement on Corporate Governance. The self-assessment process involved all Directors and Statutory Auditors, and was performed with the support of an external consultant by means of answering a questionnaire.

The Statutory Audit Committee checked that the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members were properly applied in practice.

In accordance with the Supervisory Instructions and with the recommendations made in the Conduct Regulations for the Statutory Audit Committees of listed companies instituted by the Italian national association of chartered accountants, the Committee has carried out its own self-assessment process, resulting in an positive opinion of the body’s overall suitability, qualitative and quantitative composition and functioning. The Committee has also ascertained that its members meet the qualifications in terms of independence.

Ahead of its term of office expiring, the Statutory Audit Committee has prepared a report in accordance with the Code of Conduct for Statutory Audit Committees referred to above. The “Report on the qualitative and quantitative composition of the Statutory Audit Committee” describes the individual and collective profile that Statutory Auditors must reflect, in accordance with the legal and regulatory provisions in force. The Report has been brought to the attention of the Board of Directors and made available to shareholders on the Bank’s website.

5. Supervision of transactions with related parties

The Statutory Audit Committee has reviewed the Procedure in respect of related parties, its compliance with the regulations in force, and its application in practice. It has taken part in all meetings of the Related Parties Committee, instituted under the procedure referred to, and has received regular information on the transactions that have been performed. The Statutory Audit Committee is not aware of any intra-group transactions or deals with related parties carried out in conflict with the interests of Mediobanca.

During the year under review, no transactions qualifying as "most significant" under the terms of the Procedure were executed.

The Statutory Audit Committee checked that adequate information had been provided on transactions with related parties by the Board of Directors in its Review of Operations and the notes to the accounts, in view of the requirements set in the regulations in force.

The Regulations governing transactions with related parties, which includes the internal policies on controls for risk activities and conflicts of interest versus related parties as an annex, was revised in July 2020. All the proposed changes serve to incorporate the Bank of Italy's regulations on risk activities and conflicts of interest versus related parties, issued by the authority on 23 June 2020, which came into force on the following day. In particular the authority transposed the regulations contained in its circular no. 263/2006 into circular no. 285/2013, making certain amendments to bring it into line with the European regulatory framework. The Statutory Audit Committee said it was in favour of the proposed amendments.

The Statutory Audit Committee, having reviewed the activities performed by the various units involved in the Related Parties procedure, and in particular the results of the checks carried out by the Group Audit Unit, considers that transactions with related parties are managed adequately, and as far as the Committee is aware, the procedure has been applied accurately in practice.

6. Supervision of the internal control and risk management system

The Statutory Audit Committee has monitored the adequacy of the internal control and risk management system, by:

– Holding meetings with the Bank's senior management to examine the internal control and risk management system;

– Holding regular meetings with the Group Audit, Compliance, AML and Risk Management units (the "Control Units") to evaluate the methods used for planning activities based on identification and assessment of the principal risks involved in the various processes and organizational units;

– Review of the control units' reports and regular information on the outcome of monitoring activity and the status of corrective action highlighted;

– Receiving information from the heads of the various divisions of the company;

– Meetings with the heads of the supervisory bodies of the leading Group companies, in accordance with the provisions of Article 151, paragraphs 1 and 2 of the Italian Consolidated Finance Act, in the course of which the Statutory Audit Committee obtained information on developments involving the Group companies and the internal controls system considered to be significant;

– Discussion of the results of the work performed by the External Auditors;

– Taking part in meetings of the Risks Committee, and dealing with issues in conjunction with it where necessary.

The Statutory Audit Committee has also monitored observance of the remuneration policies in force with reference to the compensation paid to the control units, taking part in all meetings of the Remunerations Committee.

Some time ago Mediobanca adopted a Group Policy on the Internal Controls System which defines the internal control system's structure, the roles and responsibilities of the governing bodies and the control units, and the means of co-ordination between these units. The Mediobanca internal controls system is compliant with the recommendations of international progress as applied in Italy by Bank of Italy circular no. 285. The control system is structured across three levels; the first refers to line controls intended to guarantee that operations are performed correctly; the second level to control of risks and compliance; and the third level to identifying breaches of procedures and internal regulations.

Regarding the first-level controls, Mediobanca has instituted operational procedures (or process flows) which cover all activities performed and define, in accordance with the company process tree, the relevant activities, roles, instruments and line controls. These procedures are updated by Group Organization on a regular basis, to bring them in line with any changes in the external or internal regulations, changes to the Bank's organizational structure and operating methods, and to incorporate suggestions for improvement which emerge from the activities performed by the control units themselves.

As far as regards the second and third levels, in the performance of its control activities, the Statutory Audit Committee has maintained an ongoing dialogue with the Control Units.

The Statutory Audit Committee duly notes that the annual reports by the Control Units conclude with a positive overall verdict of the company's internal controls system: a summary of these units' activities is provided below.

Group Audit Unit

The Group Audit Unit's operations are based on three-year and one-year audit plans. The three-year Group plan sets the objectives, and serves also to co-ordinate and direct the work for the three-year and one-year plans prepared by the individual companies. In the space of three years assurance is provided for all processes identified in the risk assessment used to define priority of audit. The one-year plan establishes which activities and processes are to be analysed in accordance with the three-year plan and from a risk-based perspective. The plans are approved once a year by the Board of Directors.

The dialogue between the Statutory Audit Committee and the Group Audit Unit is ongoing during the year, as the latter takes part in the majority of the Committee meetings. The Group Audit Unit informs the Committee promptly if any negative evidence emerges in the course of its audit activity.

The activities planned for the year under review substantially covered the scope of activities which the unit had undertaken to execute, and also the target in terms of mix of audits to be carried out was basically met. No significant critical issues emerged from this activity. The audit and follow-up activities performed (including at Group level) in any case highlighted the need for the relevant company units to implement the remediation actions identified, in order to mitigate the risks inherent in certain operating processes and practices which are residual in any banking activity but without prejudicing the reliability of the internal controls system which as a whole continues to be adequate.

In planning its own activities, the Committee asked the Group Audit Unit to carry out certain checks in relation to the RAF, the results were brought to the Committee's attention, and the Committee has also monitored the state of progress made in the mitigation activities implemented.

The Group Audit Unit has continued to provide support to the regulators, mainly the ECB, by providing regular briefings (annual meeting, Brexit, Covid-19 updates), performing the audits requested by the ECB, providing support in the course of onsite visits (audits of leverage transactions and market risk by the ECB, and inspections of the operations of Mediobanca SGR by the Bank of Italy). Particularly important in this regard were the activities requested by the ECB in the SREP letter on the IT and Data Quality Plan approved by the Board of Directors last year. The plan has basically been completed, and the Group Audit Unit has issued the declaration stating the plan has been implemented.

Compliance unit

The Compliance unit presides directly over those regulatory areas considered to present the highest reputational risks (e.g. MiFID, MiFIR, market abuse, PRIIPs, transparency, and conduct), and also, by means of a "graduated" model, the areas of regulations covered by other specialist units.

The unit has submitted its institutional and regular reports for the year ended 30 June 2020 to the Committee, along with its action plans for the twelve months ending 30 June 2021, as required under the Bank of Italy's Supervisory Instructions and Consob's Regulations for Intermediaries. The annual report also contains information on complaints and instances of whistle-blowing. In this connection, no whistle-blowing reports were received, while the number of complaints received was not material, and no gaps were found in the corpus of regulations or fraudulent conduct detected on the part of staff members. A report on the activities of the Group Data Protection unit has also been submitted.

AML unit

Anti-money-laundering activities are managed via a centralized model headed up by the Group AML unit based at Mediobanca S.p.A., which covers all the Italian Group companies and co-ordinates the activities for the non-Italian subsidiaries. Organizationally it is part of the Compliance unit.

With regard to new regulations, following the enactment of AMLD IV, the Group's Policy on money-laundering and terrorist financing risk management has been updated; an AML Manual has been drawn up, and the new standard questionnaire to be sent to customers for due diligence purposes has been finalized.

Regarding the controls carried out after the fact to ensure that the AML procedures have been complied with, no significant critical issues were noted.

Training activity has continued via e-learning, and the percentage of completion rate for courses has been adjudged satisfactory.

With reference to the AML risk self-assessment, there were no changes in Mediobanca's exposure to money-laundering and terrorism financing risk which remains at a "Low" level.

Risk Management unit

The Risk Management unit manages and monitors the principal risks to which the Bank is involved with reference to credit risk, financial and market risks and operational risks. This activity revealed no critical issues worth reporting, while for the points noted as requiring improvement, remediation action is already underway.

During the year under review, the strengthening of the Risk Management unit and processes continued at Group level, with more precise definition of the governance, interactions and information flows between the local and central teams, and the integrated Group processes.

The Committee has examined the internal capital adequacy assessment process (ICAAP) which quantifies the internal capital, current and future, to be held to cover the risks faced by the Group, and the internal liquidity adequacy assessment process (ILAAP), which assesses the adequacy of the liquidity held by the Bank, both of which were approved by the Board of Directors at a meeting held on 12 November 2019, *inter alia* on the basis of the reports received from the Validation and Group Audit units which conclude that the regulatory provisions have been complied with.

The Committee has reviewed the new RAF document for the FY 2020-21 financial year, taking into account the recommendations made by the supervisory authorities and the regulatory guidance issued. The framework has developed in terms of the structure of the document itself and the calibration of the risk metrics and limits. In particular, the new calibration has involved the introduction of a new indicator to measure the principal business lines' profitability ("ROAC"), monitoring the external rating assigned to the Group relative to sovereign risk, extending the cost of risk metric to cover the entire CIB scope of operations and leasing, and checks regarding the level of Level 3 assets as a percentage of CET 1. A reference to ESG risk management and governance has also been added.

The Statutory Audit Committee has reviewed the annual reports by the Validation and Group Audit units on Mediobanca's corporate rating system. Both conclude with an overall positive judgement of the adequacy of Mediobanca's corporate rating system, which has demonstrated that it meets the regulatory requisites set for the IRB approach, including the capability to generate accurate and reasonable estimates.

Business continuity and IT risk

The Bank has prepared the report on IT risk required under the Supervisory Instructions, which showed no significant risks.

The Committee has also examined the various reports received from the Group Risk Management and IT units on the two serious incidents (entailing breaches of the SLAs) that occurred to MIS (Mediobanca Information Systems), the Group company that provides IT services to the majority of the Mediobanca Group, and which has outsourced much of this activity to IBM. These incidents resulted in a lengthy blackout of the IT systems, and were managed by the Mediobanca Group on the basis of the internal regulations in force and the agreements in place with the outsourcer. Following these incidents, Mediobanca launched an overhaul of the agreements with the outsourcer, with the aim of revising the governance of the systems, and commencing a programme to reinforce the infrastructure and sharing the relevant costs.

With reference to business continuity, the tests planned for the twelve months under review were affected by the outbreak of the Covid-19 pandemic, although the majority were run successfully. The pandemic itself was addressed centrally by the Group Business Continuity Management office, both in terms of establishing priorities (delivery of laptops/access to VPN), in which the business continuity criteria (e.g. in terms of critical resources, recovery times, etc.) identified at the business impact analysis stage were applied effectively, and in co-ordinating all Group companies' activities.

Despite the fact that the Business Continuity Plan did not originally provide for a pandemic scenario, management of the emergency situation nonetheless confirmed the effectiveness of the existing business continuity structure (Crisis committee, critical resources, operating priorities, training, etc.), and enabled some corrective measures to be taken in order to improve the model further.

The Group Audit Unit prepared the annual combined report based on the annual reports received from all the control units. The combined report shows that the coverage of risks is substantially adequate in terms of the thoroughness, adequacy, functioning, and reliability of the internal controls system.

Based on the activities performed, the information obtained, the contents of the Control Units' six-monthly and annual reports, and in particular the overall favourable opinion expressed by the Group Audit Unit on the internal controls system, the Statutory Audit Committee believes there are no critical issues that could jeopardize the Group's internal controls and risk management system.

7. Supervision of the administrative and accounting system and the financial reporting process

The Statutory Audit Committee, in its capacity as the committee responsible for internal control and auditing pursuant to Article 19, paragraph 2, letter C) of Italian Legislative Decree 39/10, has monitored the process and reviewed the effectiveness of the internal controls and risk management systems with reference to the issue of financial reporting, ascertaining compliance with the general principles on financial reporting adopted by the Mediobanca Group pursuant to the Group Disclosure Policy.

Financial reporting is monitored by the Head of Company Financial Reporting (the "Head of Company Financial Reporting"), in accordance with the Group Disclosure Policy, adopting Models based on the best market practices (the COSO Report and the CobIT Framework) which provide reasonable assurance over the reliability of the financial reporting, the effectiveness and efficiency of the business operations, and compliance with the provisions of the law and the internal regulations. The processes and controls are revised and updated annually.

Work continued in FY 2019-20 on ensuring that the mapping of processes is aligned with the project initiatives undertaken, the new forms of operation commenced and the organizational changes that have taken place in the twelve months.

At Group level, activities have concentrated on a project to assess the risks and controls covered by Italian Law 262/05, in conjunction with an external consultant and under the Head of Company Financial Reporting's supervision, with the objective of analysing the Group's new methodological model and the individual companies' key controls, including through benchmarking activities, and identifying possible gaps relative to market practice. The overall verdict was substantially adequate, certain points for improvement were identified, the majority of which have already been implemented or will be by end-2020.

During the twelve months under review, the Bank's activities were affected by the outbreak and spread of the Covid-19 pandemic, which impacted significantly on the financial reporting process. From the first months of the pandemic, ESMA and Consob were drawing companies' attention to the need to intervene in the area financial reporting and price-sensitive communications to the market, providing the necessary disclosure and making the relevant adjustments in view of the pandemic's impact.

The Bank also took steps to identify possible impacts on the model instituted pursuant to Italian Law 262/05 (the procedures most affected by the new methods of operation), to be implemented in a timely manner in order to guarantee that checks could still be carried out on all the procedures affected and any elements of discontinuity versus the existing model to be governed. In particular, risks were identified and addressed in the area of reporting on moratoria granted by Group companies (chiefly Compass Banca, CheBanca! and SelmaBipiemme), and the IT risk associated with the widespread and unplanned recourse to working from home.

The Committee has met regularly with the Head of Company Financial Reporting and the external auditors, with which it discussed and analysed the activities implemented.

Controls to ensure that the Model is functioning correctly are guaranteed by a series of self-assessments made by the individual process owners as supplemented by checks carried out by the Group Audit Unit.

The Statutory Audit Committee has met regularly with the Head of Company Financial Reporting to exchange information on the reliability of the administrative and accounting system, for purposes of representing operations, and has reviewed the Head of Company Financial Reporting's report containing the results of the tests of the controls performed and the main problems noted in the application of Italian law 262/05. From the report, it emerged that the points requiring attention which were raised in the previous report have all been resolved.

The Statutory Audit Committee also reviewed the statements made by the Chief Executive Officer and the Head of Company Financial Reporting as required by the instructions contained in Article 154- *bis* of the Italian Finance Act.

As far as regards the formation of the individual and consolidated financial statements, these have been prepared, as required by Italian Legislative Decree 38/05, in accordance with the IAS/IFRS issued by the IASB (International Accounting Standard Board), which have been ratified by the European Commission as established by Regulation (EC) 1606/2002, and following the guidance released by the Bank of Italy in its circular no. 262/2005. The Statutory Audit Committee also:

– Duly notes that the Board of Directors, at a meeting held on 25 June 2020, approved the impairment procedure as required by the joint Bank of Italy/Consob/ISVAP document dated 3 March 2010;
– On the issue of legal and tax risks, refers to the notes and accompanying schedules to the consolidated financial statements on the subject of litigation pending which involves Mediobanca.

The representatives of the External Auditors, in their regular meetings with the Statutory Audit Committee, have not reported any issues which could affect the internal controls system with reference to the administrative and accounting procedures.

The Statutory Audit Committee has ascertained that the flows provided by the non-EU Group companies of significant relevance are adequate to allow the activity of auditing the annual and interim accounts to be performed as required by Article 15 of the Regulations for Markets.

Based on the foregoing, no evidence has emerged of deficiencies that could affect the assessment of the internal control system's adequacy, the process of financial reporting, and the reliability of the administrative and accounting procedures in representing the Bank's operations.

8. Supervision of External Auditors' activity

In accordance with the provisions of Article 19 of Italian Legislative Decree 39/10, the Statutory Audit Committee, identified therein as the "Committee for internal control and auditing", duly carried out the required activity in terms of monitoring the External Auditor's operations.

PricewaterhouseCoopers (PWC) is the company which the shareholders of Mediobanca, at an ordinary annual general meeting held on 27 October 2012, appointed to serve as its external auditors to audit the company's individual and consolidated financial statements until the end of the financial year ending on 30 June 2021. This appointment includes the responsibility for checking that the company's books are kept properly, that operations are recorded correctly in the book entries, reviewing the accounts of the international branches for their inclusion in the consolidated reporting, limited audit of the interim statements, audits relating to signing off tax returns, and the statements to be made to the Italian deposit guarantee fund.

The Statutory Audit Committee met on several occasions with the External Auditors as appointed *inter alia* pursuant to Article 150 of the Italian Consolidated Finance Act in order to exchange information regarding the latter's activity and in particular to receive knowledge of the audit plan, timescales for activities, and dedicated staff involved. In such meetings the External Auditor has at no stage shown evidence of facts considered to be censurable or other irregularities such as would warrant reporting as required by Article 155, paragraph 2 of the Italian Consolidated Finance Act.

In the months following the outbreak of Covid-19, the Statutory Audit Committee met with PWC to update the audit plan for the financial year in progress, which had become necessary as a result of the impact of the pandemic on the macroeconomic and operating scenario. PWC performed a new analysis of the material risks, including credit risk and other types of risks to complex financial instruments and recovering the book value of equity investments, plus assets with undefined useful lives originating from business combinations. In addition, the models of working from home adopted by the Group and the difficult operating scenario increased the possibility of fraud and IT risk (in particular in terms of access/profiling, managing changes, cyber security, and continuity of service). The Committee agreed to the changes that were made to the audit plan.

On 1 October 2020 the External Auditor, appointed pursuant to Article 14 of Italian Legislative Decree 39/10, issued its reports on the individual and consolidated financial statements for the year ended 30 June 2020. With reference to the opinions and declarations, in its audit report on the financial statements the External Auditors:

– Issued an opinion from which it emerges that Mediobanca's company's individual and consolidated financial statements present a truthful and proper reflection of the company's and Group's capital and financial situation as at 30 June 2020, their earnings results, changes to their net equity and cash flows during the year under review in accordance with the International Financial Reporting Standards adopted by the European Union, and the rulings issued in implementation of Article 9 del Italian Legislative Decree n. 38/05 and Article 43 del Italian Legislative Decree 136/15;
– Presented the key aspects of the auditing process which according to its own professional judgement, are most significant and contribute to the formation of the overall opinion on the financial statements;
– Issued their opinion that the Reviews of Operations attached to the individual and consolidated financial statements for the twelve months ended 30 June 2020 are consistent with certain specific information contained in the "Report on Corporate Governance and Ownership Structure" stipulated in Article 123-*bis*, paragraph 4 of the Italian Consolidated Finance Act,

responsibility for which lies with the Bank's directors, and have been drawn up in accordance with the legal provisions in force;

– Declared, with reference to the possibility of there being material errors in the Reviews of Operations, that based on their knowledge and understanding of the company and the scenario in which it operates, obtained as a result of their audit activities, that they had no comment to make in this connection.
– Reviewed the Directors' approval of the Consolidated Non-Financial Statement.

On 1 October 2020 the External Auditors also submitted the additional report required under Article 11 of Regulation (EU) no. 537/2014 to the Statutory Audit Committee. As an annex to the additional report, the External Auditor also submitted its statement of independence, as required by Article 6 of Regulation (EU) no. 537/2014, to the Statutory Audit Committee, from which no situations emerged that could compromise its independence. The Committee also duly noted the 2019 report on transparency prepared by the external auditors and published on its own website pursuant to Article 18 of Italian Legislative Decree 39/2010.

Mediobanca has adopted a Group Directive for engaging external auditors and their network, which includes a reference model based on which a Principal Auditor is engaged, which is also assigned engagements by the other Group companies, and a Secondary Auditor, which is assigned those duties which, for demonstrable reasons such as regulatory requirements or compulsory terms for engagements, cannot be assigned to the Principal Auditor.

The Directive also establishes a specific procedure for engaging the audit firm for the parent company and the Group companies, plus additional engagements under the terms of Article 14 of Italian Legislative Decree 39/10. Such engagements, which under the regulations in force must be authorized by the Statutory Audit Committee, and which – where they are not incompatible with the primary audit engagement – may not exceed 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity (the "Fee Cap"). For such engagements, a process has been instituted which entails prior authorization and monitoring by the Statutory Audit Committee, in order to protect the audit firm's independence, in accordance with the provisions of Italian Legislative Decree 39/10.

As provided by the Directive, the Head of Company Financial Reporting submits a report on the situation regarding the services provided by the Principal Auditor and its network to the Statutory Audit Committee once every six months, along with information on how much of the annual limit set in accordance with the fee cap has been used. The Statutory Audit Committee has performed the duties required of it under the regulations in force in terms of approving the non-auditing services requested of the external auditor and/or the other companies forming part of its network. These services, charged to the profit and loss account and stated in the financial statements as required by Article 149-*duodecies* of the Regulations for Issuers, were as follows:

Type of service	**PricewaterhouseCoopers €'000**	**PricewaterhouseCoopers network €'000**
Statements	246	129
Other services	—	—
Total	246	129

Given the non-audit mandates conferred on PWC and its network by Mediobanca and the Group companies, their nature and the total fees paid, plus the independence procedures adopted by PWC in general, the Statutory Audit Committee does not consider that there are any critical issues arising with respect to the External Auditor's independence.

The External Auditors have also confirmed to the Statutory Audit Committee that no external opinions have been expressed by them as required by law in the course of the financial year under review, in the absence of any grounds for such opinions.

9. Omissions, censurable facts, opinions given and initiatives undertaken

The Statutory Audit Committee has received letters and/or reports under Article 2408 of the Italian Civil Code in respect of censurable facts. The reports in particular involved the means by which the Annual General Meeting was called, relations with one client in particular, and whether some of the Group's Directors continue to be in possession of the requisites set by law. The Committee duly reviewed the reports, made the enquiries and investigations considered to be necessary, and obtained information from the relevant units of the Bank. Based on the enquiries made, the Committee felt there was no need to follow up any further on the reports received.

The Statutory Audit Committee is not aware of any facts or complaints to be reported on to shareholders in general meeting.

The Statutory Audit Committee issued opinions or made observations as required by the regulations in force, in particular as follows:

– Favourable opinion on the changes to the Procedure in respect of transactions with related parties referred to under section 5 above;
– Favourable opinion on the formal approval by the Board of Directors on meeting the requisites to use the internal risk measurement systems;
– Considerations on the annual report on outsourcing important corporate functions.

In the course of the Committee's activities and based on the information obtained, no omissions, censurable facts, irregularities or other significant circumstances such as would require the supervisory authorities to be notified or as would warrant inclusion in this report have come to its attention.

10. Consolidated non-financial statement

The Statutory Audit Committee, in the exercise of its functions, has monitored compliance with the provisions of Italian Legislative Decree 254/16 and the Consob regulation implementing the said decree adopted under resolution no. 20267 of 18 January 2018, in particular with reference to the process of drawing up, and the contents of, the Consolidated Non-Financial Statement (CNFS) published by Mediobanca.

The CNFS was approved by the Board of Directors at a meeting held on 16 September 2020 as a document separate from the consolidated Review of Operations for the year ended 30 June 2020.

The external auditors retained to perform the limited assurance with reference to the CNFS as required by Article 3, paragraph 10 of Italian Legislative Decree 254/16, in its report issued on 1 October 2020, state that no evidence has reached its attention such as to suggest that the CNFS prepared by the Mediobanca Group for the year ended 30 June 2020, has not been prepared in all significant aspects, as required by Articles 3 and

4 of Italian Legislative Decree 254/16 and the "Global Reporting Initiative Sustainability Reporting Standards".

The Statutory Audit Committee is not aware of any breaches of the regulatory provisions.

11. Engagement of external audit firm for the period from 1 July 2021 to 30 June 2030

The engagement of PWC as external auditors of Mediobanca as approved by shareholders at the Annual General Meeting held on 27 October 2012 expires with approval of the financial statements for the year ending 30 June 2021, after reaching its ninth year which is the maximum period permitted by law.

Under the regulations in force, this engagement is no longer renewable. Under the Group Directive for engaging external auditors, engagements must be made under a resolution adopted by shareholders at the annual general meeting held to approve the financial statements for the preceding financial year, to ensure that the requirements regarding the audit firm's independence can be managed efficiently, including the restriction on providing certain types of non-audit service, from the year immediately prior to the first year of audit.

The Statutory Audit Committee, which is responsible for the process of selecting the audit firm, has formulated a recommendation including two alternatives and a preference, living reasons for its decisions. For further details reference is made to the "Report by the Statutory Audit Committee in its capacity as committee for internal control and audit under Italian Legislative Decree 39/10, Article 19 (2) letter c) on engagement of the auditor for the period from 30 June 2022 to 30 June 2030".

12. Supervisory body

The Statutory Audit Committee, having been vested with the duties of the supervisory body to be instituted in accordance with the provisions of Article 6, paragraph 4-*bis* of Italian Legislative Decree 231/01 on corporate administrative liability, has obtained and reviewed information on the organizational and procedural activities implemented by the Bank in pursuance of the foregoing legislative decree.

The model currently in force was adopted by the Board of Directors at a meeting held on 31 July 2018. During the twelve months under review, new regulations have been issued that have expanded the list of possible crimes contemplated. Mediobanca has launched an impact analysis for these crimes on the organizational, management and control model currently in force, based on which it will proceed to map out the activities at risk of such crimes, and to update or draw up a protocol for each organizational division. The work was launched during the year under review with a gap analysis of the impacts, and should be completed in the next few months. The new model will then be submitted to the attention of the Board of Directors.

The Covid-19 emergency has impacted considerably on the company's activities, increasing the risks in terms of the model's non-resilience. From the outbreak of the pandemic, the supervisory body has been kept informed on an ongoing basis through contacts with the company's representatives. Various meetings were held with the Compliance unit in particular, both at the outset and during Phase 2, to assess the action taken and the need for other activities in addition to those provided for in the model. The provisions adopted allowed the effects of the pandemic to be managed in accordance with the guidance issued by the various authorities, with no need to amend the model.

The supervisory body reported on the activities performed by it during the year ended 30 June 2020, raising no particular issued, describing a situation held to be satisfactory overall and basically in line with the provisions of the organizational, management and control model in force.

13. Conclusions

The agenda for the ordinary Annual General Meeting of Mediobanca shareholders to take place on 28 October 2020 includes the following items:

Extraordinary business

1. Proposal to amend Articles of Association; related resolutions.
2. Renewal of authorization to the Board of Directors to increase the company's share capital pursuant to Article 2443 of the Italian Civil Code as permitted by Article 4 of the Articles of Association; related resolutions.

Ordinary business

1. Approval of financial instruments as at 30 June 2020.
2. Appointment of Board of Directors for 2021-23 three-year period.
3. Appointment of Statutory Audit Committee for 2021-23 three-year period.
4. Report on remuneration and compensation paid – Resolution on Section I, Report on remuneration and compensation paid – resolution not binding on Section II, Policy in the event of the beneficiary leaving office or the employment arrangement being terminated, 2021-25 incentivization system for Group staff through use of financial instruments (performance share scheme).
5. Engagement of auditor for period from 30 June 2022 to 30 June 2030 and establishment of remuneration.

Without prejudice to the specific duties and responsibilities assigned to the External Auditors in terms of auditing the Group's accounts and appraising the reliability of its financial statements, the Statutory Audit Committee has no observations to make to shareholders in general meeting, pursuant to Article 153 of the Italian Consolidated Finance Act, regarding approval of the financial statements for the year ended 30 June 2020 and the Review of Operations as presented by the Board of Directors, and the proposed profit allocation.

Milan, 5 October 2020

THE STATUTORY AUDIT COMMITTEE

INDIVIDUAL
FINANCIAL STATEMENTS*

* Figures in Euros

Mediobanca S.p.A. Balance Sheet

Assets	30/6/20	30/6/19
10. Cash and cash equivalents	3,101,950,320	632,611,676
20. Financial assets at fair value with impact taken to profit and loss	9,961,363,593	10,875,045,880
a) Financial assets held for trading	*9,214,719,667*	*10,047,347,244*
b) Financial assets designated at fair value	*51,002,314*	*51,975,440*
c) Other financial assets mandatorily at fair value	*695,641,612*	*775,723,196*
30. Financial assets at fair value with impact taken to comprehensive income	3,785,000,554	3,884,452,067
40. Financial assets at amortized cost	43,711,163,840	46,363,397,516
a) Due from banks	*20,537,546,640*	*22,106,678,647*
b) Due from customers	*23,173,617,200*	*24,256,718,869*
50. Hedging derivatives	471,648,325	409,863,001
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,150,667,961	3,191,843,987
80. Property, plant and equipments [1]	139,109,926	115,176,613
90. Intangible assets	29,248,384	32,465,294
of which:		
goodwill	*12,514,145*	*12,514,145*
100. Tax assets	277,319,428	182,098,527
a) current	*186,404,162*	*93,947,800*
b) deferred	*90,915,266*	*88,150,727*
110. Assets classified as held for sale	—	—
120. Other assets	210,372,654	221,114,245
Total assets	**64.837.844.985**	**65.908.068.806**

[1] The increase is mainly due to the First Time Application of the IFRS16 "Leasing" accounting principle offset by the debt to the lessor recognized as financial liabilities measured at amortized cost.

Liabilities and net equity	30/6/20	30/6/19
10. Financial liabilities at amortized cost	50,698,334,350	51,339,312,008
a) Due to banks	*26,703,965,149*	*29,197,550,987*
b) Due to customers	*7,527,050,122*	*6,140,023,616*
c) Debt securities in issue	*16,467,319,079*	*16,001,737,405*
20. Trading financial liabilities	8,351,676,524	8,280,325,892
30. Financial liabilities designated at fair value	216,020,103	55,859,366
40. Hedging derivatives	132,551,202	184,650,189
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	351,434,833	424,720,381
a) current	*119,439,368*	*193,229,873*
b) deferred	*231,995,465*	*231,490,508*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	252,376,553	310,339,260
90. Staff severance indemnity provision	7,678,965	7,869,475
100. Provisions	113,954,882	118,113,416
a) commitments and financial guarantees	*42,538,029*	*21,954,092*
b) post-employment and similar benefits	—	—
c) other provisions	*71,416,853*	*96,159,324*
110. Revaluation reserves	73,982,473	85,743,925
120. Redeemable shares repayable on demand	—	—
130. Equity instruments repayable on demand	—	—
140. Reserves	2,192,791,978	2,217,665,397
150. Share premium reserve	2,195,605,653	2,195,605,653
160. Share capital	443,616,724	443,608,089
170. Treasury share (-)	(231,538,013)	(141,989,096)
180. Profit/(loss) for the period (+/-)	39,358,758	386,244,851
Total liabilities and net equity	**64,837,844,985**	**65,908,068,806**

Mediobanca S.p.A. Profit and Loss Account

Items		30/6/20	30/6/19
10.	Interest and similar income	707,674,249	706,790,082
	of which: interest income calculated according to the effective interest method	*531,418,795*	*563,156,039*
20.	Interest expense and similar charges	(628,441,834)	(619,870,465)
30.	**Net interest income**	**79,232,415**	**86,919,617**
40.	Fee and commission income	263,854,931	253,206,129
50.	Fee and commission expense	(44,081,972)	(34,342,664)
60.	**Net fee and commission income**	**219,772,959**	**218,863,465**
70.	Dividends and similar income	191,482,239	438,008,156
80.	Net trading income	(23,210,543)	(8,264,005)
90.	Net hedging income (expense)	(2,221,709)	5,477,850
100.	Gain (loss) on disposal/repurchase:	65,578,343	83,167,824
	a) financial assets measured at amortized cost	*3,300,657*	*9,425,511*
	b) financial assets valued at fair value with impact taken to comprehensive income	*60,420,800*	*66,798,690*
	c) financial liabilities	*1,856,886*	*6,943,623*
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	33,401,570	15,802,744
	a) financial assets and liabilities designated at fair value	*2,331,283*	*(27,697)*
	b) other financial assets mandatorily valued at fair value	*31,070,287*	*15,830,441*
120.	**Total income**	**564,035,274**	**839,975,651**
130.	Net write-offs (writebacks) for credit risk:	(16,374,634)	36,710,805
	a) financial assets measured at amortized cost	*(11,570,117)*	*37,489,930*
	b) financial assets valued at fair value with impact taken to comprehensive income	*(4,804,517)*	*(779,125)*
140.	Gains (losses) from contractual modifications without derecognition	—	—
150.	**Net income from financial operations**	**547,660,640**	**876,686,456**
160.	Administrative expenses:	(426,907,273)	(436,843,296)
	a) personnel coss	*(221,926,492)*	*(240,815,414)*
	b) other administrative expenses	*(204,980,781)*	*(196,027,882)*
170.	Net transfers to provisions:	4,168,128	987,468
	a) commitments and financial guarantees	*(20,781,872)*	*1,262,984*
	b) other sums set aside (net)	*24,950,000*	*(275,516)*
180.	Net adjustments to tangible assets[1]	(10,193,508)	(3,054,767)
190.	Net adjustments to intangible assets	(3,411,138)	(6,881,036)
200.	Other operating income (expense)	14,978,714	14,602,241
210.	**Operating costs**	**(421,365,077)**	**(431,189,390)**
220.	Gain (loss) on equity investments	(50,936,942)	(4,224,809)
230.	Net result from fair value valuation of tangible and intangible assets	—	—
240.	Goodwill write-offs	—	—
250.	Gain (loss) on disposal of investments	137	(27,406)
260.	**Profit (loss) on ordinary activity before tax**	**75,358,758**	**441,244,851**
270.	Income tax for the year on ordinary activities	(36,000,000)	(55,000,000)
280.	**Profit (loss) on ordinary activities after tax**	**39,358,758**	**386,244,851**
290.	Gain (loss) on operating assets sold, net of tax	—	—
300.	**Net profit (loss) for the period**	**39,358,758**	**386,244,851**

[1] Includes the effects of the accounting standard IFRS16 "Leasing" replacing the rental fees which until 30/6/19 were accounted for under "other administrative expenses".

Mediobanca S.p.A. Comprehensive Profit and Loss Account

Items		30/6/20	30/6/19
10.	Profit (Loss) for the period	39,358,758	386,244,851
	Other income items net of tax without passing through profit and loss	**981,300**	**10,118,476**
20.	Equity securities designated at fair value with impact taken to comprehensive income	2,965,634	10,533,480
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(1,723,512)	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(260,821)	(415,004)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	—	—
	Other income items net of tax passing through profit and loss	**(11,957,538)**	**(27,251,916)**
100.	Foreign investments hedges	—	—
110.	Exchange rate differences	—	—
120.	Cash flow hedges	3,431,690	(4,073,668)
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(15,389,228)	(23,178,248)
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	—	—
170.	**Total other income items, net of tax**	**(10,976,238)**	**(17,133,440)**
180.	**Comprehensive income (Heading 10 +170)**	**28,382,520**	**369,111,411**

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/19	Modification of start-of-period amounts[1]	Amounts at 01/07/2019	Allocation of profit for previous period		Changes during the reference period								Total net equity at 30/6/20
				Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity						Overall consolidated profit for the 12 mths ended 30/6/20	
							New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares Derivatives	Stock options[2]		
Share capital:	443,608,089	—	443,608,089	—	—	—	8,635	—	—	—	—	—	—	443,616,724
a) ordinary shares	443,608,089	—	443,608,089	—	—	—	8,635	—	—	—	—	—	—	443,616,724
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,195,605,653	—	2,195,605,653	—	—	—	—	—	—	—	—	—	—	2,195,605,653
Reserves:	2,217,665,397	(32,123)	2,217,633,274	386,244,851	(408,548,327)	785,215	(8,635)	(15,979,006)	—	—	—	12,664,607	—	2,192,791,978
a) retained earnings	2,076,320,292	(32,123)	2,076,288,169	386,244,851	(408,548,327)	—	(8,635)	—	—	—	—	—	—	2,053,976,057
b) others	141,345,105	—	141,345,105	—	—	785,215	—	(15,979,006)	—	—	—	12,664,607	—	138,815,921
Valuation reserves	85,743,925	—	85,743,925	—	—	(785,215)	—	—	—	—	—	—	(10,976,238)	73,982,473
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(141,989,096)	—	(141,989,096)	—	—	—	—	(89,548,918)	—	—	—	—	—	(231,538,013)
Profit (loss) for the period	386,244,851	—	386,244,851	(386,244,851)	—	—	—	—	—	—	—	—	39,358,758	39,358,758
Total net equity	5,186,878,819	(32,123)	5,186,846,696	—	(408,548,327)	—	—	(105,527,924)	—	—	—	12,664,607	28,382,520	4,713,817,573

[1] Includes the effects of the first application of IFRS16 accounting standard deriving from sub-leasing contracts.

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

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/18	Modification of start-of-period amounts[1]	Amounts at 01/07/2019	Allocation of profit for previous period		Changes during the reference period								Total net equity at 30/6/19
							Transactions involving net equity							
				Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares Derivatives	Stock options[2]	Overall consolidated profit for the 12 mths ended 30/6/19	
Share capital:	443,275,220	—	443,275,220	—	—	—	332,869	—	—	—	—	—	—	443,608,089
a) ordinary shares	443,275,220	—	443,275,220	—	—	—	332,869	—	—	—	—	—	—	443,608,089
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,191,742,930	—	2,191,742,930	—	—	—	3,862,723	—	—	—	—	—	—	2,195,605,653
Reserves:	2,292,839,423	5,182,165	2,298,021,588	337,033,834	(411,230,100)	3,653,229	(11,619)	(22,006,283)	—	—	—	12,204,747	—	2,217,665,397
a) retained earnings	2,145,346,011	5,182,165	2,150,528,176	337,033,834	(411,230,100)	—	(11,619)	—	—	—	—	—	—	2,076,320,292
b) others	147,493,412	—	147,493,412	—	—	3,653,229	—	(22,006,283)	—	—	—	12,204,747	—	141,345,105
Valuation reserves	129,954,143	(23,423,548)	106,530,595	—	—	(3,653,229)	—	—	—	—	—	—	(17,133,440)	85,743,925
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(109,337,765)	—	(109,337,765)	—	—	—	—	(32,651,330)	—	—	—	—	—	(141,989,096)
Profit (loss) for the period	337,033,834	—	337,033,834	(337,033,834)	—	—	—	—	—	—	—	—	386,244,851	386,244,851
Total net equity	5,285,507,785	(18,241,383)	5,267,266,402	—	(411,230,100)	—	4,183,973	(54,657,614)	—	—	—	12,204,747	369,111,411	5,186,878,819

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

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

Mediobanca Cash Flow Statement Direct Method

	Amount 30/6/20	30/6/19
A. CASH FLOWS FROM OPERATING ACTIVITY		
1. Operating activity	**(247,117,129)**	**(293,780,044)**
- interest received	356,902,368	594,151,676
- interest paid	(499,642,835)	(559,221,354)
- dividends and similar income	78,376,512	94,370,724
- net fees and commission income	54,846,980	44,397,154
- cash payments to employees	(166,858,574)	(159,593,629)
- other expenses paid	(75,789,552)	(458,977,399)
- other income received	42,288,294	163,853,069
- income taxes paid	(37,240,321)	(12,760,285)
- expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**5,987,154,053**	**(858,542,219)**
- financial assets held for trading	195,454,558	(978,475,405)
- *financial assets valued at fair value*	—	—
- financial assets mandatorily valued at fair value	114,091,171	(42,462,275)
- financial assets valued at fair value with impact taken to profit and loss	118,920,658	961,655,082
- financial assets valued at amortized cost	5,235,360,045	(674,329,265)
- other assets	323,327,622	(124,930,356)
3. Cash generated/absorbed by financial liabilities	**(2,848,571,462)**	**963,788,301**
- financial liabilities valued at amortized cost	(2,692,627,975)	329,030,280
- financial liabilities held for trading	19,919,499	576,095,948
- financial liabilities designated at fair value	—	—
- other liabilities	(175,862,986)	58,662,073
Net cash flow (outflow) from operating activities	**2,891,465,462**	**(188,533,962)**
B. CASH FLOWS FROM INVESTMENT ACTIVITY		
1. Cash generated from:	**102,856,755**	**333,926,475**
- disposal of shareholdings	—	1,440,286
- dividends received in respect of equity investments	102,856,755	332,442,189
- disposals of tangible assets	—	17,000
- disposals of intangible assets	—	27,000
- disposals of business units	—	—
2. Cash absorbed by:	**(12,653,125)**	**(6,107,324)**
- purchases of shareholdings	(8,289,125)	(4,499,324)
- purchases of tangible assets	(4,170,000)	(1,428,000)
- purchases of intangible assets	(194,000)	(180,000)
- purchases of business units	—	—
Net cash flow (outflow) from investment activity	**90,203,630**	**327,819,151**
C. CASH FLOWS FROM FUNDING ACTIVITY	**(512,330,448)**	**(679,828,190)**
- issuance/acquisition of treasury shares	(105,527,922)	(266,186,049)
- issuance/acquisition of capital instruments	—	(2,412,041)
- distribution of dividends and other purposes	(406,802,526)	(411,230,100)
Net cash flow (outflow) from funding activities	**(512,330,448)**	**(679,828,190)**
NET CASH FLOW (OUTFLOW) DURING THE PERIOD	**2,469,338,644**	**(540,543,001)**

Reconciliation of Movements in Cash Flow During the Period

Accounting items	Amount	
	30/6/20	30/6/19
Cash and cash equivalents: balance at start of period	632,611,676	1,173,154,677
Total cash flow (ouflow) during the period	2,469,338,644	(540,543,001)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	3,101,950,320	632,611,676

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca individual financial statements for the period ended 30 June 2020 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The individual financial statements for the period ended 30 June 2020 have also been prepared on the basis of the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (sixth update issued on 30 November 2018), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.

SECTION 2

General principles

These individual financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive income statement;

– Statement of changes to net equity;

– Cash flow statement (direct method);

– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

IFRS 16 came into force on 1 January 2019. The new standard has been incorporated into the Group's accounting policies, and has been applied since 1 July 2019, for further details please see "New IFRS 16: Leasing" in this section. Certain other changes to the accounting standards have also been applied since 1 July 2019, none of which is of especial relevance to the Mediobanca Group, having been ratified by the European Commission in the course of 2018 and 2019. In particular the following regulations have come into force: Commission Regulation no. 2018/498 of 22 March 2018 - Amendments to IFRS 9 - *Prepayment features with negative compensation;* no. 2019/237 of 8 February 2019 - Amendments to IAS 28 - *Investments in associates and joint ventures*; no. 2019/402 of 13 March 2019 - Amendments to IAS 19 - *Employee benefits*; no. 2019/412 of 14 March 2019 on Amendments to IAS 12 - *Income taxes,* Amendments to IAS 23 - *Borrowing costs,* Amendments to IFRS 3 - *Business combinations,* Amendments to IFRS 11 - *Joint arrangements;* no. 2018/1595 of 23 October 2018 - *Adoption of IFRIC 23 - Uncertainty over income tax treatments,* which clarifies how to apply the booking and valuation criteria for tax laid down in IAS 12 "Income taxes" (for current and deferred tax assets and liabilities), in cases where there is uncertainty over how to account for income tax. According to IFRIC 23, the entity must assess if the taxation authority is likely to accept an uncertain tax treatment; if it is, it must establish a value for it, if not, in order to establish the taxable income (tax loss) and the other values required for tax purposes, it must apply either the most likely amount or expected value methods. The interpretation provides closer definition of the treatment of uncertainty, but for the Mediobanca Group this has not generated material changes from the approach already adopted.

It should also be noted that the Mediobanca Group has adopted the new definition of default, ahead of its coming to force, as from 30 September 2019; for further details reference is made to *"Part E - Section 3 - Non-performing credit exposures"*.

For purposes of full disclosure, it should be noted that the following regulations have been approved by the European Commission during the twelve months under review: Commission Regulation (EU) 2019/2075,[1] Commission Regulation (EU) 2019/2104[2] of 29 November 2019, Commission Regulation (EU) 2020/34[3] of 15 January 2020, and Commission Regulation (EU) 2020/551,[4] which provide explanations and clarifications of certain IAS and IFRS already in force. All these amendments and additions will be applied by the Mediobanca Group as from 1 July 2020.

Statements have also been made by the regulatory and supervisory authorities regarding the most suitable means for applying the reporting standards in relation to the Covid-19 situation. Some of the most significant of these statements, which for the most part were issued regarding the quarterly and half-yearly reporting, and hence apply to the annual financial statements as well, were as follows:

– Consob: Reminder no. 8/20 of 16 July 2020 and Reminder no. 6/20 of 9 April 2020 regarding: "Covid 19 - Richiamo di attenzione sull'informativa finanziaria", which draws the attention of members of the management and control bodies and heads of company financial reporting of the need to observe the principles underpinning the process of producing financing reporting in view of the impact which the effects of the pandemic could have with reference to business continuity, to application of IFRS 9 on financial assets, and to impairment testing;

– ESMA: *Public Statement* of 11 March 2020: "*ESMA recommends action by financial market participants for Covid-19 impact*". The statement discusses the issue of financial reporting, in connection with which certain guidelines are laid down regarding the conduct to be adopted with respect to the impact of the pandemic, in the following areas in particular: ongoing market disclosure, where issuers are reminded to disclose any relevant significant information concerning the impacts of Covid-19 on their fundamentals, prospects or financial situation as soon as possible, when such information

[1] Involves changes to the following standards: IAS 1 - *Presentation of financial statements*; IAS 8 - *Accounting policies, changes in accounting estimates and errors*; IAS 37 - *Provisions, contingent liabilities and contingent assets*; IAS 38 - *Intangible assets*; IFRS 2 - *Share-based payment*; IFRS 3 - *Business combinations*; IFRS 6 - *Exploration for and evaluation of mineral resources*; IFRIC 12 - *Service concession arrangements*; IFRIC 19 - *Extinguishing financial liabilities with equity instruments*; IFRIC 20 - *Stripping costs in the production phase of a surface mine*; IFRIC 22 - *Foreign currency transactions and advance consideration*; SIC 32 - *Intangible assets - website costs.*

[2] Involves changes to the following standards: IAS 1 - *Presentation of financial statements*; IAS 8 - *Accounting policies, changes in accounting estimates and errors*; IAS 10 - *Events after the reporting period*; IAS 34 - *Interim financial reporting*; IAS 37 - *Provisions, contingent liabilities and contingent assets*.

[3] Involves changes to the following standards IAS 39 - *Financial instruments: recognition and measurement*; IFRS 7 - *Financial instruments: Disclosures*; and IFRS 9 - *Financial instruments*.

[4] Involves changes to IFRS 3 - *Business combinations*.

is "relevant" and "significant", in accordance with their transparency obligations under the Market Abuse Regulation; in the area of financial reporting, issuers are reminded to guarantee maximum transparency on the actual and potential impacts of Covid-19 on their business activities, financial situation and economic performance, based on both a qualitative and quantitative assessment where possible. Disclosure is required to be made in the earliest available regular report (annual or interim, or quarterly if the company prepares quarterly reporting on a voluntary basis).

Public Statement of 25 March 2020 "*Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*", which deals with the accounting treatment of changes resulting from the introduction of support measures, and valuation of significant increases in credit risk (SICR), avoiding the automatic reclassification mechanisms instituted by IFRS 9,[5] expected credit loss estimation, public guarantees for issuers' exposures, and the issue of transparency in disclosures.

Public Statement of 20 May 2020 "Implications of the Covid-19 outbreak on the half-yearly financial reports" which recommends to be compliant with the requirements of transparency and consistent application of European rules, with a particular focus to International Accounting Standards, in the preparation of the half-yearly financial reports that will take into account the pandemic impacts.

– EBA: *Public Statement* of 25 March 2020 "S*tatement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures*", compiled in conjunction and consistent with the equivalent document issued by ESMA.

  Guidelines of 2 April 2020 and 25 June 2020: "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis":* the European Union (EU) and its member states, in order to minimize the economic impacts of the pandemic, have implemented a broad range of measures to support the real economy and the financial sector, including moratoria introduced by law for repayments of loans and granting borrowers various forms of relief on their outstanding obligations. Many member states have also introduced various forms of public guarantees to be applied to the new loans. The Guidelines provide a full overview of the measures adopted.

  Guidelines of 2 June 2020: "*Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis*", on

[5] Under IFRS 9, an exposure being more than 30 days past due is proof of a significant increase in credit risk which automatically entails reclassification to Stage 2.

reporting and disclosure requirements to the public on measures applied in the light of the Covid-19 crisis.

– ECB: Press release issued on 20 March 2020: "*ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus*", containing indications on the classification and valuation of loans. The statement provides reassurance to banks regarding the fact that moratoria being granted does not necessarily constitute an automatic trigger for an exposure to be considered unlikely to pay, as in such cases payments are simply deferred by law, hence the calculation of the number of days is effectively discontinued for purposes of identifying the number of days past due once the moratoria have ended.

  Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "*IFRS 9 in the context of the coronavirus (Covid-19) pandemic*"; providing guidance on the use of forecasts in expected credit loss estimations for loans during the pandemic.

  Communication issued on 4 June 2020: "*Eurosystem staff macroeconomic projections for the euro area, June 2020*": this document contains guidance on the methods used to determine forecasts in order to estimate closing data for end-March and end-June, for which the anchor points must be the macroeconomic projections produced by the ECB staff. The specific scenario for Italy included in the baseline for the ECB projections, was published by the Bank of Italy in a document entitled *"Proiezioni macroeconomiche per l'economia italiana"* on 5 June 2020;

– IASB: *Statement* of 27 March 2020, "*IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic*", which explicitly supports the guidance provided by ESMA, the EBA and the ECB.

– IOSCO: *Statement*, 3 April 2020*: IOSCO "Statement on Application of Accounting Standards during the Covid-19 Outbreak*": this statement draws attention to the importance of clear, reliable and transparent disclosure to provide investors with information that will help them to evaluate the impact of the pandemic on earnings and financial data. The statement acknowledges and recommends the guidance issued by the IASB on *(i)* assessment of possible significant increases in credit risk, and (ii) the use of forward-looking information over the long period.

  Statement, 29 May 2020: "*IOSCO Statement on Importance of Disclosure about Covid-19*", which further reiterates the guidelines on financial disclosure already referred to.

* * *

As stated in the press release issued on 30 July 2020, Mediobanca is committed to executing the strategic and operating priorities set out in its 2020-23 Strategic Plan, leveraging on the distinctive features of its business model and its proven track record of tackling crisis periods and turning problems into opportunities. In the uncertainty that still characterizes the reference macroeconomic scenario, the Group still has a robust capital position, with a CET1 ratio at all-time highs, and the expectations are currently for the operating scenario to normalize progressively by December 2020, to guarantee the strategic guidelines and objectives set in the 2019-23 Strategic Plan approved in November 2019.

New IFRS 16: Leasing

Regulatory provisions

On 1 July 2019 the new IFRS 16 on "Leasing" came into force, replacing IAS 17 and its respective interpretations,[6] as ratified by the European Commission under Regulation no. 1986/2017.

The standard introduces a change in the definition of leasing, whereby a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, meaning that long-term rental or hire contracts are also included.

The new standard also requires the lessee to represent the amount of the "right of use" for the asset covered by the leasing/rental agreement in its accounts as an asset, against the related liability in respect of the future instalments due on it discounted as at the reporting date. Thereafter the right of use is amortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing. As provided by the new standard, the Annual Report will include the additional disclosure in the specific section M. Thus there is no longer any distinction between the methods of accounting for operating and finance leases.

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

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

In implementing the new reporting standard, the Mediobanca Group has decided to:

- Use the "modified retrospective approach" at the FTA stage, which means recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption;
- Adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months or less calculated at FTA, contracts involving amounts of less than €5,000 ("low value"), and contracts for intangible assets;
- Not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question;
- If the original contract has been sub-leased to a counterparty, liability in respect of the original lease is balanced by an amount receivable from the subscriber rather than by the value in use;

The lease's duration is estimated on the basis of the contract, experience acquired and information available at the date of first-time adoption regarding the exercise of options to extend or repay the lease early.

Effects of First Time Adoption (FTA)

Since the new principle has come into force and based on the transition choices that have been made, the Group's assets have increased by €29.3m due to the right of use over properties, vehicles and other core goods being recognized under heading 90, "Property, plant and equipment".

This was matched by an equivalent increase in heading 10 "Financial liabilities recognized at amortized cost", representing the payment obligations in respect of future instalments on the leases.

As required by the reporting standard, sub-leasing contracts are recorded in heading 40 “Financial assets recognized at amortized cost” in an amount of approx. €2.5m; the difference between the instalment collected from the sale and the one paid in the leasing contract, approx. €32,000, was taken to Net equity.

A table reconciling the balance-sheet entries at 30 June 2019 pursuant to IAS 17 and at 1 July 2019 pursuant to IFRS 16 is shown below:

(Euro)

Items	30.06.2019	Transition effects	IFRS 16 01.07.2019
		IFRS16 impacts	
10. Cash and cash receivables	632,611,676	—	632,611,676
20. Financial assets valued at fair value with impact taken to profit and loss	10,875,045,880	—	10,875,045,880
30. Financial assets valued at fair value with impact taken to comprehensive income	3,884,452,067	—	3,884,452,067
40. Financial assets valued at amortized cost	46,363,397,516	2,545,873	46,365,943,389
50. Hedging derivatives	409,863,001	—	409,863,001
60. Adjustments to hedged financial assets (+/-)	—	—	—
70. Equity interests	3,191,843,987	—	3,191,843,987
80. Tangible assets	115,176,613	26,759,334	141,935,947
90. Intangible assets	32,465,294	—	32,465,294
100. Tax assets	182,098,527	—	182,098,527
110. Held for sale financial assets	—	—	—
120. Other assets	221,114,245	—	221,114,245
Total assets	**65,908,068,806**	**29,305,207**	**65,937,374,013**

(Euro)

Items	30.06.2019	Transition effects	IFRS 16 01.07.2019
		IFRS16 impacts	
10. Financial liabilities valued at amortized cost	51,339,312,008	29,337,330	51,368,649,338
20. Trading financial liabilities	8,280,325,892	—	8,280,325,892
30. Financial liabilities designated at fair value	55,859,366	—	55,859,366
40. Hedging derivatives	184,650,189	—	184,650,189
60. Tax liabilities	424,720,381	—	424,720,381
80. Other liabilities	310,339,260	—	310,339,260
90. Staff severance payment	7,869,475	—	7,869,475
100. Provisions	118,113,416	—	118,113,416
110. Valuation reserves	85,743,925	—	85,743,925
140. Reserves	2,217,665,397	-32,123	2,217,633,274
150. Share premiums	2,195,605,653	—	2,195,605,653
160. Share capital	443,608,089	—	443,608,089
170. Treasury shares (-)	-141,989,096	—	-141,989,096
180. Gain (loss) for the period (+/-)	386,244,851	—	386,244,851
Total liabilities and net equity	**65,908,068,806**	**29,305,207**	**65,937,374,013**

The overall value in use (recognized to Property, plant and equipment) is €26.8m, made up as follows:

– Value in use of properties: €23.1m;

– Value in use of vehicles: €3.6m;

– Value in use of other assets: €0.1m.

The increase in assets also affects the RWAs with an approx. 2 bps impact on the capital ratios.

The table below shows a reconciliation of future commitments in respect of leases pursuant to IAS 17 with the liabilities recorded in respect of leases in the financial statements. The difference is due to the effect of discounting the amount payable at the marginal financing rate. As at the FTA date, the weighted average marginal financing rate used for liabilities in respect of leasing was 1%. The curve is revised on a regular monthly basis.

(€'000)

Leasing-related commitments (ex IAS17)	Financial liabilities (ex IFRS16)	Difference
30,217	29,337	880

During the twelve months under review, Mediobanca continued to record new operating leases and contract renewals falling within the IFRS 16 scope of application by making use of the exemptions used in a FTA scenario.

Group project on interbank benchmark rates

Regulation (EU) 2016/1011 (the “Benchmarks Regulation”, or “BMR)”) has introduced new rules to avert the risks of manipulation and ensure the integrity and accuracy of the indices used as benchmarks for the valuation of financial instruments and contracts and to measure the performances of investment funds.

The BMR incorporates the guidelines of the Financial Stability Board (FSB-IOSCO) on the need to reform interbank rates in order to restore the integrity of these indicators following instances of market manipulation, and also applies to the interest rates most frequently used on markets, such as Euribor, Eonia and Libor (“critical benchmarks”), which, except for Euribor, will no longer be able to be used starting from 1 January 2022.

Euribor itself was reformed during 2019 regarding the quote mechanism and is now in line with the requisites set by the Regulation, requiring no further action from the European Money Markets Institute (EMMI). Euribor can therefore be used after 1 January 2022, hence the fair value hedges related to Euribor are considered not to be impacted by the reform.

For EONIA, by contrast, the reform is still in progress. At present, since 2 October 2019 EONIA has been complemented by a new unsecured overnight rate, the Euro Short-Term Rate (€STR), which will replace EONIA in full starting from 1 January 2022. On 27 July 2020, the London Clearing House was the first to use the new interest rate as the discount curve for IRS products. The effectiveness tests have therefore taken this change into account since end-July 2020. It will still be possible to calculate EONIA as €STR plus a fixed spread.

Under the reform of LIBOR rates, which is still in progress, the Financial Conduct Authority (FCA) will no longer require the banks in the panel to submit quotes from 1 January 2022, and the market is already moving towards alternative rates identified for the different currencies in which Libor is denominated.

However, the uncertainty caused by the lack of a single alternative parameter for the whole market, in particular in the valuation of the economic relationship between hedged item and hedging instrument, could lead to hedging arrangements being discontinued. To prevent this from happening, on 26 September 2019 IASB made some temporary exceptions to the regulations (chiefly regarding IFRS 9, IAS 39 and IFRS 7) that will remain in force until the reform of the benchmark indicators is complete. The exceptions mainly refer to the possibility, in valuing the economic relationship, of the benchmark used to determine the interest rate on the hedged or hedging instrument not being altered following the reform of the rates themselves, until the change itself has taken place. These exceptions have been incorporated by the European Union through Regulation (EU) 2020/34 of 15 January 2020 ("Regulation 34").

The Mediobanca Group has set up a working group to monitor the development of the interest rate reform, to supervise implementation for the Group as a whole, and to draw up all the operating procedures necessary for realization and application by year-end 2022. In particular, a Group assessment has been carried out to identify the financial products affected, the respective exposures, and the types of contract potentially requiring revision. Internal regulations have been drawn up to address scenarios in which the benchmark interest rates used by Mediobanca Group undergo material changes or are discontinued.

For the purposes of these financial statements, the Group has chosen to adopt Regulation 34 in advance, thereby doing away with the uncertainty of interpretation for certain hedge contracts indexed to underlying benchmark rates that are due to be replaced. These involve in particular IRS contracts with USD Libor as the underlying benchmark, taken out by Mediobanca S.p.A. to hedge bond issues, involving a notional amount of $2,050m.

SECTION 3

Events subsequent to the reporting date

No events have taken place that would cause the results presented in the consolidated report for the twelve months ended 30 June 2020 to be amended.

SECTION 4

Other aspects

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

A.2 - Significant accounting policies

Financial assets recognized at amortized cost

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

- the financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;
- such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS 16 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

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

- operating procedure adopted by management in the process of performance evaluation;
- risk type and procedure for managing risks taken, including indicators for portfolio rotation;
- means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering “worst case” and “best case” scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.[7]

[7] These considerations are stated in the internal management policies, which reiterate the link between business model and accounting treatment, and introduce frequency and materiality thresholds for movements in portfolios of assets recognized at amortized cost.

At initial recognition, the Group analyses contractual cash flows for the instruments to check whether the instrument, product or sub-product passes the SPPI test. In this connection, the Group has developed a standardized process for performing the test, which involves analysing the loans using a specific tool, developed internally, which is structured on the basis of decision-making trees, at the level of the individual financial instrument or product based on their different degrees of customization. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. When contractual cash flows for the instrument do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

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

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

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

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

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

- Stage1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. During the Covid-19 pandemic and in line with the guidance issued by the EBA, ECB, Consob and ESMA, the Mediobanca Group decided not to apply automatic reclassification mechanisms for moratoria granted as part of the support programmes approved by the law, category association agreements or equivalent voluntary initiatives adopted by the individual companies, as described in further depth in Part E of the Notes to the Accounts. Moreover, the Group only makes very limited use of the simplified low credit risk exemption approach.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, and interest is calculated later using an internal rate of return adapted to the circumstances.

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

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

The expected credit losses[8] are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default, the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value.[9]

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. This category comprises debt

[8] Reference is made to the section on Credit Quality in Part E of the Notes to the Accounts for an exhaustive analysis of the staging criteria and application of the forward-looking approach, including the adjustments made as a result of the Covid-19 situation.

[9] See Part A - Information on fair value on pp. 111-24.

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

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost. In particular, after clarification from the IFRS Interpretation Committee, holdings in mutual funds are also classified in this category.[10]

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at amortize cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the respective headings.

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

[10] The IFRS Interpretation Committee's clarification rules out any possibility of such instruments being treated as equities.

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

Financial assets recognized at fair value through other comprehensive income

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

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

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

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

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

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

Derecognition of assets

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

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

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending. Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

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

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

Leasing (IFRS 16)

An agreement is classified as a leasing contract[11] (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains, a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods) - the "Right of Use" (RoU) - for an agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

Right of use is recorded among "Tangible assets", and is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under "Financial liabilities recognized at amortized cost", is equal to the discounted value of the payments due in respect of the lease; and the marginal financing rate is equal to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behaviour, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

[11] Leases in which the Group is lessor are divided into financial and operating leases. A lease is defined as a financial lease if all the risks and benefits typically associated with ownership are transferred to the lessee. Such leases are accounted for by the financial method, which involves a receivable being booked as an asset for an amount equal to the amount of the lease, net of the instalments on principal expired and paid by the lessee, and the interest receivable being taken through profit and loss.

After initial recognition, RoU is amortized over the lease's duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

Hedges

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

Two types of hedge are used by the Group:

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

- the gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.
- the cash flow reserve is adjusted to reflect the lower amount of:
  - the gain or loss accumulated on the hedge instrument since the hedge's inception; and
  - the cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception.

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

Equity investments

This heading consists of investments in:

- Subsidiaries
- Associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;
- Jointly-controlled companies, which are also equity-accounted;
- Other investments of negligible value.

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings and equipment of all kinds. It also includes the RoU acquired under leases and related use of tangible assets (for lessees) and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

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

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

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

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

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

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS 3R.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates, goodwill recorded as an asset is tested for impairment.[12] Any reduction value due to impairment 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.[13] The impairment is recognized in the profit and loss account as the difference between the carrying amount and the recoverable value of the asset concerned.

Financial liabilities recognized at amortized cost

These include the items *Due to banks*, *Due to customers* and *Debt securities in issue* less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IFRS 16, but which are also affected by the IFRS 9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

Initial recognition takes place when funds raised are collected or debt securities are issued, and occurs at fair value, which is equal to the amount collected net of transaction costs incurred directly or indirectly in connection

[12] Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or *Organismo Italiano di Valutazione*) on "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012, "Italian valuation standards" published in 2015, the discussion paper issued on 22 January 2019, ESMA's recommendations contained in the document entitled "European common enforcement priorities for 2013 financial statements", the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010), and Consob's communications (no. DIE/17131 of 3 March 2014 and no. 3907 of 19 January 2015).

[13] Under IAS 36, impairment testing, i.e. tests to ascertain whether or not there has been a loss in the value of individual tangible and intangible assets, must be carried out at least once a year, in conjunction with preparation of the financial statements, or more frequently if events have taken place or materialized that would indicate

with the liability concerned. Thereafter liabilities are stated at amortized cost on the basis of the original effective interest rate, with the exception of short-term liabilities which continue to be stated at the original amount collected.

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the profit and loss account.

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

The sale of treasury shares over the market following a buyback (even in the form of Repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

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

Financial liabilities recognized at fair value

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

Provisions for liabilities and charges

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

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment on financial assets recognized at amortized cost.

In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is recognized in the profit and loss account.

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

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

As permitted by IAS 37, paragraph 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

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

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

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

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

Foreign currency transactions

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

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

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted using the average of the average monthly exchange rate readings for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

Tax assets and liabilities

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

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

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

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

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

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

Stock options, performance shares and long-term incentives

The stock option, performance share and long-term incentive (LTI) schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs.

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

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

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

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

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

Treasury shares

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

Fees and commissions receivable in respect of services

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

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

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

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

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved.

Recognition of costs

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

Related parties

Related parties are defined, *inter alia* in accordance with IAS 24, as follows:

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in the Bank's share capital;[14]

b) Associate companies, joint ventures and entities controlled by them;

c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;

d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);

e) Close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals.

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

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

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

(€'000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt decurities	AFS securities	Financial assets at amortized cost	FY 2010/2011	8,370	1,488
Total				8,370	1,488

A.4 - Information on fair value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS 13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market.

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– valuations of instruments with similar characteristics,
– discounted cash flow calculations,
– option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some

market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

If no market inputs are available, valuation models based on data estimated internally are used.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

The outbreak of the Covid-19 pandemic and subsequent government and healthcare measures had an immediate impact on capital markets, which priced in the new estimates of the economic slowdown as well as the regulators' restrictions on share buybacks and payments of dividends. These two combined effects caused a reduction in liquidity and made it difficult to hedge trades and risk reduction transactions generally (on dividends and volatility in particular). Overall there was a significant rise in uncertainty for the input parameters required in order to value the positions held by the Bank and in the parameters used for control activities.

In terms of independent price verification (IPV), the Bank stepped up its controls following the mismarking of volatility, correlation and dividends by using alternative providers, resulting in an increase in corrections to the original values proposed by the business units.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it.[15]

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

[15] Cf. IFRS 13, paragraph 73: "the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement"; and paragraph 74: "The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used". For further details see IFRS 13, paragraphs 72-90.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified:

– Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.

– Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.

– Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

In cases where the input data used to value an asset or liability have different rankings, the choice of fair value level is driven by the significance of the input data (IFRS 13, paragraph 74).

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure. Similarly, the Bank has an independent control unit which checks the parameters used, comparing them with similar inputs from different sources which must nonetheless meet observability criteria.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. In line with the best market practices, during the year under review all fair value adjustments were aligned with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation"). Introduction of the new framework has resulted in the need to start calculating adjustments that were previously not recognized.

The changes in scope of fair value adjustments thus include the following in particular:

- Close-Out Costs;
- Investing and Funding Costs;
- Market Price Uncertainty;
- Model Risk.

Some fair value adjustments may be considered in order to align valuation with exit price, based among other things on the level of market liquidity, the uncertainty of the valuation parameters, and in order to reflect the cost of funding.

The following activities were undertaken in the twelve months under review:

- revision of calculation scope and method**:** for certain specific deals structured in the past, a fair value adjustment was established when the deal itself was executed. Although these adjustments were calculated conservatively (in most cases using far worse market stress scenarios as input),it appears to be closer to the regulations to use a dynamic calculation based on the risks present at portfolio level and inputs updated to the calculation date. Some of the main changes entailed by this method include:
  - recalculation of the adjustments hedging the funding risk implicit in credit-linked issues. Using a point-in-time valuation approach, the use of a conservative factor linked to the credit curves has been eliminated from the calculation;
  - changes to the calculation methods used for adjustments linked to the uncertainty of the repo margin: the Bank has transitioned from a simplified methodology to an approach based on a market consensus instrument, in line with the method already used for other risk factors.

– Removal of some FVAs: some of these adjustments were more linked to commercial than to risk issues,[16] and have in part been replaced by the introduction of Close-Out Costs;

– Introduction of Close-Out Costs: depending on the materiality of the risks present, the Bank has adjusted the fair value to ensure that the exit price is recorded, as required by IFRS 13.[17]

Credit/debt valuation adjustment (CVA/DVA)

Credit and debt value adjustments (CVA and DVA) are incorporated into the valuation of derivatives to reflect the impact respectively of the counterparty's credit risk and the Bank's own credit quality on the fair value, as follows:

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

– DVA is a positive quantity which takes into account the scenarios in which the Bank itself might fail before the party does while amounts are still payable (negative MTM) to the counterparty.

CVA and DVA are calculated taking into consideration any counterparty risk mitigation agreements that have been entered into, in particular collateral and netting agreements for each counterparty.

The CVA/DVA methodology used by Mediobanca is based on the following inputs:

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

[16] That is, they were intended to mitigate the potential impact for clients in the event of buybacks of arbitrage trades, a phenomenon that has never occurred.

[17] The adjustment is calculated, for each risk factor considered, as a semi-bid/ask for the market data, multiplied by the exposure to the instrument to which the data refers.

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the recovery rates conventionally utilized for credit default swap prices.

The fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. To take account of this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

A.4.1 Fair value levels: measurement techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis, by fair value level

Level 1

This level comprises all instruments quoted on active markets or for which quotations are available on an ongoing basis. The former instance covers cash equity instruments, funds and listed derivatives[18] (futures and options with equity, interest rates and sovereign debt as the underlying) traded on regulated markets for which an official closing price was available. The second instance covers liquid debt securities for which quotations are available on an ongoing basis, and ABS and CLOs for which tradable quotations are available at the reporting date.

Level 2

– Bonds: securities traded on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2; as are instruments not

[18] Provided that the quotation is considered to be effectively liquid following the IPV process.

traded on active markets that are marked to model using the implied credit spread curves obtained from Level or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, only if the credit spread curve applied is representative, the bonds are categorized as Level 2. In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs;

– derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In accordance with the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, where possible the Bank uses models that maximize observable parameters, which are preferable to models where the use of unobservable parameters is predominant. When there is an active market for the input parameters to be used for the different components of the valuation model, the fair value is established on the basis of their market quotations. Hence an OTC derivative that mainly uses observable inputs deriving from Level 1 instruments (quoted prices, as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and credit spreads, as stipulated in paragraph 82 of IFRS 13) is classified as Level 2. These derivatives include:
  – plain vanilla instruments, such as options with equity or exchange rates, interest rate swaps, cap & floor, credit default swaps and credit default indexes as underlying;
  – exotic instruments which use more complex models such as exotic equity options, structured forex including derivatives embedded in notes issued by Mediobanca whose characteristics replicate those referred to above;
  – issues of certificates with credit derivatives or shares as underlying (basket or single name), including the issuer credit risk which is thus factored into the total calculation of the fair value.

The instruments referred to above are classified as Level 2 when the fair value component calculated using models based on observable inputs is adjudged to be predominant.

The observability of an input parameter depends on the type of product, and on the adequacy of the parameters used. In both cases the relevant issuers are the availability of quotes, expiry and level of moneyness.

Level 3

– Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread is added in order to factor in their unobservable illiquidity. Fair value adjustments may be used in recognizing such instruments at fair value when there is low liquidity, in order to compensate for the lack of observable market parameters for the Level 3 positions;

– asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.

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

– equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;

– investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level 3;

– derivatives: when the valuation of an OTC derivative has been materially affected by unobservable parameters it is classified as Level 3. Such derivatives include:

  – plain vanilla instruments, such as options with equity as the underlying and long expiries, or dividends on which there is no market consensus and options on equity baskets (indexes and single name);

  – equity certificates for which the valuation inputs show a high degree of uncertainty (as it emerges during the Independent Price Verification process) in terms of volatility or future dividends;

  – exotic instruments that use complex models (exotic options), or certain payoffs on exchange rates for which the valuation inputs are not directly observable, including derivatives embedded in bonds issued;

  – bespoke CDO tranches.

The instruments referred to above are classified as Level 3, because as stated in paragraphs 73 and 75 of IFRS 13, their fair value is established primarily by components attributable to unobservable inputs (such as implicit volatility above certain observation levels, equity and credit correlation, etc.), or contains adjustments that significantly alter the most liquid input parameters used.

All inputs used to determine the fair value of the principal risk positions, regardless of their fair value levels, are subject to the Independent Price Verification process based on the principle of verifying the data against input from other info-providers.

Assets and liabilities measured at fair value on a non-recurring basis

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally which are generally not directly observable on the market.

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level 2, and in all other cases as Level 3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks). The fair value of the naked components of Mediobanca structured issues is also categorized as Level 2 when Mediobanca strips out the derivative embedded in such issues; the derivative's fair value level is according to the method described above.

A.4.2 Measurement processes and sensibilities

As required by IFRS 13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

Uncertainties inherent in inputs and impact on mark-to-market for equity products

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€) 30/6/20	+/- delta vs MtM (€m) 30/6/19
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	0.52	0.46
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	1.15	0.612

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value* Assets 30/6/20 (€m)	Fair value* Liabilities 30/6/20 (€m)	Fair value* Assets 30/6/19 (€m)	Fair value* Liabilities 30/6/19 (€m)
OTC equity single name options, Variance swap	Black-Scholes/ Black model	Implicit volatility[1]	14.16	-14.20	0.81	-3.89
OTC equity basket options, best of/ worst of, equity autocallable multiasset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation[2]	39.05	-20.73	9.85	-9.40

* Values are shown net of reserves booked.

[1] Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

[2] Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

A.4.3 Fair value ranking

Transfers between fair value ranking levels

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level 1 to Level 2 or vice versa mainly as a result of the loss (increase) in significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level 2 to Level 3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities recognized at fair value on a non-recurring basis, by fair value ranking

(€'000)

Financial assets/liabilities measured at fair value	30/6/20			30/6/19		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	5,868,434	3,128,702	964,228	7,364,652	2,887,585	622,808
a) financial assets held for trading	5,582,671	3,077,700	554,349	7,054,588	2,633,695	359,064
b) financial assets designated at fair value	—	51,002	—	—	51,975	—
c) other financial assets mandatorily valued at fair value	285,763	—	409,879	310,064	201,915	263,744
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,464,787	134,475	185,739	3,611,042	240,572	32,838
3. Hedging derivatives	—	471,648	—	—	409,863	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	9,333,221	3,734,825	1,149,967	10,975,694	3,538,020	655,646
1. Financial liabilities held for trading	4,018,034	3,802,689	530,954	4,948,023	3,082,526	249,777
2. Financial liabilities valued at fair value	—	216,020	—	—	55,859	—
3. Hedging derivatives	—	132,551	—	—	184,650	—
Total	4,018,034	4,151,260	530,954	4,948,023	3,323,035	249,777

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

(€'000)

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading[1]	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value				
1. Opening balance	419,156	122,574	—	263,744	32,838	—	—	—
2. Increases	501,936	112,844	—	228,260	160,832	—	—	—
2.1 Purchases	409,221	65,338	—	183,838	160,045	—	—	—
2.2 Profits recognized in:	57,503	12,309	—	44,407	787	—	—	—
2.2.1 profit and loss	57,501	12,309	—	44,407	785	—	—	—
- of which, gains	*11,821*	*11,821*	—	—	—	—	—	—
2.2.2 net equity	2	X	X	X	2	—	—	—
2.3 Transfers from other levels	35,197	35,197	—	—	—	—	—	—
2.4 Other increases	15	—	—	15	—	—	—	—
3. Decreases	180,320	90,264	—	82,125	7,931	—	—	—
3.1 Disposals	130,280	61,832	—	67,663	785	—	—	—
3.2 Redemptions	4,507	4,507	—	-	—	—	—	—
3.3 Losses recognized in:	43,704	22,096	—	14,462	7,146	—	—	—
3.3.1 profit and loss	36,558	22,096	—	14,462	—	—	—	—
- of which, losses	*22,029*	*22,029*	—	—	—	—	—	—
3.3.2 net equity	7,146	X	X	X	7,146	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	1,829	1,829	—	—	—	—	—	—
4. Closing balance	740,772	145,154	—	409,879	185,739	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/20: €351,000; 30/6/19: €506,000) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

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

(€'000)

	Held for trading[1]	Designated at fair value	Hedging derivatives
1. Opening balance	13,285	—	—
2. Increases	112,300	—	—
2.1 Issuance	22,558	—	—
2.2 Losses recognized in:	2,916	—	—
2.2.1 profit and loss	2,916	—	—
- of which, losses	*2,916*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	86,826	—	—
2.4 Other increases	—	—	—
3. Decreases	3,826	—	—
3.1 Redemptions	56	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	3,770	—	—
3.3.1 profit and loss	3,770	—	—
- of which, gains	*2,277*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	121,759	—	—

1 Net of market value of options covering those attached to bonds issued (30/6/20: €0.35m; 30/6/19: €0.5m) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€'000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/20				30/6/19			
	Book value	Level1	Level2	Level3	Book value	Level1	Level2	Level3
1. Financial assets valued at amortised cost	43,711,164	2,431,924	30,939,943	11,024,430	46,363,398	2,149,798	32,117,056	12,892,319
2. Tangible assets held for investment purposes	24,573	—	—	93,443	24,884	—	—	94,174
3. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	43,735,737	2,431,924	30,939,943	11,117,873	46,388,282	2,149,798	32,117,056	12,986,993
1. Financial liabilities valued at amortised cost	50,698,334	—	50,884,971	39,433	51,339,312	—	51,578,885	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—	—	—	—	—
Total	50,698,334	—	50,884,971	39,433	51,339,312	—	51,578,885	48,237

The Level 3 instruments held for trading include options traded, i.e. contracts originated and closed with different counterparties but the same underlying instrument and uncertain risk parameter, totalled €408.8m (30/6/19: €236m), plus €0.35m in options linked to bonds issued and hedged on the market (€0.5m).

Net of these items, the Level 3 assets increased from €122.6m to €145.2m, as a result of new entries totalling €65.3m (€37m of which relating to derivative contracts) against departures totalling €66.3m, €59.6m of which regarding the transfer of ABS to a new provision and redemptions totalling €4.5m. Transfers from other levels totalled €35.2m, and chiefly involve derivative contracts being reclassified during the course of the year, due to the increase in uncertainty over volatility and the underlying dividends. Downward movements in fair value totalled €11.6m.

Level 3 liabilities, minus options traded and those linked to the bond issues referred to above, rose from €13.3m to €121.8m, as a result of the reclassifications made during the twelve months, regarding certain certificates and derivative contracts (worth a total of €86.8m), which became necessary due to the rise in uncertainty over estimated dividends, plus new positions totalling €22.5m (mainly derivative contracts); upward adjustments to fair value totalled €0.8m.

Financial assets compulsorily recognized at fair value, which mostly consist of investments in funds (including seed capital) increased from €263.7m to €409.9m, as a result of new additions totalling €183.8m, €110m of which in relation to the initial subscription to a fund with ABS as the underlying instrument, and €55m in additional investments in the Cairn funds, against departures totalling €67.7m which mostly involve the partial disposal of the above fund; overall there were other positive changes totalling €30m, representing the difference between €44.4m in higher valuations due to improvements in the credit rating of certain convertible loans, and €14.4m in downward value adjustments made to seed capital (primarily for Cairn).

Financial assets recognized at fair value through other comprehensive income (which consist of investments in unlisted companies, valued based on internal models) increased from €32.8m to €185.7m, chiefly due to the subscription of the Additional Tier 1 bond issued by Group company CheBanca! (€160m).

A.5 - Information on "day one profit/loss"

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

Suspension of the day one profit is currently applied to the approx. €10m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument, and, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €2.7m, and the portion that passed through profit and loss during the period totalled €2m.

The suspension approach is also applied to the profit deriving from trades in derivatives on Exchange rates linked to hedges of M&A deals: as the derivative becomes effective only if the deal is executed, the profit is suspended until the uncertainty regarding the deal's execution has ceased. At the reporting date there was only one trade of this kind, involving a profit of €470,000.

The Bank also has deals classified as Level 3 for which the initial profit has not had to be suspended, as these deals were originally negotiated with other market counterparties, without generating any material upfront difference.

Part B - Notes to the Individual Balance Sheet*

Assets

SECTION 1

Heading 10: Cash and cash equivalents

Cash and cash equivalents: composition

	Total 30/6/20	Total 30/6/19
a) Cash	592	561
b) On demand deposits with Central banks	3,101,358	632,051
Total	3,101,950	632,612

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

SECTION 2

Heading 20: Financial assets recognized at fair value through profit and loss

*2.1 Financial assets held for trading: composition**

Items/Values	Total			Total		
	30/06/20			30/06/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities	2,954,447	551,675	28,968	3,857,970	361,666	58,831
1.1 Structured securities	2,758	18,177	1,998	17,251	10,451	—
1.2 Other securietes	2,951,689	533,498	26,970	3,840,719	351,215	58,831
2. Equity securites[1]	1,962,771	—	29,372	2,441,048	—	47,024
3. Investment funds unit	20,114	—	2,526	245,002	—	6,055
4. Loans	3,917	—	—	6,894	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	3,917	—	—	6,894	—	—
Total (A)	4,941,249	551,675	60,866	6,550,914	361,666	111,910
B. Derivative instruments						
1. Financial Derivatives	641,422	2,340,414	493,483 [2 3]	503,674	1,781,837	247,154
1.1 trading	641,422	2,335,907	493,340	503,674	1,737,302	246,957
1.2 fair value hedges	—	—	—	—	—	—
1.3 others	—	4,507	143	—	44,535	197
2. Credit Derivatives	—	185,611	—	—	490,192	—
2.1 trading	—	185,611	—	—	490,192	—
2.2 fair value hedges	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	641,422	2,526,025	493,483	503,674	2,272,029	247,154
Total (A+B)	5,582,671	3,077,700	554,349	7,054,588	2,633,695	359,064

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

1 Equities include shares committed in securities lending transactions totalling €507,245,000 (30/06/19: €834,916,000)

2 Includes the market value of options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching options associated with bond issues, recorded as financial instruments held for trading, and the matched trading options themselves (totalling €408,844,000 as at 30/6/20 and €235,984,000 as at 30/6/19) recorded as financial liabilities held for trading.

2.2 Financial assets held for trading: composition by borrower/issuer

Items/Values	30/6/20	30/6/19
A. Cash assets		
1. Debt securities	3,535,090	4,278,467
a) Central Banks	—	—
b) Public Administrations	1,880,990	3,398,524
c) Banks	1,236,147	619,409
d) Other financial companies	201,525	197,994
of which: insurance companies	*2,904*	—
e) Non-financial companies	216,428	62,540
2. Equity instruments	1,992,143	2,488,072
a) Banks	149,796	391,154
b) Other finanzial companies	464,779	205,008
of which: Insurance companies	*169,779*	*94,336*
c) Non-financial companies	1,377,568	1,891,910
d) Other issuers	—	—
3. Units investment funds	22,640	251,057
4. Loans	3,917	6,894
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	—	2,031
of which: insurance companies	—	—
e) Non-financial companies	3,917	4,863
f) Families	—	—
Total (A)	5,553,790	7,024,490
B. Derivative instruments		
a) Central Counterparties	201,441	95,465
b) Others	3,459,489	2,927,392
Total (B)	3,660,930	3,022,857
Total (A+B)	9,214,720	10,047,347

2.3 Financial assets designated at fair value: composition*

Items/Values	Total 30/6/20			Total 30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	—	51,002	—	—	51,975	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	51,002	—	—	51,975	—
2. Loans	—	—	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others	—	—	—	—	—	—
Total	—	51,002	—	—	51,975	—

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

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

Items/Values	30/6/20	30/6/19
1. Debt securities	51,002	51,975
a) Central Banks	—	—
b) Public-sector entities	—	—
c) Banks	—	—
d) Other financial companies	51,002	51,975
of which: Insurance companies	—	—
e) Non-financial companies	—	—
2. Loans	—	—
a) Central Banks	—	—
b) Public-sector entities	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non-financial companies	—	—
f) Households	—	—
Total	51,002	51,975

*2.5 Other financial assets mandatorily valued at fair value: composition**

Items/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	306	—	1,785	489	—	3,146
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	306	—	1,785	489	—	3,146
2. Equity instruments	—	—	2,812	—	—	4,833
3. Units investment funds	285,457	—	351,002	309,575	—	233,989
4. Loans	—	—	54,280	—	201,915	21,776
4.1 REPO	—	—	—	—	—	—
4.2 Others	—	—	54,280	—	201,915	21,776
Total	285,763	—	409,879	310,064	201,915	263,744

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - “Accounting Policies”.

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

Items/Values	30/6/20	30/6/19
1. Equity instruments	2,812	4,833
of which: banks	—	—
of which: other financial companies	*2,812*	*4,833*
of which: other non-financial companies	—	—
2. Debts securities	2,091	3,635
a) Central Banks	—	—
b) Public sector entities	306	489
c) Banks	—	—
d) Other financial companies	1,785	3,146
of which: insurance companies	—	—
e) Non-financial companies	—	—
3. Units investment funds	636,459	543,564
4. Loans	54,280	223,691
a) Central Banks	—	—
b) Public sector entities	—	—
c) Banks	—	—
d) Other financial companies	3,973	206,209
of which: insurance companies	—	—
e) Non-financial companies	50,307	17,482
f) Households	—	—
Total	695,642	775,723

SECTION 3

Heading 30: Financial assets recognized through other comprehensive income

*3.1 Financial assets recognized at fair value through other comprehensive income: composition**

Item/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Livello 3 [1]
1. Debts securities	3,351,465	134,475	—	3,507,591	240,572	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3,351,465	134,475	—	3,507,591	240,572	—
2. Equity instruments	113,322	—	185,739	103,451	—	32,838
3. Loans	—	—	—	—	—	—
Total	3,464,787	134,475	185,739	3,611,042	240,572	32,838

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - “Accounting Policies”.

[1] Includes investments in unlisted companies valued based on internal models and AT1 intercompany instruments (€160,000,000 versus CheBanca!).

3.2 Financial assets at fair value with impact taken to comprehensive income: composition by borrower/issuer

Items/Values	30/6/20	30/6/19
1. Debt securities	3,485,940	3,748,163
a) Central Banks	—	—
b) Public entities	2,613,617	2,863,097
c) Banks	521,126	507,767
d) Other financial companies	208,717	216,529
of which: insurance companies	*64,983*	*131,292*
e) Non-financial companies	142,480	160,770
2. Equity securities	299,061	136,289
a) Banks[1]	160,116	114
b) Other issuers:	138,945	136,175
- other financial companies	24,021	31,371
of which: insurance companies	—	—
- non-financial companies	114,924	104,804
- others	—	—
3. Loans	—	—
a) Central Banks	—	—
b) Public entities	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non-financial companies	—	—
f) Households	—	—
Total	3,785,001	3,884,452

[1] Includes the CheBanca! AT1 instrument (€160,000,000) subscribed to in full by Mediobanca S.p.A.

3.3 Financial assets valued at fair value with impact taken to comprehensive income: gross value and total writedowns

	Gross value				Writedown			Write off partial total
	First stage	of which: low credit risk*	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	3,492,048	67,139	—	—	6,108	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/20	3,492,048	67,139	—	—	6,108	—	—	—
Total 30/6/19	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	*X*	*X*	—	—	*X*	—	—	—

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

SECTION 4

Heading 40: Financial assets at amortized cost

*4.1 Financial assets at amortized cost: composition of due from banks (30/06/2020)**

Type of transaction/Values	Total					
	30/6/20					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Receivables to Central Banks	219,721	—	—	—	219,721	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	219,721	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Receivables to banks	20,317,826	—	—	185,309	20,445,167	40,889
1. Loans	19,295,878	—	—	—	19,599,094	40,889
1.1 Current accounts and demand deposits	1,316,611	—	—	X	X	X
1.2. Time deposits	317,543	—	—	X	X	X
1.3 Other loans:	17,661,724	—	—	X	X	X
- Repos	2,464,519	—	—	X	X	X
- Finance leases	—	—	—	X	X	X
- Others	15,197,205	—	—	X	X	X
2. Debts securities	1,021,948	—	—	185,309	846,073	—
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	1,021,948	—	—	185,309	846,073	—
Total	20,537,547	—	—	185,309	20,664,888	40,889

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

*4.1 Financial assets at amortized cost: composition of due from banks (30/06/2019)**

Type of transaction/Values	Total					
	30/06/2019					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Receivables to Central Banks	211,382	—	—	—	211,382	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	211,382	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Receivables to banks	21,895,297	—	—	222,033	21,497,050	622,159
1. Loans	20,874,797	—	—	—	20,682,461	622,159
1.1 Current accounts and demand deposits	708,311	—	—	X	X	X
1.2. Time deposits	389,988	—	—	X	X	X
1.3 Other loans:	19,776,498	—	—	X	X	X
- Repos	4,482,055	—	—	X	X	X
- Finance leases	—	—	—	X	X	X
- Others	15,294,443	—	—	X	X	X
2. Debts securities	1,020,499	—	—	222,033	814,589	—
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	1,020,499	—	—	222,033	814,589	—
Total	22,106,679	—	—	222,033	21,708,432	622,159

*4.2 Financial assets at amortized cost: composition of due from customers (30/06/2020)**

Type of transaction/Values	Total					
	30/6/20					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
1. Loans	17,858,758	283,611	—	—	10,237,172	8,196,593
1.1.Deposits from customers	917,839	—	—	X	X	X
1.2. Repos	994,532	—	—	X	X	X
1.3. Mortgages	13,724,977	283,611	—	X	X	X
1.4. Credit cards, personal loans and wage assignemnt losses	—	—	—	X	X	X
1.5 Lease loans[1]	2,292	—	—	X	X	X
1.6. Factoring	—	—	—	X	X	X
1.7. Other loans	2,219,118	—	—	X	X	X
2. Debt securities	5,031,248	—	—	2,246,615	37,883	2,786,948
2.1. Structured securities	—	—	—	—	—	—
2.2. Other debt securities[2]	5,031,248	—	—	2,246,615	37,883	2,786,948
Total	22,890,006	283,611	—	2,246,615	10,275,055	10,983,541

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

1 The Mediobanca Group has applied IFRS 16 since 1 July 2019.

2 €2,574,288,000 of which in relation to securitizations by Group companies (in this case Compass).

*4.2 Financial assets at amortized cost: composition of due from customers (30/06/2019)**

Type of transaction/Values	Total					
	30/6/19					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
1. Loans	17,932,739	368,981	—	—	10,359,379	8,246,345
1.1.Deposits from customers	1,030,755	—	—	X	X	X
1.2. Repos	2,550,975	—	—	X	X	X
1.3. Mortgages	12,278,258	368,981	—	X	X	X
1.4. Credit cards, personal loans and wage assignemnt losses	—	—	—	X	X	X
1.5 Lease loans	—	—	—	X	X	X
1.6. Factoring	—	—	—	X	X	X
1.7. Other loans	2,072,752	—	—	X	X	X
2. Debt securities	5,954,999	—	—	1,927,765	49,245	4,023,815
2.1. Structured securities	—	—	—	—	—	—
2.2. Other debt securities[1]	5,954,999	—	—	1,927,765	49,245	4,023,815
Total	23,887,738	368,981	—	1,927,765	10,408,624	12,270,160

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

1 €3,851,751,000 of which in relation to securitizations by Group companies (in this case Compass).

4.3 Financial assets at amortized cost: composition by borrower/issuer of due from customers

Type of transaction / Values	Total 30/06/20			Total 30/06/19		
	First and second stage	Third stage	*of which: impaired acquired or originated*	First and second stage	Third stage	*of which: impaired acquired or originated*
1. Debt securities	5,031,248	—	—	5,954,999	—	—
a) Public Administration	1,835,108	—	—	1,454,675	—	—
b) Other financial company	3,011,537	—	—	4,284,239	—	—
of which: insurance companies	*229,394*	—	—	*229,762*	—	—
c) Non-financial companies	184,603	—	—	216,085	—	—
2. Loans to:	17,858,758	283,611	—	17,932,739	368,981	—
a) Public Administration	103,158	—	—	103,200	—	—
b) Other financial company	8,452,920	2,229	—	9,877,374	2,034	—
of which: insurance companies	*617,656*	—	—	*684,511*	—	—
c) Non-financial companies	8,592,680	279,417	—	7,208,670	366,947	—
d) Households	710,000	1,965	—	743,495	—	—
Total	22,890,006	283,611	—	23,887,738	368,981	—

4.4 Financial assets at amortized cost: gross value and total writedowns

	Gross value				Writedown			Write off partial total
	First stage	of which: low credit risk*	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	6,058,834	50,290	—	—	5,638	—	—	—
Loans	37,045,086	339,832	404,726	395,968	61,247	14,208	112,357	—
Total 30/6/20	43,103,920	390,122	404,726	395,968	66,885	14,208	112,357	—
Total 30/6/19	45,676,844	170,834	359,776	509,749	35,986	6,217	140,768	—
of which: impaired financial assets aquired or created	*X*	*X*	—	—	*X*	—	—	—

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

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair value			Notional value	Fair value			Notional value
	30/6/20				30/6/19			
	Level 1	Level 2	Level 3	30/6/20	Level 1	Level 2	Level 3	30/6/19
A. Financial derivatives								
1. Fair value	—	471,648	—	21,534,556	—	409,863	—	15,187,647
2. Cash flows	—	—	—	—	—	—	—	—
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	471,648	—	21,534,556	—	409,863	—	15,187,647

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction/Type of hedging	*Fair value*							Cash-flow hedges		Net Investments on foreign subsidiaries
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	876	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	876	—	—	—	—	—	—	—	—	—
1. Financial liabilities	470,772	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	470,772	—	—	—	—	—	—	—	—	
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

As at 30 June 2020, the book value carried under the "Equity investments" heading totalled €3,150.7m.

7.1 Equity investments: disclosure on relationship

Company name	Legal office	Operating office	Shareholding %	Voting right %
A. Imprese controllate in via esclusiva				
Cairn Capital Group Limited Share capital GBP 263, in par value GBP0.005 shares	London	London	70.93 (*)	70.93
CheBanca! S.p.A. Share capital € 226.3m, in par value € 0.50 shares	Milan	Milan	100.00	100.00
Compagnie Monégasque de Banque - CMB S.A.M. Share capital € 111.1m, in par value € 200 shares	Montecarlo	Montecarlo	100.00	100.00
CMB Wealth Management Limited (under liquidation) Share capital GBP 1.8m, in par value GBP 1 shares	London	London	100.00	100.00
Compass Banca S.p.A. Share capital € 587.5m, in par value € 5 shares	Milan	Milan	100.00	100.00
Mediobanca Innovation Services - MIS S.c.p.A. Share capital € 35m, in par value € 5 shares	Milan	Milan	100.00	100.00
Mediobanca Management Company Share capital € 500,000 in par value € 10 shares	Luxembourg	Luxembourg	100.00	100.00
Mediobanca SGR Share capital € 10.3m, in par value € 51.65 shares	Milan	Milan	100.00	100.00
Messier Maris et Associés S.C.A. Share capital € 50,000, in par value €0.1 shares	Paris	Paris	66.42 (**)	66.42
MBFACTA S.p.A. Share capital € 120m, in par value €1 shares	Milan	Milan	100.00	100.00
MB Funding Lux S.A. Share capital € 831,000, in par value € 1 shares	Luxembourg	Luxembourg	100.00	100.00
MB International (Luxembourg) S.A. Share capital € 10m, in par value € 10 shares	Luxembourg	Luxembourg	100.00	100.00
MB Securities USA LLC Share capital $ 2.25m	New York	New York	100.00	100.00
Prominvestment S.p.A. (under liquidation and arrangement with custmers) Share capital € 743,000, in par value € 0.52 shares	Milan	Rome	100.00	100.00
RAM Active Investments S.A. Share capital CHF 1m in par value CHF 10 shares	Ginevra	Ginevra	66.87 (***)	66.87
Ricerche e Studi S.p.A. Share capital € 100,000, in par value € 5 shares	Milan	Milan	100.00	100.00
SelmaBipiemme Leasing S.p.A. Share capital € 41.3m, in par value € 0.50 shares	Milan	Milan	60.00	60.00
Spafid S.p.A. Share capital € 6.1m, in par value € 10 shares	Milan	Milan	100.00	100.00
B. Companies subject to significant influence				
Assicurazioni Generali S.p.A. Share capital € 1,576.1m, in par value € 1 shares	Trieste	Trieste	12.88	12.88
Burgo Group S.p.A. Share capital € 20m, without nominal value	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	22.13	22.13
Istituto Europeo di Oncologia S.r.l. Share capital € 80.6m	Milan	Milan	25.37	25.37

* The percentage rises to 100.00% if account is taken of the put and call options entered into when the acquisition was completed.

** The percentage rises to 100.00% if account is taken of the put and call options entered into when the acquisition was completed.

*** The percentage rises to 89.25% if account is taken of the put and call options entered into when the acquisition was completed.

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

Company name	Book value	Fair value	Dividends received
A. Directly-held companies			
Cairn Capital Group Limited	41,469	N/A	—
CheBanca! S.p.A.	383,671	N/A	—
Compagnie Monégasque de Banque - CMB S.A.M.	372,544	N/A	—
CMB Wealth Management S.A.M. (under liquidation)	190	N/A	—
Compass Banca S.p.A.	766,559	N/A	—
Mediobanca Innovation Services - MIS S.c.p.A.	35,020	N/A	—
Mediobanca Management Company	3,993	N/A	—
Mediobanca SGR	38,130	N/A	—
Messie Maris et Associés S.C.A.	107,856	N/A	—
MBFACTA S.p.A.	120,099	N/A	—
MB Funding Lux	831	N/A	—
MB International (Luxembourg) S.A.	5,942	N/A	—
MB Securities USA LLC	211	N/A	—
Prominvestment S.p.A. (under liquidation and arrangement with customers)	-	N/A	—
RAM Active Investments S.A.	96,986	N/A	—
Ricerche e Studi S.p.A.	103	N/A	—
SelmaBipiemme Leasing S.p.A.	32,909	N/A	—
Spafid S.p.A.	8,888	N/A	2,892
B. Companies under significant influence			
Assicurazioni Generali S.p.A.	1,096,272	2,730,551	101,357
Burgo Group S.p.A.	—	N/A	—
Istituto Europeo di Oncologia S.r.l.	38,995	N/A	—
Total	3,150,668		

For an illustration of the reasons why an investee company is considered to be subject to joint control or significant influence, please refer to section 3, Part A - “Accounting Policies”.

7.3 Significant investments: accounting data*

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues**	Interest margin	Adjustments and reversals on tangible and intangible assets	Profit/(Loss) from ordinary activities before tax	Profit/(Loss) from ordinary activities after tax	Profit/(Loss) from held-for-sale assets after tax	Profit/ (Loss) for the period (1)	Other profit/loss items after tax (2)	Total profit/loss (3) = (1) +(2)
A. Directly-controlled companies														
Cairn Capital Group Limited	—	4,356	11,438	7,383	3,043	17,943	(224)	(1,269)	(5,722)	(4,971)	—	(4,971)	—	(4,971)
CheBanca! S.p.A.	108,475	22,966,342	391,244	22,702,381	235,855	316,829	215,076	(25,234)	34,060	22,427	—	22,427	(184)	22,243
Compagnie Monégasque de Banque - CMB S.A.M.	3,722	5,356,883	55,644	4,538,052	43,797	97,580	45,440	(4,361)	31,729	27,817	—	27,817	—	27,817
CMB Wealth Management UK (under liquidation)	—	127	—	—	6	0	—	—	(7)	(7)	—	(7)	—	(7)
Compass Banca S.p.A.	5,791	12,019,344	1,004,423	10,662,999	201,969	899,296	901,192	(13,092)	366,620	245,535	—	245,535	8,988	254,523
Mediobanca Innovation Services - MIS S.c.p.A.	—	9,183	83,948	42,591	15,489	3	3	(15,812)	(2,462)	(2,452)	—	(2,452)	(14)	(2,466)
Mediobanca Management Company	1	7,367	6,175	110	5,370	3,913	—	(125)	1,745	1,302	—	1,302	—	1,302
Mediobanca SGR	1	32,188	15,156	415	10,180	25,572	(2)	(237)	11,256	7,974	—	7,974	1	7,975
Messier Maris et Associés S.C.A.	—	14,004	32,801	14,419	11,279	33,753	—	(88)	9,592	6,931	—	6,931	—	6,931
MBFACTA S.p.A.	—	1,819,376	19,511	1,653,992	18,528	51,032	46,649	(144)	21,737	14,616	—	14,616	(33)	14,583
MB Funding Lux S.A.	—	10,019	1,287	10,001	394	-2	(2)	—	12	19	—	19	—	19
MB International (Luxembourg) S.A.	1	6,393,011	35,584	6,086,250	11,660	11,993	5,373	(239)	(13,189)	(10,784)	—	(10,784)	—	(10,784)
MB Securities USA LLC	—	5,809	450	—	1,021	2,479	—	(6)	180	119	—	119	—	119
Prominvestment S.p.A. (under liquidation and arrangement with customers)	—	197	227	—	1,068	0	—	—	(44)	(44)	—	(44)	—	(44)
RAM Active Investments S.A.	—	24,064	13,173	—	7,683	23,719	(217)	(179)	4,629	3,355	—	3,355	—	3,355
Ricerche e Studi S.p.A.	1	894	1,032	555	1,339	-8	(8)	(73)	(2)	(21)	—	(21)	1	(20)
SelmaBipiemme Leasing S.p.A.	4	1,829,726	122,889	1,701,336	38,512	38,326	37,107	(2,318)	2,161	1,841	—	1,841	1,421	3,262
Spafid S.p.A.	2	30,939	26,331	2,763	7,927	8,625	(36)	(726)	64	33	—	33	(20)	13
B. Companies subject to significant influence														
Assicurazioni Generali S.p.A.	X	463,929,000	43,772,000	40,904,000	443,820,000	94,635,000	X	X	3,587,000	2,465,000	475,000	2,939,000	3,757,000	6,696,000
Burgo Group S.p.A.	X	441,168	990,645	988,852	175,943	1,698,249	X	X	15,189	9,726	—	9,726	(3,763)	5,963
Istituto Europeo di Oncologia S.r.l.	X	99,488	128,454	85,340	72,736	361,597	X	X	10,442	8,198	—	8,198	—	8,198

* All figures are in Euros, including those for the non-Italian subsidiaries.

** Refers to interim results; total income as stated in financial statements.

The following significant events took place in the year under review.

Impairment charges of CHF 61.5m (or €46.4m) have been taken to the book value of the investment in RAM, which became necessary in view of the sharp reduction in the company's profitability, in line with the charge taken to goodwill in the consolidated accounts.[1]

The investment in Cairn Capital was also written down by GBP 3.9m (€4.5m) following the capital increase implemented to cover the operating losses incurred by the company during FY 2019.

The AT1 instruments issued by CheBanca! have been booked under Heading 30 Financial assets recognized at fair value through other comprehensive income.

The Assicurazioni Generali investment continues to be recognized at cost.

The book value of the investments in CheBanca!, Mediobanca SGR, Cairn Capital Group Limited and RAM Active Investments SA, following the previous movements, have also been tested for impairment test, with no further charges being taken.

7.5 Equity investments: movements during the year

	30/6/20	30/6/19
A. Opening balance	3,191,844	3,084,158
B. Increases	9,761	113,351
B.1 Purchases[1]	8,463	109,131
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	1,298	4,220
C. Decreases	50,937	5,665
C.1 Sales	—	—
C.2 Adjustments	50,937	—
C.3 Other changes	—	5,665
D. Closing balance	3,150,668	3,191,844
E. Total revaluations	—	—
F. Total adjustments	876,501	825,564

[1] Refers to the capital increase at Group company Cairn Capital.

[1] For further information please refer to Section 10 of the Consolidated Notes to the Accounts - Intangible assets.

SECTION 8

Heading 80 - Property, plant and equipment*

8.1 Core assets: composition of assets stated at cost

Activities/Values	Total 30/6/20	Total 30/6/19
1. Property assets	91,820	90,293
a) lands	67,896	67,896
b) buildings	18,357	18,345
c) furniture	1,134	824
d) electronic system	1,930	1,424
e) other	2,503	1,804
2. Leased assets	22,717	—
a) lands	—	—
b) buildings	18,518	—
c) furniture	—	—
d) electronic system	—	—
e) other	4,199	—
Total	114,537	90,293
of which: arising from the recovery of guarantees received	—	—

* The Mediobanca Group has applied IFRS 16 since 1 July 2019.

8.2 Assets held for investment purposes: composition of assets stated at cost

Activities/Values	Total 30/6/20				Total 30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	24,573	—	—	93,443	24,884	—	—	94,174
a) lands	20,350	—	—	74,251	20,350	—	—	74,474
b) buildings	4,223	—	—	19,192	4,354	—	—	19,700
2. Leased assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	24,573	—	—	93,443	24,884	—	—	94,174
of which: arising from the recovery of guarantees received	—	—	—	—	—	—	—	—

8.6 Core properties: movements during the period

	Lands	Buildings[1]	Furniture	Electronic systems	Other[1]	Total
A. Gross opening balance 30 june 2019	67,896	41,836	8,267	9,024	24,441	151,464
A.1 Total net reduction value	—	(23,491)	(7,443)	(7,600)	(22,637)	(61,171)
A.2 Net opening balance 30 june 2019	67,896	18,345	824	1,424	1,804	90,293
A.3 Modifica saldi di apertura (FTA - IFRS16)	—	23,158	—	—	3,601	26,759
A.4 Esistenze iniziali nette	67,896	41,503	824	1,424	5,405	117,052
B. Increase:	—	2,750	547	982	3,751	8,030
B.1 Purchasing	—	—	—	—	—	—
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised expenditure on improvements	—	2,750	547	982	3,486	7,765
B.3 Writebacks	—	—	—	—	20	20
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	—	—	—	245	245
C. Decrease:	—	7,378	237	476	2,454	10,545
C.1 Sales	—	—	—	—	5	5
- of which business combinations	—	—	—	—	—	—
C.2 Amorization	—	5,631	237	476	2,449	8,793
C.3 Impairment losses allocated to	—	1,000	—	—	—	1,000
a) net equity	—	—	—	—	—	—
b) profit & loss[2]	—	1,000	—	—	—	1,000
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative exchange difference	—	—	—	—	—	—
C.6 Transfer to:	—	—	—	—	—	—
a) held for sale investment	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	747	—	—	—	747
D. Net closing balance	67,896	36,875	1,134	1,930	6,702	114,537
D.1 Total net write-down	—	(29,566)	(7,680)	(8,076)	(24,840)	(70,162)
D.2 Final gross balance	67,896	66,441	8,814	10,006	31,542	184,699
E. Carried at cost	—	—	—	—	—	—

[1] The amounts stated in the columns headed “Properties” and “Other assets” include the opening balances and changes in the rights of use deriving from them during the twelve months following the introduction of IFRS 16.

[2] Refers the lease on the Frankfurt branch office which is in the process of being wound up.

8.7 Assets held for investment purposes: movements during the year

	Total	
	Lands	**Buildings**
A. Opening balance	20,350	4,534
B. Increase	—	110
B.1 Purchasing	—	—
- of which: business combinations	—	—
B.2 Capitalised expenditure on improvements	—	110
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange differences	—	—
B.6 Transfer from investment properties	—	—
B.7 Other adjustment	—	—
C. Decrease	—	421
C.1 Sales	—	—
- of which: business combinations	—	—
C.2 Amortization	—	421
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C5 Negative exchange difference	—	—
C.6 Transfer to:	—	—
a) held for sale investments	—	—
b) non-current assets and group of assets held for sale	—	—
C.7 Other adjustment	—	—
D. Closing balance	20,350	4,223
E. Measured at fair value	74,251	19,192

SECTION 9

Heading 90: Intangible assets

9.1 Intangible assets: composition

Activities/Values	30/6/20		30/6/19	
	Definite life	**Indefinite life[1]**	**Definite life**	**Indefinite life[1]**
A.1 Goodwill	X	12,514	X	12,514
A.2 Other intangible asset	1,245	15,489	4,462	15,489
A.2.1 Assets valued at cost:	1,245	15,489	4,462	15,489
a) intangible assets generated internally	—	—	—	—
b) other assets	1,245	15,489	4,462	15,489
A.2.2 Assets valued at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	1,245	28,003	4,462	28,003

[1] Refers to the merger of Banca Esperia into Mediobanca S.p.A.

The value of the brand and goodwill have been tested for impairment, but no need emerged for adjustments to be made.

9.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	12,514	—	—	96,032	15,489	124,035
A.1 Reductions of total net value	—	—	—	(91,570)	—	(91,570)
A.2 Net opening balance	12,514	—	—	4,462	15,489	32,465
B. Increases	—	—	—	194	—	194
B.1 Purchases	—	—	—	194	—	194
- of which business combinations	—	—	—	—	—	—
B.2 Increments of internal intagible assets	—	—	—	—	—	—
B.3 Value recoveries	—	—	—	—	—	—
B.4 Positive variations of fair value	—	—	—	—	—	—
- equity	X	—	—	—	—	—
- to P&L statement	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other variations	—	—	—	—	—	—
C. Decreases	—	—	—	3,411	—	3,411
C.1 Sales	—	—	—	—	—	—
- of which business combinations	—	—	—	—	—	—
C.2 Value adjustment	—	—	—	3,411	—	3,411
- Amortisations	—	—	—	3,411	—	3,411
- Depreciations	—	—	—	—	—	—
+ equity	X	—	—	—	—	—
+ P&L statement	—	—	—	—	—	—
C.3 Negative variations of fair value	—	—	—	—	—	—
- equity	—	—	—	—	—	—
- to P&L statement	—	—	—	—	—	—
C.4 Transfer to non-current assets	—	—	—	—	—	—
C.5 Negative exchange differrences	—	—	—	—	—	—
C.6 Other variations	—	—	—	—	—	—
D. Net final surplus	12,514	—	—	1,245	15,489	29,248
D.1 Adjustment of net total values	—	—	—	(94,981)	—	(94,981)
E. Gross final surplus	12,514	—	—	96,266	15,489	124,229
F. Evaluation to cost	—	—	—	—	—	—

SECTION 10

Asset heading 100 and Liability heading 60: Tax assets and liabilities

10.1 Advance tax assets: composition

	Total 30/6/20	**Total 30/6/19**
- P&L Exchange	84,387	82,710
- Patrimony exchange	6,528	5,441
Total	90,915	88,151

10.2 Deferred tax liabilities: composition

	Total 30/6/20	**Total 30/6/19**
- P&L Exchange	210,494	205,063
- Patrimony exchange	21,501	26,427
Total	231,995	231,490

10.3 Variazioni delle imposte anticipate (in contropartita del conto economico)

	Total 30/6/20	**Total 30/6/19**
1. Initial amount	82,710	92,422
2. Increase	10,193	28,022
2.1 Anticipated levy observed in fiscal year	9,865	28,022
a) related to previous fiscal year	-	-
b) due to changes in accountable parameters	-	-
c) recovery of value	-	-
d) others	9,865	28,022
2.2 New levies or increases in fiscal rates	-	-
2.3 Other increases	328	-
3. Decreases	8,516	37,734
3.1 Anticipated levies cancelled in fiscal year	8,516	37,734
a) reversals of temporary differences	8,516	37,734
b) devaluation for appeared irrecoverability	-	-
c) changes in accountable parameters	-	-
d) others	-	-
3.2 Decreases in fiscal rates	-	-
3.3 Other decreases:	-	-
a) trasformation in levy credits of which law n.214/2011	-	-
b) others	-	-
4. Final amount	84,387	82,710

*10.3bis Changes in advance tax (pursuant to Italian Law 214/11)**

	Total 30/6/20	Total 30/6/19
1. Initial amount	50,323	50,323
2. Increases	—	—
- *of which: business combinations*	—	—
3. Decreases	—	—
3.1 Reversals of temporary differences	—	—
3.2 Transformation in levy credits	—	—
a) deriving from losses of the fiscal year	—	—
b) deriving from fiscal losses	—	—
3.3 Other decreases	—	—
4. Final amount	50,323	50,323

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

10.4 Changes in deferred tax during the period

	Total 30/6/20	Total 30/6/19
1. Initial amount	205,063	203,254
2. Increase	19,191	95,568
2.1 Defered levies observed in the fiscal year	19,191	—
a) related to precedent fiscal year	—	—
b) due to change in accountability parameters	—	—
c) others	19,191	—
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	—	95,568
3. Decreases	13,760	93,759
3.1 Defered levies cancelled in the fiscal year	13,760	93,759
a) reversals of temporary differences	3,760	93,759
b) due to changes in accountable parameters	—	—
c) others	10,000	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
4. Final amount	210,494	205,063

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

	Total 30/6/20	Total 30/6/19
1. Initial amount	5,441	22,362
2. Increases	37,461	19,283
2.1 Anticipated levies observed in fiscal year	37,461	19,283
a) related to previous fiscal years	—	—
b) due to changes in accountable parameters	—	—
c) others	37,461	19,283
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	—	—
- of which: business combinations	—	—
3. Decreases	36,374	36,204
3.1 Anticipated levies cancelled in the fiscal year	36,374	36,204
a) reversals of temporary differences	36,374	36,204
b) devaluation for appeared irrecoverability	—	—
c) due to changes in accountable parameters	—	—
d) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
4. Final amount	6,528	5,441

* Tax on cash flow hedges and valuations of financial instruments recognized at FVOCI.

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

	Total 30/6/20	Total 30/6/19
1. Initial amount	26,427	59,363
2. Increases	75,229	95,641
2.1 Anticipated levies observed in fiscal year	75,229	95,641
a) related to previous fiscal years	—	—
b) due to changes in accountable parameters	—	—
c) others	75,229	95,641
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	—	—
- of which: business combinations	—	—
3. Decreases	80,155	128,577
3.1 Anticipated levies cancelled in the fiscal year	80,155	128,577
a) reversals of temporary differences	80,155	128,577
b) devaluation for appeared irrecoverability	—	—
c) due to changes in accountable parameters	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	—	—
4. Final amount	21,501	26,427

SECTION 12

Heading 120: Other assets

12.1 Other assets: composition

	30/6/20	30/6/19
1. Accrued income other than capitalized income from financial assets	2,260	1,890
2. Trade receivables or invoices to be issued	108,588	44,352
3. Amounts due from tax revenue authorities (not recorded under Heading 140)	31,439	51,980
4. Other items:	68,086	122,892
- futures and other securities transactions	167	168
- other items in transit	56,288	57,422
- amounts due from staff	198	237
- improvements on third parties' assets	1,140	1,626
- fiscal consolidated	—	51,879
- group VAT	2,087	3,204
- sundry other items [1]	8,206	8,356
Total Other Assets	210,373	221,114

[1] Includes €6,907,000 in accrued income (30/06/2019: €6,570,000).

Liabilities

SECTION 1

Heading 10: Financial liabilities recognized at amortized cost

1.1 Financial liabilities recognized at amortized cost: composition, due to banks

Type of transaction/Values	Total 30/6/20				Total 30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Loans from central banks	5,660,803	X	X	X	4,367,257	X	X	X
2. Loans from banks	21,043,162	X	X	X	24,830,294	X	X	X
2.1 Deposits from customers and other on demand deposits	15,155,092	X	X	X	14,778,186	X	X	X
2.2 Deposits to maturity	1,240,847	X	X	X	2,238,912	X	X	X
2.3 Loans	4,535,854	X	X	X	7,306,000	X	X	X
2.3.1 Repurchase agreement	2,204,642	X	X	X	4,482,590	X	X	X
2.3.2 Other	2,331,212	X	X	X	2,823,410	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Lease payables[1]	3,961	X	X	X	—	X	X	X
2.6 Other liabilities	107,408	X	X	X	507,196	X	X	X
Total	26,703,965	—	26,703,965	—	29,197,551	—	29,197,551	—

[1] This item includes obligations in respect of payment of future leasing instalments as required by IFRS 16 and Bank of Italy circular no. 262.

1.2 Financial liabilities recognized at amortized cost: composition, due to customers

Type of transaction/Value	Total 30/6/20				Total 30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from customers and on demand deposits	4,984,420	X	X	X	4,244,821	X	X	X
2. Deposits to maturity	1,675,719	X	X	X	1,224,167	X	X	X
3. Loans	843,448	X	X	X	669,611	X	X	X
3.1 Reverse Repos	710,173	X	X	X	471,387	X	X	X
3.2 Other	133,275	X	X	X	198,224	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease payables[1]	21,557	X	X	X	—	X	X	X
6. Other liabilities	1,906	X	X	X	1,425	X	X	X
Total	7,527,050	—	7,527,050	—	6,140,024	—	6,140,024	—

[1] This item includes obligations in respect of payment of future leasing instalments as required by IFRS 16 and Bank of Italy circular no. 262.

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

Type of securities/Values	30/6/20				30/6/19			
	Book value	Fair value*			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. bonds	16,427,886	—	16,653,956	—	15,953,500	—	16,241,310	—
1.1 structured	3,572,004	—	3,733,304	—	3,950,844	—	4,125,394	—
1.2 other	12,855,882	—	12,920,652	—	12,002,656	—	12,115,916	—
2. other securities	39,433	—	—	39,433	48,237	—	—	48,237
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	39,433	—	—	39,433	48,237	—	—	48,237
Total	16,467,319	—	16,653,956	39,433	16,001,737	—	16,241,310	48,237

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2020 would show a gain of €175.5m (€185.5m).

Debt securities in issue increased from €15,953,500,000 to €16,427,886,000 on new issuance of €3.9bn, redemptions and buybacks of €3.4bn (generating gains of €1.9m), and other downward adjustments (exchange rates, amortized cost and hedging effects) amounting to €16.9m.

Structured bonds chiefly involve those with interest rate options (including cap & floor) and equity-linked notes (which account for 12.5% of the heading).

The Group's first senior-non preferred issue was made during the twelve months, in an amount of €500m, falling due in 2025, and listed on the Dublin stock market ("XS2106861771 Mediobanca SNP 1.25% 23/04/2025").

1.4 Breakdown of debt securities/subordinated liabilities

The heading "Debt securities in issue" includes the following six subordinated Lower Tier 2 issues, for a total amount of €2,441,223,000:

Issue	30/6/20		
	ISIN	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,275
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	639,586
MB OPERA 3.75 2026	IT0005188351	299,577	311,620
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	397,272
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,121
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	536,349
Total subordinated issues		2,359,032	2,441,223

Heading 20: trading liabilities

2.1 Trading liabilities: composition

Operation type/Values	30/6/20					30/6/19				
	Notional value	Fair Value			Fair value*	Notional value	Fair Value			Fair value*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	1,431,165	1,653,615	—	—	1,653,615	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,306,066	1,509,072	—	—	1,509,072	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	2,737,231	3,162,687	—	—	3,162,687	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments[2]										
1. Financial derivatives		855,347	3,383,328	530,954 [1 2]			650,530	2,380,160	249,777	
1.1 Trading	X	855,347	3,371,890	529,758	X	X	650,530	2,321,663	247,959	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	11,438	1,196	X	X	—	58,497	1,818	X
2. Credits derivatives		—	419,361	—		X	—	702,366	—	X
2.1 Trading	X	—	419,361	—	X	X	—	702,366	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	855,347	3,802,689	530,954	X	X	650,530	3,082,526	249,777	X
Total (A+B)	X	4,018,034	3,802,689	530,954	X	X	4,948,023	3,082,526	249,777	X

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

[1] Includes €408,844 (30/6/19: €235,984) in matched trading options, recorded as financial assets held for trading, and the market value of the options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching those associated with bond issues, recorded as financial assets held for trading.

[2] In the data for 30/6/19, certificates have been restated based on their underlying instrument, in order to facilitate comparison with the data as at 30/6/20.

SECTION 3

Heading 30: Financial liabilities recognized at fair value

3.1 Financial liabilities recognized at fair value; composition

Type of transaction/Values	Total 30/6/20					Total 30/6/19				
	BV	Fair value			Fair value*	BV	Fair value			Fair value*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Debts to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
of which:					—					
- obligation to distribute funds	—	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
- financial release warranties	—	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
2. Debts to clients	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	X	—	—	—	—	X
2.2 Others	—	—	—	—	X	—	—	—	—	X
of which:					—					
- obligation to distribute funds	—	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
- financial release warranties	—	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
3. Debt securities	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859
3.1 Structured[1]	215,587	—	216,020	—	X	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859

* Fair value has been calculated excluding changes in value due to changes in the issuer's credit rating.

[1] Including €160,878,000 in certificates with guaranteed capital issued during FY 2019-20.

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by type of hedge/ranking

	Notional value 30/6/20	Fair value 30/6/20			Notional value 30/6/19	Fair value 30/6/19		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	8,311,074	—	132,551	—	9,946,692	—	184,650	—
1) Fair value hedges	8,311,074	—	132,551	—	9,946,692	—	184,650	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	8,311,074	—	132,551	—	9,946,692	—	184,650	—

4.2 Hedging derivatives: composition by portfolio hedged/hedge type

Transactions/Type of hedge	Fair Value							Cash flow		Foreign invest.
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken on comprehensive income	30,470	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	32,824	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	63,294	—	—	—	—	—	—	—	—	—
1. Financial liabilities	69,257	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	69,257	—	—	—	—	—	—	—	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see Asset section 10.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/20	30/6/19
1. Payment agreements (IFRS2)	—	—
2. Working capital payables and invoices pending receipt	36,712	44,183
3. Prepayments other than those capitalized on related financial assets	3,230	2,917
4. Amounts due to revenue authorities	21,540	33,979
5. Amounts due to staff	115,042	142,053
6. Other items:	75,853	87,207
- coupons and dividends pending collection	4,149	2,372
- avaible sums payable to third parties	7,734	6,782
- fiscal consolidation	21,335	3,731
-Other	42,635	74,322
Total	252,377	310,339

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	Total 30/6/20	Total 30/6/19
A. Opening balance	7,869	7,723
B. Increases	540	896
B.1 Provision of the year[1]	152	153
B.2 Other increases	388	743
C. Reductions	730	750
C.1 Liquidations performed	523	522
C.2 Other reductions	207	228
D. Closing balance	7,679	7,869
Total	7,679	7,869

[1] This refers, as at 30 June 2019, to the amount transferred to the severance provision held at the Italian state pension authority treasury.

9.2 Other information

The staff severance indemnity provision, calculated in accordance with the provisions of the Italian Civil Code, amounts to €6,763,000 (30/6/19: €7,055,000).

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

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2020 has been used for similar companies to those being valued (equal to 0.31%), while the inflation rate is 1.20% (1.50%).

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Voci/Valori	30/6/20	30/6/19
1. Funds for credit risk related to financial obligations and warranties	42,538	21,954
2. Funds on other obligations and warranties release	—	—
3. Funds of business retirement	—	—
4. Other funds for risks and obligations	71,417	96,159
4.1 legal and fiscal controversies	—	—
4.2 obligations for employees	2,719	2,658
4.3 others	68,698	93,501
Total	113,955	118,113

IAS 37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

As at 30 June 2020, the Provisions for risks and charges totalled €114m, and include €42.6m in commitments to disburse funds and financial guarantees issued, €2.7m in staff-related expenses, plus €68.7m for litigation and other contingent liabilities.

The most significant litigation still pending against the Mediobanca Group consists of the two requests for damages made respectively by:

– Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with fourteen other banks. The liability with which the banks are charged is non-contractual, and consists of participation in the alleged damages caused by execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, until the presiding judge pronounces on whether the means of proof requested by the parties are admissible;[1]

[1] Mediobanca has also submitted an appeal, in conjunction with the other banks involved, to the Florence Court of Appeal to have the ruling that rejected the exception to the Italian judge having jurisdiction overturned. The first hearing has been set for 25 May 2021.

- Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-*bis* of the Italian bankruptcy law which included unduly favourable guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. In a ruling issued on 21 July 2020, the presiding judge rejected Lucchini's claim (as amended with the first memo pursuant to Article 183 of the Italian Code of Civil Procedure), finding that the right to damages in question had lapsed as it was now statute-barred; the claimant may still challenge the ruling before the Milan Court of Appeal.

With reference to the disputes outstanding with the Italian revenue authorities, an inspection by the authorities started in 2018 with reference to the 2014-15 and 2015-16 financial years was completed, in the course of which three main charges had emerged:

- alleged failure to apply, as required by the transparency regulations, the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion for years 2013, 2014 and 2015, as follows:
  - notice of assessment regarding alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest), notified at end-2018;
  - notice of assessment for FY 2014-15 (on 2014 earnings), for a disputed amount of €16.1m (plus fines and interest), notified at end-December 2019;
  - a formal notice of assessment was issued in October 2019 with regard to FY 2015-16 (on 2015 earnings), for which no notice of assessment has yet been issued;
- alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, as disputed by means of notice with reference to 2014 (involving tax of €2.3m, plus fines and interest), and included again with reference to 2015 in the formal notice of assessment received in October 2019;
- dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International S.A. (based in Luxembourg) in the

financial years from 2012-13 to 2016-17. With regard to this case, in October 2019 an agreement was reached with the Italian revenue authority which resulted in a payment of €21m, plus interest but no fines ("penalty protection"). At the same time, a new transfer pricing methodology has been agreed with the revenue authority, to minimize the tax risks going forward. Mediobanca took the opportunity to voluntarily free up profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, i.e. when the transparency taxation mechanism for companies with registered offices in countries with privileged taxation regimes (i.e. blacklisted countries) was not in place.

With reference to the first two charges, the company is convinced there has been no wrongdoing, and has challenged the rulings; in particular, the appeal presented by Mediobanca against the 2018 CFC charge was discussed by the Milan Province Tax Commission in November 2019, for which the ruling is now pending.

The enquiries launched by the French and German tax authorities into the Mediobanca Paris and Frankfurt branches were completed in December 2019. In both cases the enquiries focused on analysis of the branch offices' transfer pricing policies in force with the parent company, and resulted in the policies being amended and settlement agreements being signed without incurring any further charges in terms of taxes of fines (save for a very minor amount payable by way of interest), without prejudice in any case to the possibility of recovering the higher tax paid abroad in Italy. The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca and the other Group companies (for which no other significant litigation is pending).

In addition to these, as at 30 June 2020 the following litigation was still pending:

– One dispute arising from the alleged failure on the part of the former Banca Esperia to report the transfer of money outside Italy in the tax monitoring disclosures, for which fines of €5.9m were handed down. The company was found guilty at both the first two degrees of ruling, and has paid the amount due; but an appeal is still pending at the Italian Court of Cassation;

– A second dispute regarding the alleged failure by Mediobanca to pay tax on a loan executed outside Italy, involving €375,000 in higher tax. The Bank was successful at the second degree of ruling, but the Italian taxation authority has appealed to the Court of Cassation. A date for the hearing has still to be set.

With reference to the notice of collection delivered following an automatic check carried out on a tax return (*Unico*) submitted by Banca Esperia, after the tax relief was notified on 27 May 2020, notice has also been received that the matter has been discontinued; and the process of applying for a refund has been commenced.

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca.

10.2 Provisions for risks and charges: changes during the period

	Provisions on commitments and other guaranties given	Pensions and post retirement benefit obligations	Other risk and obligation funds	Total
A. Initial existence	—	2,658	93,501	96,159
B. Increases	—	1,004	4,527	5,531
B.1 Reserve of the fiscal year	—	1004	2,150	3,154
B.2 Variation due to pass of time	—	—	—	—
B.3 Variation due to modifies of discount rate	—	—	—	—
B.4 Other variations	—	—	2,377	2,377
C. Decreases	—	943	29,330	30,273
C.1 Use in the exercise	—	943	29,330	30,273
C.2 Variations due to modifies of discount rate	—	—	—	—
C.3 Other variations	—	—	—	—
D. Final surplus	—	2,719	68,698	71,417

10.3 Provisions in respect of commitments and financial guarantees issued

	Provisions for credit risk related to financial obligation and warranties release			
	First stage	Second stage	Third stage	Total
1. Obligation to distribute funds	4,640	275	2,940	7,855
2. Financial warranties release	19,927	10,870	3,886	34,683
Total	24,567	11,145	6,826	42,538

SECTION 12

Headings 110, 130, 140, 150, 160, 170 and 180: Net equity

12.1 "Capital" and "Treasury shares": composition

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

The Bank's share buyback launched in November 2018 has been completed, with the target of 3% of the share capital having been reached. A total of 26.6 million shares are now owned, following purchases of 13 million shares in an amount of €105.5m, while 1,742,502 of shares were used in connection with the performance share scheme in November 2019;

First-time adoption of IFRS 16 has had virtually no impact (resulting in a charge of just €32,000).

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

Item/type	Ordinaries
A. Shares existing at the start of the fiscal year	887,216,177
- fully paid-up	887,216,177
- not fully paid-up	-
A.1 treasury shares (-)	(15,346,295)
A.2 Shares outstanding: Opening balance	871,869,882
B. Increases	1,759,772
B.1 New issues	17,270
- against payment:	-
- business combination transaction	-
- bonds conversions	-
- warrants executions	-
- others	-
- free:	17,270
- to employees	17,270
- to directors	-
- others	-
B.2 Sales of treasury shares	1,742,502
B.3 Other adjustments	-
C. Decreases	(13,007,495)
C.1 Cancellation	-
C.2 Purchase of treasury shares	(13,007,495)
C.3 Business sale operations	-
C.4 Other adjustments	-
D. Shares in circulation: final surplus	860,622,159
D.1 Treasury shares (+)	(26,611,288)
D.2 Shares existing at the end of the fiscal year	887,233,447
-fully paid-up	887,233,447
- not fully paid-up	-

12.4 Net equity: available and distributable reserves (Article 2427 of the Italian Civil Code, para. 7-bis)

	Amount	Possible uses	Portion available	Summary of uses over three previous years	
				To cover losses	Other
Share capital	443,617	—	—	—	—
Share premium reserve	2,195,606	A - B - C	2,195,606	—	—
Reserves:					
- Legal reserve	88,722	B	88,722	—	—
- Statutory reserve	1,029,580	A - B - C	1,029,580	—	204,145
- Treasury share reserve	231,538	—	—	—	—
- Other reserves	842,952	A - B - C	842,952	—	—
Valuation reserves					
- FVOCI valuation reserve	70,514	—	—	—	—
- Financial liabilities recognized at FVPL	(1,724)	—	—	—	—
- Special revaluation laws	9,632	A - B - C	9,632	—	—
- Defined benefit plans	(4,440)	—	—	—	—
- Treasury shares	(231,538)	—	—	—	—
Total	4,674,459	—	4,166,492	—	204,145
Portion unavailable	—	—	88,722	—	—
Remainder distributable	—	—	4,077,770	—	—

Legend:
A: Due to rights issues
B: To cover losses
C: Distribution to shareholders.

Other information

1. Guarantees and commitments (other than those recognized at fair value)

	Nominal value of commitments and financial guarantees given			30/6/20	30/6/19
	First stage	Second stage	Third stage		
1. Commitment to disburse funds	7,660,741	17,015	15,000	7,692,756	11,257,881
a) Central Banks	—	—	—	—	—
b) Public Administration	1,129,488	—	—	1,129,488	4,069,826
c) Banks	77,923	—	—	77,923	705,928
d) Other financial companies	1,707,397	—	—	1,707,397	1,141,969
e) Non-financial companies	4,511,861	16,047	14,000	4,541,908	5,120,033
f) Families	234,072	968	1,000	236,040	220,125
2. Financial guarantees given	6,594,936	163,114	16,301	6,774,351	7,359,581
a) Central Banks	—	—	—	—	—
b) Public Administration	—	—	—	—	—
c) Banks	2,743,928	—	—	2,743,928	3,412,618
d) Other financial companies	1,440,572	9,448	—	1,450,020	1,332,440
e) Non-financial companies	2,400,405	153,666	16,301	2,570,372	2,607,539
f) Families	10,031	—	—	10,031	6,984

2. Other commitments and guarantees issued

	Nominal value Total 30/6/20	Nominal value Total 30/6/19
1. Other guarantees issued	136,287	136,790
of which: impaired	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	25,409	25,083
d) Other financial companies	28,563	19,519
e) Non-financial companies	29,963	27,852
f) Families	52,352	64,336
2. Other commitment	—	
of which: impaired	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	—	—
d) Other financial companies	—	—
e) Non-financial companies	—	—
f) Families	—	—

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amounts 30/6/20	Amounts 30/6/19
1. Financial assets valued to fv with impact on P&L Statement	2,264,820	*5,073,206*
2. Financial assets valued to fv with impact on overall profitability	1,411,073	*1,996,773*
3. Financial assets valued to amortized cost	7,405,980	*6,144,500*
4. Tangible assets	—	—
of which: tangible assets that constitue surplus	—	—
5. Equity investments	190,108	—

5. Assets managed and traded on behalf of third parties

Type of service	30/6/20	30/6/19
1. Order execution on behalf of client		
a) purchases	26,849,645	14,820,923
1. regulated	26,226,551	14,711,791
2. non-regulated	623,094	109,132
b) sales	26,717,796	14,199,338
1. regolate	26,094,702	14,090,206
2. non regolate	623,094	109,132
2. Individual portfolios management[1]	4,442,858	4,119,329
3. Bonds custody and management		
a) bonds of third parties in depository	12,630,578	12,423,169
1. bonds issued by bank preparing the financial statements	181,178	160,049
2. other bonds	12,449,400	12,263,120
b) bonds of third parties in depository: others	5,166,539	4,703,943
1. bonds issued by bank preparing the financial statements	—	—
2. other bonds	5,166,539	4,703,943
c) Bonds of third parties in own depository	14,759,798	13,048,737
d) own bonds in depository at third parties	16,661,771	14,223,136
4. Other operations	2,674,546	1,702,426

[1] Entirely attributable to the Private Banking division.

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities compensated in balance sheet (b)	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e) 30/6/20	Net amounts (f=c-d-e) 30/6/19
				Financial instruments (d)	Cash deposit received in guarantee (e)		
1. Derivatives	3,188,070	549,899	2,638,171	1,483,309	296,910	857,952	875,197
2. Repo's	3,459,051	—	3,459,051	3,459,051	—	—	—
3. Stocks loan	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/20	6,647,121	549,899	6,097,222	4,942,360	296,910	857,952	X
Total 30/6/19	9,854,249	279,269	9,574,980	8,671,053	28,730	X	875,197

[1] Refers to transactions in derivative financial products with a central counterparty with which a netting agreement is in place which provides for daily margining.

7. *Financial liabilities subject to netting arrangements or master netting or similar agreements*

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets compensed in BS (b)	Net amount of the financial liabilities reportes in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e) 30/6/19
				Financial instruments (d)	Cash deposit placed to warrant (e)		
1. Derivatives	2,136,414	—	2,136,414	1,483,609	316,099	336,706	219,575
2. Repos	2,080,835	—	2,080,835	2,080,835	—	—	—
3. Stocks loan	—	—	—	—	—	—	—
4.Others	—	—	—	—	—	—	—
Total 30/6/20	4,217,249	—	4,217,249	3,564,444	316,099	336,706	X
Total 30/6/19	7,205,341	—	7,205,341	6,592,000	393,766	X	219,575

8. *Securities lending operations*[1]

Type of securities lending operations	30/6/20		
	Type of securities		
	Sovereign debt	Bank bonds	Others
1. Securities borrowedsecured by cash - Due from:	288,659	35,743	609,566
a) Banks	267,755	31,528	268,316
b) Financial intermediaries	20,904	4,215	341,250
c) Clients	—	—	
2. Securities lend secured by cash - Due to:	(334,886)	(8,004)	(230,845)
a) Banks	(334,886)	(7,801)	(230,845)
b) Financial intermediaries	—	(203)	—
c) Clients	—	—	—
Total lending securities (book value)	(46,227)	27,739	378,721

Type of securities lending operations	30/6/20		
	Type of securities		
	Sovereign debt	Bank bonds	Others
1. Securities borrowed by other instruments or unsecured:	3,307,988	588,000	1,617,448
a) Banks	3,144,423	588,000	
b) Financial intermediaries	163,468	—	1,463,936
c) Clients	97	—	153,512
2. Securities lend secured by other instruments or unsecured:	(1,730,847)	(397,155)	(758,872)
a) Banks	(1,103,118)	(262,335)	(183,536)
b) Financial intermediaries	(627,729)	(134,820)	(575,336)
c) Clients	—	—	—
Total lending securities (fair value)	1,577,141	190,845	858,576

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

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

Part C - Notes to individual profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	12 mths ended 30/06/2020	12 mths ended 30/06/2019
1. Financial assets valued to fv with impact to P&L:	33,302	866	—	34,168	*33,279*
1.1 Financial assets held for trading	31,665	329	—	31,994	*28,945*
1.2 Financial assets designated to fv	1,386	—	—	1,386	*1,416*
1.3 Other financial assets mandatorly valued to fv	251	537	—	788	*2,918*
2. Financial assets valued to fv with impact on overall profitability	40,226	—	X	40,226	*63,473*
3. Financial assets valued to amortize cost:	89,604	396,414	X	486,018	*537,788*
3.1 Credits to banks	17,677	214,710	X	232,387	*269,943*
3.2 Credits to clients	71,927	181,704	X	253,631	*267,845*
4. Hedging derivatives[1]	X	X	124,936	124,936	*51,379*
5. Other assets	X	X	—	—	*1,057*
6. Financial liabilities[2]	X	X	X	22,326	*19,814*
Total	163,132	397,280	124,936	707,674	*706,790*
of which: income interests on deteriorated financial assets	—	*9,068*	—	*9,068*	*9,990*
of which: interest income on finance lease	—	*28*	—	*28*	—

[1] Mainly to hedge funding.

[2] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates, €18.6m of which in connection with T-LTRO.

1.2 Interest and similar income: other information

As at 30 June 2020, the balance of the account includes €88.5m in connection with financial assets in foreign currencies.

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 30/6/20	Total 30/6/19
1. Financial liabilities valued at amortized cost	(227,930)	(390,284)	X	(618,214)	*(610,835)*
1.1 Debts to central banks	(177)	X	X	(177)	*(761)*
1.2 Debts to banks	(216,529)	X	X	(216,529)	*(235,482)*
1.3 Debts to customers	(11,224)	X	X	(11,224)	*(13,480)*
1.4 Securities in circulation	X	(390,284)	X	(390,284)	*(361,112)*
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,453)	—	(2,453)	*(2,450)*
4. Other liabilities and funds	X	X	(3,338)	(3,338)	—
5. Hedging derivatives	X	X	—	—	—
6. Financial assets[1]	X	X	X	(4,437)	*(6,585)*
Total	(227,930)	(392,737)	(3,338)	(628,442)	*(619,870)*
of which: interest expenses related to lease liabilities	*(350)*	—	—	*(350)*	—

[1] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates.

1.4 Interest and similar charges: other information

As at 30 June 2020, the balance of the account includes €96,5m in connection with financial liabilities in foreign currencies.

1.5 Margins on hedging transactions

Items	12 mths ended 30/06/20	12 mths ended 30/06/19
A. Positive differentials related to hedging operations:	193,790	183,174
B. Negative differentials related to hedging operations:	(68,854)	(131,795)
C. Balance (A-B)[1]	124,936	51,379

[1] The improvement in hedge derivatives is mainly attributable to funding.

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) released guarantees	7,948	8,457
b) credit derivatives	—	—
c) management services, brokerage and consultancy:	115,808	97,501
1. securities trading	19,777	13,798
2. currency trading	—	—
3. individual portfolio management	33,603	23,085
4. stock custody and administration	4,232	1,588
5. depositary bank	7,458	7,458
6. allocation of stock	35,603	37,918
7. reception and transmission order	112	83
8. consultancy activities	4,916	4,896
8.1. in matter of investments	4,916	4,896
8.2. in matter of financial structure	—	—
9. distribution of third parties services	10,107	8,675
9.1. porfolios management	4,574	5,046
9.1.1. individuals	2,959	3,962
9.1.2. collectives	1,615	1,084
9.2. insurance products	5,533	3,629
9.3. other products	—	—
d) payment and recess services	110	185
e) services of servicing for operations of cartolization	—	—
f) services for factoring operations	—	—
g) business of tax collection and betting office	—	—
h) activities of management of multilateral sistem of trading	—	—
i) holding and management of current account	447	414
j) other services	139,542	146,649
Total	263,855	253,206

2.2 Fee and commission income: by product/service distribution channel

Channels/Values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) through Group bank branches:	79,313	69,678
1. portfolio management	33,603	23,085
2. securities placement	35,603	37,918
3. others' products and services	10,107	8,675
b) off-site:	—	—
1. portfolio management	—	—
2. securities placement	—	—
3. others' products and services	—	—
c) other distribution channels:	—	—
1. portfolio management	—	—
2. securities placement	—	—
3. others' products and services	—	—

2.3 Fee and commission expense: breakdown

Services/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
a) guarantees received	—	—
b) credit derivatives	—	—
c) management and brokerage services:	(17,193)	(14,932)
1. trading in financial instruments	(3,059)	(2,698)
2. currency trading	—	—
3. portfolios management:	(7,624)	(5,359)
3.1 own portfolio	(7,624)	(5,359)
3.2 third parties portfolio	—	—
4. custody and administration securities	(2,062)	(2,052)
5. financial instruments placement	(4,448)	(4,823)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(5,221)	(4,422)
e) other services	(21,668)	(14,989)
Total	(44,082)	(34,343)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/19		12 mths ended 2018/19	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	71,291	349	87,269	-
B. Other financial assets that are duly measured at fair value	-	9,268	-	13,983
C. Financial assets measured at fair value with impact on overall profitability	6,325	-	4,314	-
D. Shareholdings[1]	104,249	-	332,442	-
Total	181,865	9,617	424,025	13,983

[1] These are dividends received from Spafid S.p.A. and Assicurazioni Generali S.p.A (in FY 2018-19 from Compass Banca and Assicurazioni Generali).

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions / Income	Capital gain (A)	Trading income (B)	Capital loss (C)	Trading loss (D)	Net result [(A+B) - (C+D)]
1. Financial trading assets	172,841	374,718	(229,646)	(584,802)	(266,889)
1.1 Debt securities	86,084	123,158	(74,144)	(68,452)	66,646
1.2 Equity stocks	86,487	242,218	(154,166)	(510,543)	(336,004)
1.3 O.I.C.R. shares	232	9,096	(1,205)	(5,807)	2,316
1.4 Loans	38	246	(131)	—	153
1.5 Others	—	—	—	—	—
2. Financial trading liabilities	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Debts	—	—	—	—	—
2.3 Others	—	—	—	—	—
3. Financial assets and liabilities: exchange differences[1]	X	X	X	X	(65,422)
4. Derivatives	2,575,409	2,108,371	(2,421,817)	(1,981,005)	309,101
4.1 Financial derivatives:	1,931,664	1,452,763	(1,760,294)	(1,378,612)	273,664
- On debt securities and interest rates[2]	834,633	470,846	(851,359)	(513,239)	(59,119)
- On capital stocks and stock indexes	1,097,031	981,917	(908,935)	(865,373)	304,640
- On currency and gold	X	X	X	X	28,143
- Others	—	—	—	—	—
4.2 Credit derivatives	643,745	655,608	(661,523)	(602,393)	35,437
of which: natural hedges related to FV option	*X*	*X*	*X*	*X*	—
Total	2,748,250	2,483,089	(2,651,463)	(2,565,807)	(23,210)

[1] This item contains valuations for banking book positions based at current exchange rates totalling €12,129,000 , and the exchange rate effect on hedging the RAM investment (minus €10.5m).

[2] Of which €7,662,000 in negative margins on interest rate derivatives (30/6/19: minus €4,010,000).

The result in net trading income reflects the sharp market correction at end-March 2020, only some of which had been recovered by the reporting date.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Income from:		
A.1 Fair value hedging instruments	241,478	356,660
A.2 Hedged asset items (in fair value hedge relationship)	43,276	55,527
A.3 Hedged liability items (in fair value hedge relationship)	48,219	30,247
A.4 Cash-flows hedging derivatives	—	—
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	332,973	442,434
B. Losses on:		
B.1 Fair value hedging instruments	(141,854)	(85,399)
B.2 Hedged asset items (in fair value hedge relationship)	(42,341)	(50,519)
B.3 Hedged liability items (in fair value hedge relationship)	(151,000)	(301,038)
B.4 Cash-flows hedging derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(335,195)	(436,956)
C. Net profit from hedging activities (A-B)	(2,222)	5,478
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: breakdown

Items / Income	12 mths ended 30/6/20			12 mths ended 30/6/19		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	3,952	(651)	3,301	9,425	—	9,425
1.1 Loans and receivables with banks	1,726	—	1,726	—	—	—
1.2 Loans and receivables with customers	2,226	(651)	1,575	9,425	—	9,425
2. Financial assets at fair value with impact taken to comprehensive income	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.1 Debt securities	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.2 Loans	—	—	—	—	—	—
Total assets (A)	79,774	(16,052)	63,722	82,685	(6,461)	76,224
B. Financial liabilities at amortized cost						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	5,707	(3,850)	1,857	10,762	(3,818)	6,944
Total liabilities (B)	5,707	(3,850)	1,857	10,762	(3,818)	6,944

Gains on financial assets recognized at fair value through other comprehensive income and those recognized at amortized cost include exchange rate valuations of €10.5m and €1.6m respectively.

SECTION 7

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

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

Transactions / Income	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(965)	—	(965)
1.1 Debt securities	—	—	(965)	—	(965)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	3,296	—	—	—	3,296
2.1 Det securities in issue[1]	3,296	—	—	—	3,296
2.2 Debts to banks	—	—	—	—	—
2.3 Debts to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences	X	X	X	X	—
Total	3,296	—	(965)	—	2,331

[1] The figures are stated at fair value, including issuer risk which at 30/6/20 amounted to € 365,000.

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

Transactions / Income	**Gains (A)**	**Proceeds from disposal (B)**	**Losses (C)**	**Minus from disposal (D)**	**Net result [(A+B) - (C+D)]**
1. Financial assets	54,687	220	(23,225)	(81)	31,601
1.1 Debt securities	—	—	(1,538)	—	(1,538)
1.2 Equity securities	—	—	—	—	—
1.3 Units investment funds	11,936	220	(21,405)	(81)	(9,330)
1.4 Loans[1]	42,751	—	(282)	—	42,469
2. Financial assets in currency: exchange differences	X	X	X	X	(531)
Total	54,687	220	(23,225)	(81)	31,070

[1] Instruments deriving from restructuring transactions.

SECTION 8

Heading 130: Net write-offs (writebacks) for credit risk

8.1 Net write-offs for credit risk related to financial assets valued at amortized cost: breakdown

Transactions/Income	**Writedowns (1)**			**Writebacks (2)**		**12 mths ended 30/6/20**	**30/6/19**
	Stage 1 and stage 2	**Stage 3**		**Stage 1 and stage 2**	**Stage 3**		
		Write-off	**Others**				
A. Loans and receivables with banks	(8,908)	—	—	4,521	—	(4,387)	(5,021)
- Loans	(8,354)	—	—	4,273	—	(4,081)	(4,156)
- Debt receivables	(554)	—	—	248	—	(306)	(865)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Loans and receivables with customers	(45,032)	—	(9)	9,215	28,643	(7,183)	42,511
- Loans	(41,121)	—	(9)	8,806	28,456	(3,868)	39,261
- Debt receivables	(3,911)	—	—	409	187	(3,315)	3,250
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total	(53,940)	—	(9)	13,736	28,643	(11,570)	37,490

Loan loss provisions reflect an increase in the provisioning for performing loans based on the new macroeconomic scenario, plus the effect of the downgrade to the Republic of Italy’s sovereign debt (totalling €1.3m).

8.2 *Net write-offs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown*

Transactions/Income	Writedowns (1)			Writebacks (2)		12 mths ended at 30/6/20	12 mths ended at 30/6/19
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3		
		Write-off	Others				
A. Debt Securities[1]	(4,805)	—	—	—	—	(4,805)	(779)
B. Loans	—	—	—	—	—	—	—
- To clients	—	—	—	—	—	—	—
- To banks	—	—	—	—	—	—	—
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—
Total	(4,805)	—	—	—	—	(4,805)	(779)

[1] Includes the effect of the downgrade of Italian sovereign debt on securities (€2.0m).

SECTION 10

Heading 160: Administrative expenses

10.1 *Personnel costs: breakdown*

Type of expense/Amounts	12 mths ended at 30/6/20	12 mths ended at 30/6/19
1) Employees	(214,541)	(229,251)
a) wages and salaries	(154,850)	(166,468)
b) social security contributions	(33,052)	(35,301)
c) severance pay (only for Italian legal entities)	(152)	(153)
d) social security costs	—	—
e) allocation to employees severance pay provision	(5,580)	(5,539)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(6,716)	(6,985)
- defined contribution	(6,716)	(6,985)
- defined benefits	—	—
h) expenses resulting from share based payments	(11,193)	(11,210)
i) other employees' benefits	(2,998)	(3,595)
2) Other staff	(4,296)	(4,641)
3) Directors and Statutory Auditors[1]	(2,846)	(3,367)
4) Early retirement costs	(1,595)	(4,649)
5) Recovery of expenses for employees seconded to other companies	1,353	1,093
6) Refunds of expenses for third party employees seconded to the company	—	—
Total	(221,925)	(240,815)

[1] The Chairman, CEO and Group General Manager all waived the emoluments due to them as Directors.

10.2 Average number of staff by category

	12 mths ended 30/6/20	12 mths ended 30/6/19
Employees		
a) Senior managers	264	259
b) Managers	564	550
c) Remaining employees staff	161	165
Other staff	85	105
Total	1,074	1,079

10.5 Other administrative expenses: breakdown

Type of expenses /Amounts	12 mths ended at 30/6/20	12 mths ended at 30/6/19
OTHER ADMINISTRATIVE EXPENSES		
- Legal, tax and professional services	(29,431)	(33,251)
- loan recovery activity	—	—
- marketing and communications	(3,841)	(4,395)
- property[1]	(4,773)	(10,179)
- EDP	(65,783)	(61,606)
- *info provider*	(22,325)	(19,991)
- bank charges, collection and payment fees	(2,911)	(1,995)
- operating expenses	(6,304)	(5,857)
-other staff expenses	(6,491)	(9,908)
- other costs[2]	(56,653)	(43,550)
- indirect and other taxes	(6,469)	(5,296)
Total other administrative expenses	(204,981)	(196,028)

[1] The reduction as at 30/6/20 was due to the effects of IFRS 16 first-time adoption.

[2] The item includes contributions to the various resolution funds: €39.4m for the year ended 30/6/20 (€29m for the year ended 30/6/19) plus contributions to various Covid-related charitable initiatives totalling €1.8m.

SECTION 11

Heading 170: Net transfers to provisions

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

	12 mths ended 30/6/20		
	Provisions	**Reallocation surplus**	**Total**
Loan committments	(4,130)	1,400	(2,730)
Financial guarantees given	(24,132)	6,080	(18,052)
Total	(28,262)	7,480	(20,782)

11.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/20			12 mths ended 30/6/19
	Provisions	**Reallocation surplus**	**Total**	
1. Other provisions				
1.1 Legal disputes	—	—	—	—
1.2 Staff costs	—	—	—	—
1.3 Other	(2,150)	27,100	24,950	(276)
Total	(2,150)	27,100	24,950	(276)

SECTION 12

Heading 180: Net adjustments to tangible assets

12.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 For operational use	(8,793)	(1,000)	20	(9,773)
- Owned	(2,729)	—	—	(2,729)
- Licences acquired through leases	(6,064)	(1,000)	20	(7,044)
2 Held for investment purpose	(421)	—	—	(421)
- Owned	(421)	—	—	(421)
- Licences acquired through leases	—	—	—	—
3 Inventories	X	—	—	—
Total	9,214	(1,000)	20	(10,194)

Following the introduction of IFRS 16, this heading now contains depreciation charges relating to rights of use. The RoU for the property housing the Frankfurt branch office has been written down by €1m following the decision to shut the office.

SECTION 13

Heading 190: Net adjustments to intangible assets

13.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net risult (a + b - c)
A. Intangible assets				
A.1 Owned	(3,411)	—	—	(3,411)
- Generated internally by the company	—	—	—	—
- Other	(3,411)	—	—	(3,411)
A.2 Licenses acquired through lease	—	—	—	—
Total	(3,411)	—	—	(3,411)

SECTION 14

Heading 200: Other operating income (expense)

14.1 Other operating expense: breakdown

Income-based components/values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) Leasing activity	—	—
b) Sundry costs and expenses	(2,183)	(2,026)
Total	(2,183)	(2,026)

14.2 Other operating income: breakdown

Income-based components/values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) Amounts recovered from customers	19	181
b) Other income	17,143	16,447
Total	17,162	16,628

SECTION 15

Heading 220: Gain (loss) on equity investments

15.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended at 30/06/20	12 mths ended at 30/06/19
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(50,937)	(4,225)
1. Writedowns	—	—
2. Impairment losses	(50,937)	—
3. Losses on disposal	—	(4,225)
4. Other expenses	—	—
Net profit	(50,937)	(4,225)

The heading contains the impairment charges taken on RAM of CHF 61.5m (€46.4m), which became necessary in view of the sharp reduction in the company's profitability, plus writedowns to the investment in Cairn Capital of GBP 3.9m (€4.5m) following the capital increase implemented to cover the operating losses incurred by the company during FY 2019.

SECTION 18

Heading 250: Gain (loss) on disposal of investments

18.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended at 30/6/20	12 mths ended at 30/6/19
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	—	(27)
- Gains on disposal	—	—
- Losses on disposal	—	(27)
Net profit	—	(27)

SECTION 19

Heading 270: Income tax for the year on ordinary activities

19.1 Income tax for the year on ordinary activities: breakdown

Income/Value	Total 30/6/20	Total 30/6/19
1. Current tax expense (-)	(32,246)	(46,821)
2. Adjustment to current tax of prior periods (+/-)	—	—
3. Reduction in current tax for the period (+)	—	—
3. bis Reductions in current tax expense for the period due tax credit related to L. 214/2011 (+)	—	—
4. Adjustment to deferred tax income (+/-)	1,677	(21,742)
5. Adjustment to deferred tax expense (+/-)	(5,431)	13,563
6. Tax espense for the year (-)	(36,000)	(55,000)

The item reflects the settlement reached with the Italian taxation authority regarding the dispute over application of funds transfer pricing between Mediobanca S.p.A. and Mediobanca International, in addition to the voluntary release of profit reserves by Mediobanca International itself.

19.2 Reconciliation between theoretical and effective tax burden

Income/Value	12 mths ended 30/6/20	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.00%	75,359
Theoretical tax rate	27.50%	20,724
Dividends (-)	-38.33%	(28,888)
Gains on disposals of equity investments (PEX) (-)	-0.29%	(216)
Tax sparing credit (-)	-0.37%	(280)
Impairment (+/-)	18.59%	14,008
Use of provision	-4.33%	(3,263)
Participation to transfer price assessment[1]	23.32%	17,571
MB International reserve redemption	15.32%	11,544
Other differences (+/-)	-2.26%	(1,700)
TOTAL IRES	39.15%	29,500
IRAP	8.63%	6,500
TOTAL HEADING[2]	47.77%	36,000

[1] The heading includes the IRES taxation effect as a result of the settlement reached with the Italian taxation authority referred to in the footnote of the above table.

[2] As compared with a tax rate last year of 12.46%; net of the effects of the settlement reached with the Italian taxation authorities, the tax rate would have been 25.7%.

SECTION 22

Earnings per share

22.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/20	12 mths ended 30/6/19
Net profit	39,359	386,245
Avg. no. of shares in issue	860,611,137	871,819,196
Avg. no. of potentially diluted shares	5,255,453	5,081,612
Avg. no. of diluted shares	865,866,590	876,900,808
Earnings per share	0.05	0.44
Earnings per share, diluted	0.05	0.44

Part D - Comprehensive Profit and Loss Account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect 30/06/2020	After tax effect 30/06/2019
10.	**Net profit (loss) of the year**	**X**	**X**	**39,359**	**386,245**
	Other comprehensive income not reclassified to profit or loss				
20.	**Equity instruments designated at fair value through other comprehensive income:**	**3,426**	**(460)**	**2,966**	**10,533**
	a) fair value changes	2,641	(460)	2,181	3,450
	b) tranfers to other shareholders' equity items	785	—	785	7,083
30.	**Financial liabilities designated at fair value through profit or loss (own creditworthiness changes):**	**(2,575)**	**851**	**(1,724)**	**—**
	a) fair value changes	(2,575)	851	(1,724)	—
	b) tranfers to other shareholders' equity items	—	—	—	—
40.	**Hedge accounting of equity instruments measured at fair value through other comprehensive income:**	**—**	**—**	**—**	**—**
	a) fair value change (hedged instrument)	—	—	—	—
	b) fair value change (hedging instrument)	—	—	—	—
50.	**Property, plant and equipment**	**—**	**—**	**—**	**—**
60.	**Intangible assets**	**—**	**—**	**—**	**—**
70.	**Defined benefit plans**	**(360)**	**99**	**(261)**	**(415)**
80.	**Non-current assets and disposal groups classified as held for sale**	**—**	**—**	**—**	**—**
90.	**Part of valuation reserves from investments valued at equity method**	**—**	**—**	**—**	**—**
100.	**Tax expenses (income) relating to items not reclassified to profit or loss**	**—**	**—**	**—**	**—**
	Other comprehensive income reclassified to profit or loss	**—**	**—**	**—**	**—**
110.	**Foreign investments hedging:**	**—**	**—**	**—**	**—**
	a) fair value changes	—	—	—	—
	b) reclassification to profit or loss	—	—	—	—
	c) other changes	—	—	—	—
120.	**Foreign exchange differences:**	**—**	**—**	**—**	**—**
	a) fair value changes	—	—	—	—
	b) reclassification to profit or loss	—	—	—	—
	c) other changes	—	—	—	—
130.	**Cash flow hedging:**	**5,127**	**(1,695)**	**3,432**	**(4,074)**
	a) fair value changes	5,127	(1,695)	3,432	(4,074)
	b) reclassification to profit or loss	—	—	—	—
	c) other changes	—	—	—	—
	of which: net position	—	—	—	—
140.	**Hedging instruments (not designated items):**	**—**	**—**	**—**	**—**
	a) fair value changes	—	—	—	—
	b) reclassification to profit or loss	—	—	—	—
	c) other changes	—	—	—	—
150.	**Financial assets (different from equity instruments) at fair value through other comprehensive income:**	**(23,036)**	**7,647**	**(15,389)**	**(23,178)**
	a) fair value changes	(6,274)	2,075	(4,199)	15,279
	b) reclassification to profit or loss	(16,762)	5,572	(11,190)	(38,457)
	- impairment losses	4,268	(1,411)	2,857	546
	- gains/losses on disposals	(21,030)	6,983	(14,047)	(39,003)
	c) other changes	—	—	—	—
160.	**Non-current assets and disposal groups classified as held for sale:**	**—**	**—**	**—**	**—**
	a) fair value changes	—	—	—	—
	b) reclassification to profit or loss	—	—	—	—
	c) other changes	—	—	—	—
170.	**Part of valuation reserves from investments valued at equity method:**	**—**	**—**	**—**	**—**
	a) fair value changes	—	—	—	—
	b) reclassification to profit or loss	—	—	—	—
	- impairment losses	—	—	—	—
	- gains/losses on disposals	—	—	—	—
	c) other changes	—	—	—	—
180.	**Tax expenses (income) relating to items reclassified to profit or loss**	**—**	**—**	**—**	**—**
190.	**Total other comprehensive income**	**(17,418)**	**6,442**	**(10,976)**	**(17,134)**
200.	**Other comprehensive income (Item 10+190)**	**X**	**X**	**28,383**	**369,111**

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to which the Group is subject, and manages and mitigates them in co-ordination with the various business areas. The division's main duties and responsibilities are described below, along with its characteristics in terms of independence, plus an indication of the role of the other company units in risk management.

SECTION 1

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF,[1] monitoring risks, and ascertaining that the various limits established for the various business lines are complied with.

The Group Risk Management Unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management

[1] On 30 July 2020, the Board of Directors of Mediobanca approved a new version of the Group Policy on Risk Appetite Framework (RAF) Definition, which sets out the general principles, organizational model and implementation process for defining the Framework. In the RAF, based on the Strategic Plan and the maximum risk assumable that is set in it, the Group states the level and type of risks which it is intended to take, plus any tolerance thresholds and operating limits to be complied with in normal operating and/or stress conditions.

policies, and carries out second-level controls on the risk parameters used to quantify impairment charges and calculate RWAs; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator in the event of insolvency; iii) Market Risk Management and Risk Automation, which monitors market and counterparty risk and is responsible for developing, co-ordinating, rationalizing and ensuring the consistency of IT development activities within Risk Management; iv) Liquidity and IR Risk Management, which monitors liquidity and interest rate risks on the banking book v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; vi) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and is responsible for validating the Group's risk measurement systems; vii) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Wealth Management division; and viii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management.

The Bank has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the corporate portfolio.

2. Credit risk management policies

2.1 Organizational aspects

The Bank has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Bank is or might be exposed are managed effectively, and at the same time guarantee that all forms of operations are consistent with their own appetite for risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Plan for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and of the accounting reporting system and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by the Bank, the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private & Affluent Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

In the process of defining its Risk Appetite Framework ("RAF"), the Bank has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits. The RAF is the framework for establishing the correlation between company strategy and risks (translating mission and strategy into qualitative and quantitative risk variables) and between individual business areas' operations and their risk targets in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

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

In the process of defining its risk appetite, the Bank:

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

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

In addition to identifying and setting risk appetite parameters, Mediobanca S.p.A. also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Bank has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment

Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Bank prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Bank's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Bank's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

Under IFRS 9 "Financial Instruments", assets which are not recognized in the financial statements at fair value (i.e. loans, debt securities and off-balance-sheet exposures) must be tested for impairment based on expected losses.

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable to be used directly in an accounting environment (e.g. in some cases reconverting the data to reflect a point-in-time approach). Under IFRS 9, expected losses are calculated from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which there has been a significant increase in credit risk ("Stage 2") or which show objective signs of impairment ("Stage 3"), and on a time horizon of twelve months for the instruments not included in the previous two categories ("Stage 1").

The Bank adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor's scale, or a corresponding internal PD estimate. As required by IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Bank has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time.

In line with the guidance issued by EBA, ECB, ESMA and IASB issued following the outbreak of the Covid-19 pandemic, automatic reclassification mechanisms have not been applied for contractual changes made in connection with the various support programmes made available by the law, category association measures or independent initiatives offered to clients by the Bank itself.[2]

In the absence of internal model ratings for a specific portfolio, the backstop indicators are used as qualitative criteria; qualitative factors taken into consideration for reclassification to Stage 2 include the counterparties being classified as "amber" or "red" in the watchlist.

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

[2] See the following in particular:

- ESMA: Public Statement of 25 March 2020, "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- EBA: Public Statement of 25 March 2020, "Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures";
- ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic";
- IASB: Statement of 27 March 2020, "IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic".

obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models. In line with the ECB guidance,[3] issued in view of the Covid-19 emergency situation, the satellite model forecasts used in the IFRS 9 methodological framework to transmit macroeconomic effects to the risk parameters have in some cases been interpolated to factor in the increased risk of the current scenario without adding excessive volatility which would be unjustified given the expectations that the crisis is likely to diminish in the medium and/or long term. This has been done by applying a spline function to long-term trends (historical and future) in cases where the satellite model concerned gave excessively volatile results over the medium and/or short period. To date the function has been applied to the satellite models used for the PD and LGD parameters for the Wholesale Banking portfolio.

Reference is made to section 5 for specific details of the treatment applied to each business segment.

2.4 Credit risk mitigation techniques

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

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

Credit risk mitigation activities are governed by specific directives In particular the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in setting eligibility criteria for regulatory and management

[3] See in particular the following: ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions, of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", containing guidelines on use of forecasts to estimate the expected credit loss during the pandemic.

purposes remains central. Controls of the mitigation instruments are included in the general risk control and management framework.

Monitoring of collateral consisting of financial instruments has been stepped up as a result of the high volatility witnessed on financial markets following the outbreak of the Covid-19 pandemic. For instance, in Private Banking the situations most at risk have been identified, and for “Lombard” credit in particular work has begun quickly on restoring the collateral margins typically associated with this form of credit. Due to the diversification of the portfolio of assets used as collateral, and the haircuts applied when the lending value is calculated, no particular risk situations have emerged.

3. Non-performing credit exposures

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

The Bank uses a single, like-for-like definition for all the following instances: “default” as defined by the regulations on regulatory capital requisites; “non-performing”, used for the supervisory reporting statistics; and Stage 3, or “credit-impaired”, assets as defined by the accounting standards in force. In so doing, account has been taken of the provisions contained in the following documents: EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the ECB of 21 November 2018.

Also of relevance in this connection are the recent guidelines released by the regulatory and supervisory authorities in connection with the Covid-19 emergency, in particular the EBA recommendations of 25 March 2020 in its “Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures”, which require banks to reassess the counterparty closely before reclassifying accounts when moratoria are granted (if a high number of moratoria with similar characteristics are granted, automatic mechanisms should be avoided and reclassifications made only when the borrower's status has been closely scrutinized). The EBA also subsequently issued "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19", which detail the criteria to be fulfilled for moratoria not to be classified as forbearance measures or "distressed restructuring" which would result in their being categorized as in default. Also significant in this connection is the ECB's stance as set out in its "FAQs on ECB supervisory measures in reaction to the coronavirus" on 20 March 2020, whereby the use of a public guarantee issued in connection with the Covid-19 emergency is to be assessed with due flexibility as an indicator of default.

Provisioning is quantified individually, through valuations of discounted cash flows and balance-sheet multiples for companies which operate as going concerns, or asset valuations for companies entering liquidation.

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

4. Financial assets subject to commercial renegotiations and concessions

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

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

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client. In line with the EBA and ECB statements following the Covid-19 crisis, no automatic reclassification mechanisms have been applied following contractual amendments made under the terms of the immediate support programmes provided by law or category association arrangements.

For an exposure to be classified as forborne, the Bank assesses whether or not such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to the accumulation, actual or potential (in the latter case if the concessions are not granted), of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis.

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

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

5. Details by individual business segment

Corporate activity

The Bank's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower's credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels.

The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body with the same frequency.

In terms of monitoring the performance of individual credit exposures, Mediobanca has adopted an early warning methodology to identify a list of counterparties (known as the “watch-list”) requiring in-depth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watch-list is also used to provide qualitative information regarding allocation to Stage 2, which includes counterparties classified as “amber” or “red” for watch-list purposes. All forborne positions are also subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

The criterion for reclassifying positions to Stage 2, which is based on an increase in the PD indicator, has been supplemented with the additional specification that the internal rating for the position must have been downgraded by at least two notches from its original rating. This change has been introduced in order to capture the significant increase in risk as a result of the Covid-19 emergency, but the Group Chief Risk Officer and/or Lending and Underwriting Committee in any case have powers of discretion to revise the classification on prudential grounds.

Private Banking

Private Banking operations include granting loans as a complementary activity in serving affluent, high net worth and institutional clients, with the aim of providing them with wealth management and asset management services. Exposure to credit risk versus clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally backed by collateral or guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the size of the loan, guarantees/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.

6. Impact of Covid-19

6.1 Government and regulatory action following the Covid-19 pandemic

In order to address the effects of the Covid-19 pandemic on the economy, the Italian government launched a substantial first package of measures contained in the "Cura Italia" Decree Law issued on 17 March 2020, with the aim of safeguarding citizens' health and supporting the country's productive system by keeping firms active and so preserving workers' jobs. This first package was soon followed by another, the "Liquidità" Decree Law issued on 8 April 2020, which added further measures to support businesses.

The "Relaunch" Decree Law of 19 May 2020 confirmed and reinforced the measures introduced by the "Cura Italia" Decree Law, extending their duration to meet the needs resulting from the gradual reopening of the economy launched on 4 May 2020 (known as "Phase 2"). This Decree Law includes significant measures to bolster the liquidity and capitalization of firms, support the production sectors most affected by the emergency, and fund investment and innovation.

The EU institutions (notably the EBA, ESMA, ECB and IASB) also intervened in response to the medical crisis, introducing extraordinary measures described in more detail in Part A.

6.2 Moratoria granted to clients in connection with Covid-19

In response to the economic crisis caused by the Covid-19 emergency, Mediobanca has adhered to all provisions contained in the "Cura Italia" Decree Law,[4] allowing SME clients with mortgages to benefit from suspension of repayments.[5] Such clients are however only residual in number, and as at 30 June 2020, only three counterparties had taken up this option, involving a total amount of €1.2m.[6]

The Bank has received around thirty waiver applications on financial covenants of corporate customers, only five of which to defer payments (involving a total amount by way of principal and interest involving a total amount of €12m. Given the temporary nature of the issues, and having ascertained that there are no structural problems with the counterparties' liquidity, the majority of the waivers granted have not been classified as forbearance measures, meaning that only four positions have been reclassified as stage 2. Despite these reclassifications, the Stage 2 positions decreased from €527.9m to €437.2m (and account for 3.2% of total loans).

6.3 Macroeconomic scenario and Covid-related impact

The provisioning as at 30 June 2020 reflects the most recent update to the macroeconomic scenario which incorporates the most recent estimates post-Covid-19. With reference to 30 June 2020, internal estimates have been

[4] Italian Decree Law 18/20 (known as "Cura Italia"), as converted into Italian Law 27/20.

[5] Article 54 of the "Cura Italia" Decree Law ("Fondo Gasparrini) and Article 12 of the "Liquidità Decree".

[6] Two loans classified as Stage 2 in an amount of €692,000, and one which remains classified as Stage 1 involving €508,000.

developed based on a more conservative scenario than the consensus, for the European geographies especially, which sees the economic slump continuing until 1Q 2021, at rates of contraction which are similar to those during lockdown; the recovery phase is assumed to begin only starting from 2Q 2021.

The macroeconomic scenario at end-June reflects a contraction in GDP for all world economies that is unprecedented in the last 90 years.

The estimates used by the Group for 2020 see GDP falling in Italy by 11.64%, in the EU area by 9.71%, and the United States by 10.77%. Equally, the figures show sharp rises in the unemployment rates: from 10% to 13.52% in Italy, from 6.3% to 9.39% in Europe, and from 3.7% to 10.74% in the United States.

All these figures show substantial improvements for 2021 (GDP in Italy +0.82%; EU -0.11%; USA +7.64%), emphasizing the pro-cyclical effects which are characteristic of the point-in-time method used to calculate provisioning under IFRS 9. As mentioned in section 2.3 above, in line with the recommendations expressed by the regulators, the Bank has adopted methodologies for calculating and using forward-looking data that adequately reflect the specific features of the current macroeconomic scenario.

Table 1 - Macroeconomic scenario parameters [1]

GDP forecasts	**2020**	**2021**	**2022**
Italy	-11.64%	0.82%	5.25%
EU	-9.71%	-0.11%	5.13%
USA	-10.77%	7.64%	6.03%
Unemployment rate	**2020**	**2021**	**2022**
Italy	13.52%	14.20%	12.31%
EU	9.39%	10.46%	9.11%
USA	10.74%	7.34%	5.16%
Interest rate government bonds (10 years)	**2020**	**2021**	**2022**
Italy	1.66%	2.30%	2.83%
Germany	-0.38%	-0.31%	0.17%
USA	0.87%	0.65%	1.17%

[1] Taken from internal estimates based on a more conservative scenario than consensus for the European geographies in particular, according to which the economic slump could continue until 1Q 2021, at rates of contraction similar to those seen during lockdown; the recovery phase is assumed to begin only in 2Q 2021

As mentioned above, the contraction in the global economy is expected to recover only starting from 2021, returning to pre-Covid levels only from mid-2022. The estimated trend in the macroeconomic scenario will therefore be reflected in the trend in provisioning, which should gradually stabilize at lower values in line with the estimated recovery and with the six-monthly updates to the scenario.

Overall, the increase in loan loss provisioning for the twelve months attributable to Covid-19 is €44m (€42m of which in loans and guarantees issued including €7m of intercompany accounts), concentrated mainly in 4Q, in conjunction with the update to the scenario and the economic effects of the lockdown beginning to materialize.

Table 2 - Covid-related impact on earnings

Covid-19 impacts on Heading 130 and 170a) of the Income Statement	of which Covid-19 FY20	of which 4Q
Financial assets	36	36
Intercompany	8	8
Total	**44**	**44**

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans	Unlikely to pay	Non performing overdue exposures (NPLs)	Performing overdue exposures	Other not impaired exposures *	Total
1. Financial assets at amortized cost	—	281,550	2,061	14,849	43,412,704	43,711,164
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	51,002	51,002
4. Other financial assets mandatorily at fair value	27	3,584	—	—	52,760	56,371
5. Financial assets being sold	—	—	—	—	—	—
Total 30/6/20	27	285,134	2,061	14,849	47,002,406	47,304,477
Total 30/6/19	264	386,459	4	74,870	49,929,264	50,390,862

* No performing exposures which are past due or subject to renegotiation under collective agreements.

Net bad loans refer exclusively to the Private Banking segment.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans				Performing loans			Total (Net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	395,968	112,357	283,611	—	43,508,646	81,093	43,427,553	43,711,164
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,492,048	6,108	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	X	X	51,002	51,002
4. Other financial assets mandatorily at fair value	72,770	69,159	3,611	—	X	X	52,760	56,371
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 30/6/20	468,738	181,516	287,222	—	47,000,694	87,201	47,017,255	47,304,477
Total 30/6/19	643,166	256,439	386,727	—	49,786,623	44,043	50,004,135	50,390,862

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	7,199,937
2. Hedging Derivatives	—	—	471,648
Total 30/6/20	—	—	7,671,585
Total 30/6/19	—	—	7,718,081

Information on sovereign debt exposures

*A.1.2a Exposures to sovereign debt securities by state, counterparty and portfolio **

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(1,471,647)	(1,471,647)
Italy	—	—	—	—	X	X	136,036	136,036
Spain	—	—	—	—	X	X	(55,418)	(55,418)
Germany	—	—	—	—	X	X	(623,809)	(623,809)
France	—	—	—	—	X	X	(928,456)	(928,456)
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,613,617	—	2,613,617	2,613,617
Italy	—	—	—	—	1,739,967	—	1,739,967	1,739,967
United States	—	—	—	—	328,023	—	328,023	328,023
Germany	—	—	—	—	321,963	—	321,963	321,963
France	—	—	—	—	100,515	—	100,515	100,515
Others	—	—	—	—	123,149	—	123,149	123,149
3. Financial assets at amortized cost	—	—	—	—	2,134,435	—	1,826,114	1,826,114
Italy	—	—	—	—	1,512,487	—	1,293,082	1,293,082
France	—	—	—	—	366,527	—	350,877	350,877
Spain	—	—	—	—	110,317	—	100,018	100,018
Germany	—	—	—	—	62,666	—	50,110	50,110
Others	—	—	—	—	82,438	—	32,027	32,027
Total 30/6/20	—	—	—	—	4,748,052	—	2,968,084	2,968,084

(*) Does not include financial or credit Derivatives.

(1) The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €27m.

A.1.2b Exposures to sovereign debt securities by portfolio

Portfolio/quality	*Trading Book* [1]			*Banking Book* [2]			
	Nominal value	**Book Value**	**Duration**	**Nominal value**	**Book Value**	**Fair Value**	**Duration**
Italy	148,812	136,036	3.15	3,008,269	3,033,049	3,055,246	4.24
Germany	(580,000)	(623,809)	4.24	365,000	372,073	372,193	1.61
Spain *	(53,932)	(55,418)	3.–	170,000	171,649	173,213	2.35
United States	—	—	—	325,951	328,023	328,023	0.28
France	(842,453)	(928,456)	2.88	450,000	451,392	452,812	0.85
Others	—	—	—	82,000	83,545	85,287	—
Total 30/6/20	(1,327,573)	(1,471,647)		4,401,220	4,439,731	4,466,774	

* The figure does not include forward sales with a notional amount of €300m.
[1] Does not include sales of €139m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €3.7m; and sales of €60.0m on the BPT future (Italy) with a negative fair value of €0.2m. Net hedge buys of €1,030m have also not been included (virtually all of which allocated to France country risk).
[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m.

A.1.3 Financial assets by past-due buckets (book values)

Portfolios/stages of risk	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	**From more than 30 days to 90 days**	**More than 90 days**	**From 1 to 30 days**	**From more than 30 days to 90 days**	**More than 90 days**	**From 1 to 30 days**	**From more than 30 daysto 90 days**	**More than 90 days**
1. Financial assets valued at amortized cost	9,364	—	1	100	4,811	573	—	2	3,940
2. Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—	—	—	—
3. Financial assets held for sale	—	—	—	—	—	—	—	—	—
Total 30/6/20	9,364	—	1	100	4,811	573	—	2	3,940
Total 30/6/19	43,957	9,139	61	9,164	985	11,564	—	39,904	2,036

A.1.4 Financial assets, commitments to disburse fund and financial guarantees given: trend in overall writedowns and provisions

Motivations/risk stages	Cumulative writedowns													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				*Of which: purchased or originated credit impaired exposures*	Stage 1	Stage 2	Stage 3	
	Financial assets measured at amortized cost	Financial assets valued at fair value with impact taken to other comprehensive income	*of which: individual write-down*	*of which: collective write-down*	Financial assets measured at amortized cost	Financial assets valued at fair value with impact taken to other comprehensive income	*of which: individual write-down*	*of which: collective write-down*	Financial assets measured at amortized cost	Financial assets valued at fair value with impact taken to other comprehensive income	*of which: individual write-down*	*of which: collective write-down*					
Starting balance	35,986	1,840	—	37,826	6,217	—	—	6,217	140,768	—	140,768	—	—	15,173	4,628	2,153	206,765
Increase variations due to acquired or originated financial assets	28,110	3,710	—	31,820	1,049	—	—	1,049	9	—	9	—	—	8,869	36	—	41,783
Derecognitions other than write-off	(12,245)	(647)	—	(12,892)	(1,002)	—	—	(1,002)	(399)	—	(399)	—	—	(5,560)	(651)	(50)	(20,554)
Net writedowns/ writebacks due to credit risk(+/-)	15,034	1,205	—	16,239	7,944	—	—	7,944	(28,021)	—	(28,021)	—	—	6,085	7,132	4,723	14,102
Contractual modifications without derecognition	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in estimating methodologies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off not recognized directly in profit and loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other variations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Closing balance	66,885	6,108	—	72,993	14,208	—	—	14,208	112,357	—	112,357	—	—	24,567	11,145	6,826	242,096
Collection proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Writeoffs recognized directly in profit and loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portofolios/risk stages	Gross amounts/nominal values					
	Transfers from stage 1 to stage 2		Transfers from stage 2 to stage 3		Transfers from stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	206,735	2,922	742	57,957	1,240	—
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Financial assets held for sale		—	—	—	—	—
4. Commitments to disburse funds and financial guarantees given	124,056	—	12,729	3,912	4,572	47
Total 30/6/20	330,791	2,922	13,471	61,869	5,812	47
Total 30/6/19	299,968	74,869	53,242	—	76	18

A.1.6 Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/assets	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of wich: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of wich: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of wich: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of wich: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	22,315,171	(20,351)	22,294,820	—
- of wich: forborne exposures	*X*	—	—	—	—
Total (A)	—	22,315,171	(20,351)	22,294,820	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	16,257,392	(2,414)	16,254,978	—
Total (B)	—	16,257,392	(2,414)	16,254,978	—
Total (A+B)	—	38,572,563	(22,765)	38,549,798	—

A.1.7 Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/assets	**Gross exposures**		**Accumulated impairment and provisions**	**Net Exposure**	**Total partial write-off**
	Non-performing	**Performing**			
A. Cash credit exposures					
a) Bad loans	11,019	X	(10,992)	27	—
- of which: forborne exposures	*7,258*	*X*	*(7,231)*	*27*	—
b) Unlikely to pay	455,497	X	(170,363)	285,134	—
- of which: forborne exposures	*452,497*	*X*	*(169,526)*	*282,971*	—
c) Overdue exposures (NPLs)	2,222	X	(161)	2,061	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	14,860	(11)	14,849	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	28,313,431	(66,838)	28,246,593	—
- of which: forborne exposures	*X*	*221,983*	*(9,276)*	*212,707*	—
Total (A)	468,738	28,328,291	(248,365)	28,548,664	—
B. Off-balance-sheet exposures					
a) Non-performing	31,300	X	(6,826)	24,474	—
b) Performing	X	19,936,167	(33,298)	19,902,869	—
Total (B)	31,300	19,936,167	(40,124)	19,927,343	—
Total (A+B)	500,038	48,264,458	(288,489)	48,476,007	—

A.1.9 Cash exposures to customers: trend in gross non-performing exposures

Causal/category	**Bad loans**	**Unlikely to pay**	**Overdue exposures (NPLs)**
A. Opening balance (gross amount)	11,078	631,914	175
- Of which sold but not derecognised	—	—	—
B. Increases	5	10,591	4,063
B.1 transfers from performing loans	—	—	3,948
B.2 entry from impaired financial assets acquired or originated	—	—	—
B.3 transfers from other non-performing exposures	—	—	—
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	5	10,591	115
C. Decreases	64	187,008	2,016
C.1 transfers to performing loans	—	124,328	3
C.2 write-off	—	—	—
C.3 recoveries	64	62,680	2,012
C.4 sales proceeds	—	—	—
C.5 losses on disposals	—	—	—
C.6 transfers to other non-performing exposures	—	—	—
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	—	—	1
D. Closing balance (gross amounts)	11,019	455,497	2,222
- Of which sold but not derecognised	—	—	—

A.1.9bis Cash exposures to customers: trend in gross forborne exposures, by credit quality

Causal/category	Non-performing Forborne exposures	Performing Forborne exposures
A. Opening balance (gross amount)	583,004	234,922
- Of which sold but not derecognised	—	—
B. Increases	63,758	246,909
B.1 transfers from performing not forborne exposures	—	115,601
B.2 transfers from performing forborne exposures	—	X
B.3 transfers from non-performing forborne exposures	X	124,327
B.4 transfers from non-performing not forborne exposures	53,732	—
B.5 other increases	10,026	6,981
C. Decreases	187,007	259,848
C.1 transfers to performing not forborne exposures	X	201,915
C.2 transfers to performing forborne exposures	124,327	X
C.3 transfers to non-performing exposures not forborne	X	—
C.4 write-off	—	—
C.5 recoveries	62,680	52,965
C.6 sales proceeds	—	—
C.7 losses on disposals	—	—
C.8 other decreases	—	4,968
D. Closing balance (gross amounts)	459,755	221,983
- Of which sold but not derecognised	—	—

As at 30 June 2020, gross non-performing exposures subject to forbearance measures [7] totalled €459,8m (30/6/19: €583m), with a coverage ratio of 38.4% (40.9%); while net NPLs totalled €283m (€344,7m).

Gross performing forborne exposures amount to €222m (€234,9m), with a coverage ratio of 4.2% (0.1%); which reduces to €212,7m (€234,6m) on a net basis.

Overall net non-performing forborne exposures represent 1.6% (1.9%) of total customer loans, while performing forborne exposures represent 1.2% (1.3%).

[7] Forbearance is defined as when a specific concession is offered to a client who is facing, or who risks facing, temporary financial difficulties in meeting their payment obligations.

A.1.11 Non-performing cash exposures to customers: trend in overall writedowns

Description/Category	**Bad loans**		**Unlikely to pay**		**Overdue exposures (NPLs)**	
	Total	***of which: forborne exposures***	**Total**	***of which: forborne exposures***	**Total**	***of which: forborne exposures***
A. Opening balance overall amount of writedowns	10,814	4,041	245,454	234,286	171	—
- *Of which sold but not derecognised*	—	—	—	—	—	—
B. Increases	242	3,190	—	10,200	92	—
B.1 adjustments on acquired or originated impaired asset	—	X	—	X	—	X
B.2 other value adjustments	242	—	—	—	92	—
B.3 losses on disposal	—	—	—	—	—	—
B.4 transfer from other categories of non-performing	—	—	—	—	—	—
B.5 contractual changes without cancellations	—	—	—	—	—	—
B.6 other increases	—	3,190	—	10,200	—	—
C. Decreases	64	—	75,091	74,960	102	—
C.1 writebacks from assessments	64	—	65,971	65,840	53	—
C.2 writebacks from recoveries	—	—	9,120	9,120	45	—
C.3 gains on disposal	—	—	—	—	—	—
C.4 writeoffs	—	—	—	—	—	—
C.5 transfers to other categories of non-performing exposures	—	—	—	—	—	—
C.6 contractual changes without cancellations	—	—	—	—	—	—
C.7 other decreases	—	—	—	—	4	—
D. Closing overall amount of writedowns	10,992	7,231	170,363	169,526	161	—
- *Of which sold but not derecognised*	—	—	—	—	—	—

A.2 Classification of credit exposures by internal and external ratings

A.2.1 Financial assets, commitments to disburse fund and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	670,609	3,667,193	23,028,019	2,889,101	51,179	300,217	13,298,296	43,904,614
- First stage	670,609	3,667,193	23,028,016	2,847,792	51,179	300,217	12,538,914	43,103,920
- Second stage	—	—	3	41,309	—	—	363,414	404,726
- Third stage	—	—	—	—	—	—	395,968	395,968
B. Financial assets valued at fair value with impact taken to other comprehensive income	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- First stage	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A+B)	1,472,669	3,754,068	25,229,284	3,143,069	61,791	345,114	13,390,667	47,396,662
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—	—
C. Commitments and financial guarantees given								
- First stage	46,505	658,733	7,777,381	1,046,102	74,125	6,876	4,645,955	14,255,677
- Second stage	—	—	—	—	972	74,086	105,071	180,129
- Third stage	—	—	—	—	—	12,729	18,572	31,301
Total (C)	46,505	658,733	7,777,381	1,046,102	75,097	93,691	4,769,598	14,467,107
Total (A+B+C)	1,519,174	4,412,801	33,006,665	4,189,171	136,888	438,805	18,160,265	61,863,769

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

The table is compliant with the classification provided by Bank of Italy circular 262/05 (sixth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between AAA and BBB-, and represent 89% of the entire portfolio (93% last year), excluding unrated counterparties (chiefly loans and securities for which an internal rating is available) and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients, portfolios that do not have an external rating.

A.2.2 Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non-performing exposures	Unrated	Total
	Classe 1	Classe 2	Classe 3	Classe 4	Classe 5	Classe 6			
A. Financial assets valued at amortized cost									
- First stage	2,108,785	4,072,622	28,960,477	5,507,784	593,383	884		1,859,985	43,103,920
- Second stage	—	—	3	158,195	193,718	909		51,901	404,726
- Third stage	—	—	—	—	—	—	395,968	—	395,968
B. Financial assets valued at fair value with impact taken to other comprehensive income									
- First stage	802,060	106,813	2,232,630	250,599	44,897	—		55,049	3,492,048
- Second stage	—	—	—	—	—	—		—	—
- Third stage	—	—	—	—	—	—		—	—
Total (A+B)	2,910,845	4,179,435	31,193,110	5,916,578	831,998	1,793	395,968	1,966,935	47,396,662
of which: impaired financial assets acquired or originated	—	—	—	—	—	—		—	—
C. Commitments and financial guarantees given									
- First stage	97,953	1,116,550	9,105,431	2,949,516	288,516	—		697,711	14,255,677
- Second stage	—	—	—	9,448	165,800	3,912		969	180,129
- Third stage	—	—	—	—	—	—	31,300	—	31,300
Total (C)	97,953	1,116,550	9,105,431	2,958,964	454,316	3,912	31,300	698,680	14,467,107
Total (A+B+C)	3,008,798	5,295,985	40,298,541	8,875,542	1,286,314	5,705	427,269	2,665,615	61,863,769

Mediobanca uses models developed internally in the process of managing credit risk to assign ratings to each counterparty.

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

A.3 Distribution of secured exposures by type of security

A.3.1 Cash and off-balance sheet secured exposures to banks

	Gross exposure	Net exposure	Collaterals [1]				Personal guarantees [2]									Total (1)+(2)
			Property - mortgages	Financial leasing - property	Securities	Other guarantees	Credit Derivatives					Signature loans				
							CLN	Other Derivatives				General governements	Banks	Other financial companies	Other entities	
								Central counter-parties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	2.923.707	2.922.423	—	—	2.858.371	—	—	—	—	—	—	—	—	—	—	2.858.371
1.1 totally secured	2.923.707	2.922.423	—	—	2.858.371	—	—	—	—	—	—	—	—	—	—	2.858.371
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Cash and off-balance sheet secured exposures to customers

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)									Total
							Credit Derivatives					Signature loans				
			Property - mortgages	Financial leasing - property	Securities	Other guarantees	CLN	Other Derivatives				General go-vernements	Banks	Other financial companies	Other entities	(1)+(2)
								Central counter-parties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	5,996,811	5,800,370	265,704	—	2,203,353	875,352	—	—	—	—	—	11,872	10,306	169,508	1,271,329	4,807,424
1.1. totally secured	4,634,724	4,575,375	265,704	—	2,126,091	851,246	—	—	—	—	—	11,872	10,306	26,230	1,271,329	4,562,778
- of which non-performing	*85,234*	*41,815*	*39,911*	—	*565*	*1,339*	—	—	—	—	—	—	—	—	—	*41,815*
1.2. partially secured	1,362,087	1,224,995	—	—	77,262	24,106	—	—	—	—	—	—	—	143,278	—	244,646
- of which non-performing	*370,997*	*244,263*	—	—	*5,434*	—	—	—	—	—	—	—	—	—	—	*5,434*
2. Secured off-balance sheet credit exposures	716,488	711,172	12,397	—	231,616	299,873	—	—	—	—	—	5,961	4,495	34,940	58,061	647,343
2.1. totally secured	621,075	618,976	12,397	—	231,115	299,873	—	—	—	—	—	5,961	4,495	—	58,061	611,902
- of which non-performing	*1,001*	*1,001*	—	—	*737*	*264*	—	—	—	—	—	—	—	—	—	*1,001*
2.2. partially secured	95,413	92,196	—	—	501	—	—	—	—	—	—	—	—	34,940	—	35,441
- of which non-performing	*14,000*	*11,060*	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Exposures distribution and concentration

B.1 Cash and off-balance sheet exposures to customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	27	(9,267)	—	—	—	(1,725)	—	—
- of wich: forborne exposures	—	—	*27*	*(7,231)*	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	2,163	(837)	—	—	282,971	(169,526)	—	—
- of wich: forborne exposures	—	—	—	—	—	—	*282,971*	*(169,526)*	—	—
A.3 Overdue exposures (NPLs)	—	—	66	(54)	1	(1)	29	(24)	1,965	(83)
- of wich: forborne exposures	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	6,433,178	(3,987)	11,931,323	(18,845)	914,936	(3,423)	9,186,941	(42,155)	710,000	(1,862)
- of wich: forborne exposures	—	—	*30,707*	*(505)*	—	—	*177,419*	*(8,665)*	*4,581*	*(106)*
Total (A)	6,433,178	(3,987)	11,933,579	(29,003)	914,937	(3,424)	9,469,941	(213,430)	711,965	(1,945)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	23,475	(6,826)	999	—
B.2 Performing exposures	1,162,709	—	7,911,734	(5,788)	1,385,851	(9)	10,530,995	(27,498)	297,431	(12)
Total (B)	1,162,709	—	7,911,734	(5,788)	1,385,851	(9)	10,554,470	(34,324)	298,430	(12)
Total (A+B) 30/6/20	7,595,887	(3,987)	19,845,313	(34,791)	2,300,788	(3,433)	20,024,411	(247,754)	1,010,395	(1,957)
Total (A+B) 30/6/19	11,893,211	(775)	21,247,459	(26,846)	1,641,672	(1,858)	19,218,180	(276,321)	1,038,150	(1,731)

B.2 Cash and off-balance sheet exposures to customers by geography

Exposures/Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	27	(10,992)	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	243,843	(160,163)	41,291	(10,200)	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	2,059	(160)	2	(1)	—	—	—	—	—	—
A.4 Performing exposures	21,333,408	(54,308)	6,420,314	(12,346)	507,465	(195)	—	—	255	—
Total (A)	21,579,337	(225,623)	6,461,607	(22,547)	507,465	(195)	—	—	255	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,059	(2,941)	10,450	(2,278)	—	—	1,965	(1,607)	—	—
B.2 Performing exposures	7,378,012	(4,732)	10,843,909	(14,954)	1,524,454	(12,598)	155,264	(1,014)	1,230	—
Total (B)	7,390,071	(7,673)	10,854,359	(17,232)	1,524,454	(12,598)	157,229	(2,621)	1,230	—
Total (A+B) 30/6/20	28,969,408	(233,296)	17,315,966	(39,779)	2,031,919	(12,793)	157,229	(2,621)	1,485	—
Total (A+B) 30/6/19	34,858,874	(276,662)	16,073,466	(24,492)	2,291,211	(4,228)	170,189	(290)	3,260	(1)

B.3 Cash and off-balance sheet exposures to banks by geography

Exposures/Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	15,034,276	(16,384)	7,219,923	(3,944)	39,405	(20)	1,215	(3)	1	—
Total (A)	15,034,276	(16,384)	7,219,923	(3,944)	39,405	(20)	1,215	(3)	1	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	4,231,865	(21)	12,023,044	(2,393)	69	—	—	—	—	—
Total (B)	4,231,865	(21)	12,023,044	(2,393)	69	—	—	—	—	—
Total (A+B) 30/6/20	19,266,141	(16,405)	19,242,967	(6,337)	39,474	(20)	1,215	(3)	1	—
Total (A+B) 30/6/19	17,967,952	(10,247)	24,140,838	(6,503)	41,791	(10)	5,045	(2)	1	—

B.4a Credit risk indicators

	30/6/20	30/06/19
a) Bad loans (Gross exposure) / Loans to customers	0.04%	0.05%
b) Unusual matches / Balance sheet credit exposures	1.64%	2.05%
c) Bad loans (Net exposure) / Regulatory capital	0.–%	0.–%

B.4b Gross NPL Ratio [8]

(€ m)

	30/6/20	30/06/19
	Gross value (prudential scope of consolidation)	
Loans	30,290.1	28,319.9
NPLs	468.7	643.2
Loans and advances to customers	30,758.9	28,963.1
NPLs acquired by MBCredit Solutions	—	—
Treasury financial assets *	10,311.2	11,575.9
Total Loans and Receivables (FINREP)	41,070.1	40,539.–
Gross NPL ratio Finrep %	1.1%	1.6%

* In line with the guidelines of the EBA Risk Dashboard, the calculation excludes cash and includes untied deposits held with central banks.

B.4c Large risks

	30/06/20	30/06/19
a) Book value	11,368,066	12,663,699
b) Weighted value	8,974,253	9,172,281
c) No. of exposures	10	11

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of ten groups of clients (one less than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11.4bn (€9bn, taking into account guarantees and weightings), lower than the respective figures at end-June 2019 (€12.7bn and €9.2bn respectively). In detail the ten exposures are to four industrial groups, one insurance company and five banking groups.

[8] The calculation of the Gross NPL ratio is defined in the EBA Risk Dashboard as the ratio between the gross book value of the NPL (loans and advances) on total loans and advances. Source: EBA Risk Dashboard, Risk Indicators in the Statistical Annex (AQT_3.2).

C. Securitizations

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The bulk of the portfolio consists of the Group's senior securitizations, with €2,574.3m in Quarzo bonds with performing Compass receivables as the underlying instrument, down on the figure reported last year (30/6/19: €3,851.7m).

The Bank has portfolio of securities deriving from securitizations by other issuers totaling €214.7m, €185.8m of which as part of the banking book (almost all HTC recognized at amortized cost) and €28.9m as part of the trading book.

The contribution from senior securities held as part of the banking book declined from €152.3m to €129m, following the reduction in the exposure to deals with NPLs as underlying instrument, the amount of which fell from €142.6m to €80.7m, 79% of which involved domestic deals (Unicredit-Fino, Intesa-Belvedere and Prisma), against an increase in securities with performing loans and CLOs as the underlying, to €48.4m (€9.7m); the portfolio reflects an increase in the exposure to mezzanine tranches to €56.3m (€3.3m), almost entirely attributable to the contribution of securities with performing receivables as the underlying instrument (€41.2m), and to a lesser extent, new investments in CLOs (€14.1m). The share of junior notes remains decidedly low at €0.4m. Overall the portfolio contains CLOs totalling €22.1m, €14.1m of which are mezzanine.

The trading book reflects a sizeable reduction, from €91.4m to €28.9m, with virtually the entire portfolio renewed. The balance at 30 June 2020 reflects almost exclusively mezzanine securities, €20.9m of which involve securitizations of performing receivables (mostly Italian) and €8m in CLO tranches. Movements for the period include the transfer of €50m to a fund in which a share worth a nominal €75m was subscribed.

Mediobanca also has an exposure to:

– Cairn Loan Investments LLP (CLI and CLI II), Cairn-branded CLO management companies, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invest in the junior tranches of the CLOs they manage, with investments of €26m and €13m respectively;

– Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by DeA Capital SGR S.p.A. which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28m;

– Negentropy RAIF - Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited; the fund has a NAV of €112.3m, with senior tranches of Italian NPLs as the underlying instrument, 45% of which consists of the initial transfer from the Belvedere deal; Mediobanca, which acted as advisor on the deal, currently has an investment of €76.4m.

The secondary ABS market saw a sudden widening of spreads following the Covid-19 emergency, with a liquidity freeze which was largely mitigated by the monetary policy initiatives promoted by the central banks. The fiscal policy instruments finalized by the various governments, meanwhile, have preserved the average quality of the underlying instruments for the moment. However, the flow of new deals has slowed significantly, reflecting the fact that market conditions are currently less advantageous than the terms offered by the new T-LTRO.

QUANTITATIVE INFORMATION

C.2 Exposures from main customer securitizations by asset type/exposure

Type of securitized asset/ Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns / writeback	Book value	Writedowns / writeback	Book value	Writedowns / writeback
A. NPLs Italy (residential motgages and real estates)	63,733	—	1,024	(976)	283	(357)
B. NPLs Spain (residential motgages and real estates)	16,924	—	—	—	—	—
C. Performing Loan Italy	26,809	—	52,995	(972)	—	—
D. Performing Loan Holland	13,530	—	3,083	(10)	187	(11)
E. Performing Loan Spain	—	—	945	(55)	—	—
F. Performing Loan Germany	—	—	5,090	—	—	—
G. Other receivables held by Group's entities	2,574,288	—	—	—	—	—
H. Other receivables	8,029	—	22,107	(843)	—	—
Total 30/6/20	2,703,313	—	85,243	(2,856)	470	(368)
Total 30/6/19	4,072,346	103	26,434	(6)	841	—

C.4 Securitization SPVs not consolidated

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

D. Disclosure on unconsolidated structured entities other than securitization SPVs

QUALITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

E. Asset disposals

A. Financial assets sold but not entirely derecognized

E.1 Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	***of which: subject to securitization transactions***	***of which: subject to sale contracts with repurchase agreement***	***of which non-performing***	**Book value**	***of which: subject to securitization transactions***	***of which: subject to sale contracts with repurchase agreement***
A. Financial assets held for trading	1,866,258	—	1,866,258	X	1,740,442	—	1,740,442
1. Debt securities	1,539,228	—	1,539,228	X	1,421,918	—	1,421,918
2. Equities	327,030	—	327,030	X	318,524	—	318,524
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets mandatorily at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets at fair value with impact taken to comprehensive income	383,482	—	383,482	—	365,219	—	365,219
1. Debt securities	383,482	—	383,482	—	365,219	—	365,219
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets measured at amortized cost	868,216	—	868,216	—	675,535	—	675,535
1. Debt securities	654,112	—	654,112	—	588,892	—	588,892
2. Loans	214,104	—	214,104	—	86,643	—	86,643
Total 30/06/20	3,117,956	—	3,117,956	—	2,781,196	—	2,781,196
Total 30/06/19	4,006,950	—	4,006,950	—	3,922,460	—	3,922,460

E.3 Disposals related to financial liabilities with repayment exclusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total	
			30/6/20	30/6/19
A. Financial assets held for trading	1,866,258	—	1,866,258	3,147,167
1. Debt securities	1,539,228	—	1,539,228	2,312,251
2. Equities	327,030	—	327,030	834,916
3. Loans	—	—	—	—
4. Derivatives	—	—	—	—
B. Other financial assets mandatorily at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Equities	—	—	—	—
3. Loans	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Loans	—	—	—	—
D. Financial assets at fair value with impact taken to comprehensive income	383,482	—	383,482	529,449
1. Debt securities	383,482	—	383,482	529,449
2. Equities	—	—	—	—
3. Loans	—	—	—	—
E. Financial assets measured at amortized cost (fair value)	892,747	—	892,747	339,455
1. Debt securities	659,771	—	659,771	162,126
2. Loans	232,976	—	232,976	177,329
Total financial assets	3,142,487	—	3,142,487	4,016,071
Total associated financial liabilities	2,838,340	—	X	X
Net value 30/06/2020	304,147	—	3,142,487	X
Net value 30/06/2019	93,611	—	X	4,016,071

F. Models for measuring credit risk

Mediobanca S.p.A. uses the IRB Advanced method, featuring the PD and LGD parameters, in order to quantify the capital requirement for credit risk on the Corporate portfolio. A plan has also been adopted to progressively role the internal models out to cover other categories of credit asset as well (the "Roll-Out Plan"). For these exposures, for which the standardized methodology is currently used to calculate the regulatory capital requirements, the Bank has nonetheless developed internal credit risk models that are used for management purposes. The Bank has also developed a portfolio model to calculate the economic capital for credit risk, which allows concentration and diversification effects (geographical and sector) to be taken into consideration. For further details please see "Section 1.1 Credit risk" in Part E of the Notes to the Accounts.

SECTION 2

Market Risks

2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

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The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

- Sensitivity - mainly Delta and Vega - to small changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and Derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;
- Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme changes in market variables.

Other complementary and more specific risk metrics are also calculated, in addition to VaR and sensitivity, in order to capture risks not fully measured by these indicators more effectively. The weight of products which require such metrics to be used is in any case extremely limited compared to the overall size of Mediobanca's trading book.

The strong market correction which followed the Covid-19 crisis drove an increase in the use of market risk limits, which resulted in desk control and reporting activities being stepped up versus the committees, senior management and supervisors.

The aggregate value-at-risk on the trading book ranged from a low of €1.9m at end-September 2019 to a high of €7.7m in mid-March, with the average reading virtually unchanged at €4.2m (30/6/19: €4.3m); in mid-August the VAR reading was between €6m and €7m, in line with the figure at the reporting date. The closure of some large outright positions in mid-August caused a significant reduction VaR which fell abruptly, from €6m to €2m. VaR fluctuated from €2m at the start of February, before increasing progressively to reach €4m by the end of the month, as concerns began to rise over the outbreak of the Covid-19 pandemic. From the time when the first cases of Covid-19 were reported in Italy, market volatility and VaR rose quickly, reaching the high of €7.7m in mid-March mentioned above. Thereafter the VaR reading remained at high levels, albeit slightly lower, fluctuating between €5m and €6m due to the strong volatility that continues to affect markets. The point-in-time reading for VaR as at 30 June 2020 was €5.8m (€6.3m).

Like VaR, the expected shortfall also showed an average reading in line with the previous year, at around €5.4m.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) in the twelve months showed four occasions on which the VaR value was departed from, all of which occurred between 9 and 17 March 2020 due to the instability and high market volatility that erupted following the outbreak of Covid-19.

Tab.1: Value-at-risk and expected shortfall: trading book

(€'000)

Risk factors (€'000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	3,312	478	4,773	2,016	2,165
Credit	2,585	788	6,888	1,750	1,163
Share prices	6,194	815	8,782	3,291	1,632
Exchange rates	633	231	1,415	718	1,740
Inflation	581	125	780	256	170
Volatility	3,462	740	4,372	1,828	1,271
Diversification effect *	(10,968)			(5,654)	(3,824)
Total	5,799	1,917	7,649	4,205	4,317
Expected Shortfall	**6,766**	**2,488**	**19,803**	**5,385**	**5,376**

* Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and equity volatility) which are monitored daily.

Compared to last year, the exposures to the various asset classes have not increased significantly. The average exposures to equities have increased, measured by both delta and vega, with marked fluctuation between highs and lows. The interest rate delta ranged from minus €361,000 to plus €806,000, with an average reading of around €23,000, and with more pronounced fluctuations between lows and highs than last year. Conversely, the exchange rate delta was lower than last year, ranging from a low of minus €187,000 to a high of €786,000 per percentage point (last year the high was €1.9m per percentage point).

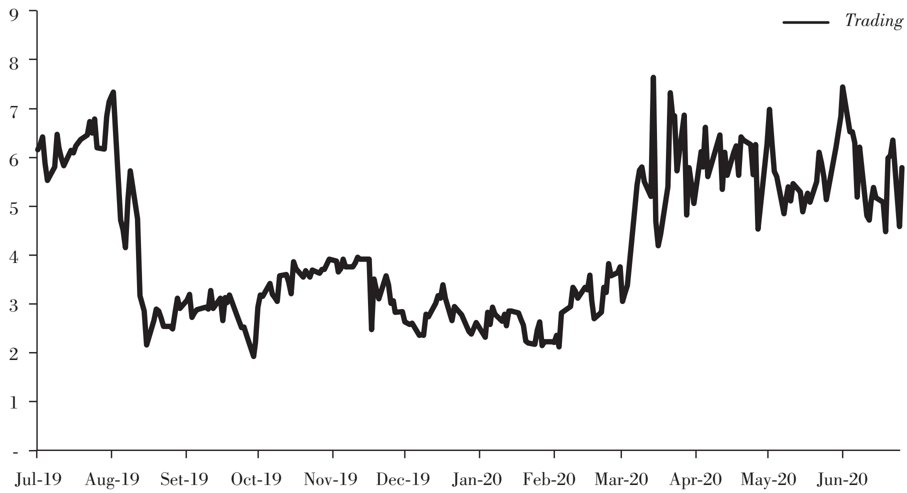
Tab. 2: Summary of trend in main sensitivities for trading book

(€'000)

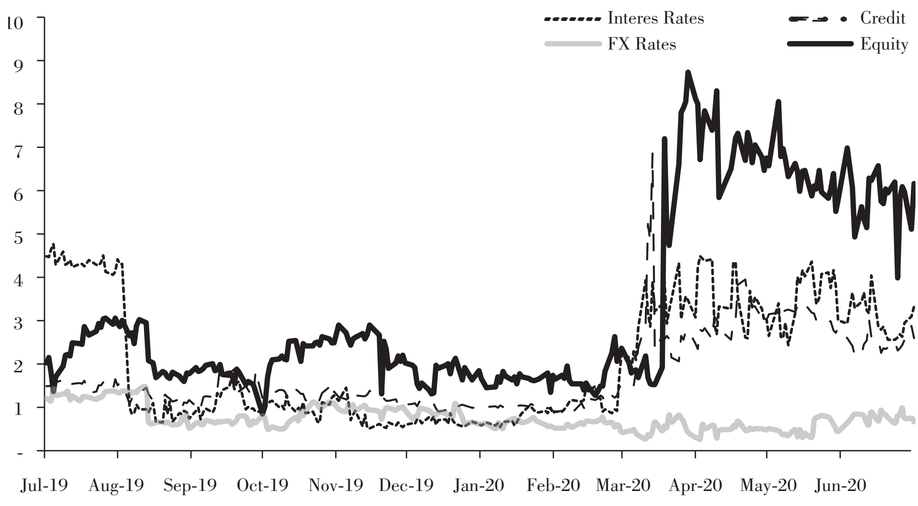
Risk factors (€'000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19 Media**
	30/6	**Min**	**Max**	**Avg.**	
Equity delta (+1%)	476,305	187,161	1,255,622	738,132	664,340
Equity vega (+1%)	589,060	(2,579,578)	1,748,192	858,604	618,926
Interest rate delta(+1bp)	70,398	(361,634)	806,332	23,621	323,109
Inflation delta (+1 bp)	61,533	13,360	75,255	34,296	13,743
Exchange rate delta (+1%) *	417,485	(186,596)	786,363	373,354	703,114
Credit delta (+1bp)	569,729	270,143	1,314,285	584,597	750,825

* Refers to the Euro gaining versus other currencies

Trends in VaR



Trends in VaR constituents



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1. Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	3,327	166,190	250,769	221,535	1,966,865	253,916	672,488	—
1.1 Debt securities	3,327	166,190	250,769	221,535	1,966,865	253,916	672,488	—
- with early redemption option	—	—	—	—	—	—	—	—
- others	3,327	166,190	250,769	221,535	1,966,865	253,916	672,488	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
3. Financial Derivatives								
3.1 With underlying securities								
- Options								
+ long positions	—	—	2,430,000	880,132	—	—	—	—
+ short positions	—	—	2,430,000	880,132	—	—	—	—
- Others								
+ long positions	—	330,564	—	20,000	214,664	104,380	—	—
+ short positions	—	330,564	—	20,000	214,664	104,380	—	—
3.2 Without underlying securities								
- Options								
+ long positions	—	68,143,493	53,338,332	2,903,586	3,862,509	2,514,942	1,031,820	—
+ short positions	—	68,143,493	53,338,332	2,903,586	3,862,509	2,514,942	1,031,820	—
- Others								
+ long positions	386,761	31,113,736	8,072,588	11,509,156	21,366,293	7,121,423	5,565,294	—
+ short positions	656,358	37,470,931	8,490,349	4,464,603	21,366,293	7,121,423	5,565,294	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	1,737,767	-	29,372
A.2 Innovative equity instruments	-	-	-
A.3 Other equity instruments	-	-	-
B. UCITS units			
B.1 Italian	-	-	2,526
- harmonized open	-	-	-
- non-harmonized open	-	-	-
- closed	-	-	2,526
- reserved	-	-	-
- speculative	-	-	-
B.2 Other EU states	20,114	-	-
- harmonized	15,572	-	-
- non-harmonized open	-	-	-
- non-harmonized closed	4,542	-	-
B.3 Non-EU states	-	-	-
- open	-	-	-
- closed	-	-	-
Total	1,757,881	-	31,898

([1]) Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 87% of the net exposure is to EU member states.

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

Mediobanca monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

Conversely, the sensitivity of economic value measures the impact of future flows on the current value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS).

All the scenarios present a floor set by the EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from exposures to other group companies, used as a means to transfer the interest rate of risk of retail costumers' current account deposits (already considered on the basis of proprietary behavioral models).

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the Group's banking book positions at 30 June 2020, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would not decrease at all.

With reference to analysis of the discounted value of estimated cash flows on the banking book, a flattener shock generates a €22m loss.

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months) .[1]

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

[1] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Bank uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

D. Hedging instruments

E. Hedged instruments

Hedged and hedging instruments are described in detail in the previous sections and at various points throughout the Annual Report.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future exposure. As far as regards Derivatives and short-term loan collateralization products (Repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) for all the time steps up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the presence of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different exposure limits split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of financial assets and liabilities

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	4,018,000	27,736,621	7,145,623	1,374,636	5,233,716	1,491,712	326,068	—
1.1 Debt securities	—	2,721,547	2,198,182	809,876	2,497,349	1,300,198	48,614	—
- with early repayment option								
- others		2,721,547	2,198,182	809,876	2,497,349	1,300,198	48,614	
1.2 Loans to banks	1,549,678	14,848,424	975,071	375,206	1,398,376	99,738	269,405	
1.3 Loans to customers	2,468,322	10,166,650	3,972,370	189,554	1,337,991	91,776	8,049	—
- current accounts	917,839							
- other loans	1,550,483	10,166,650	3,972,370	189,554	1,337,991	91,776	8,049	—
- with early repayment option								
- others	1,550,483	10,166,650	3,972,370	189,554	1,337,991	91,776	8,049	
2. Cash liabilities	21,451,138	8,709,978	2,732,836	4,334,770	8,599,656	3,835,140	866,648	—
2.1 Due to customers	5,575,184	264,783	204,023	79,698	803,231	—	599,985	—
- current accounts	4,984,420							
- other amounts due	590,764	264,783	204,023	79,698	803,231	—	599,985	—
- with early repayment option								
- others	590,764	264,783	204,023	79,698	803,231		599,985	
2.2 Due to banks	15,875,117	3,524,813	1,632,243	2,027,453	3,506,667	513	104,498	—
- current accounts	15,124,643							
- other amounts due	750,474	3,524,813	1,632,243	2,027,453	3,506,667	513	104,498	
2.3 Debt securities	837	4,920,382	896,570	2,227,619	4,289,758	3,834,627	162,165	—
- with early repayment option								
- others	837	4,920,382	896,570	2,227,619	4,289,758	3,834,627	162,165	
2.4 Other liabilities	—	—	—	—	—	—	—	—
- with early repayment option								
- others								
3. Financial derivative products								
3.1 With underlying securities								
- Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
- Others								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
- Options								
+ long positions	—	—	—	—	1,905,287	119,894	—	—
+ short positions	—	—	—	—	1,905,287	119,894	—	—
- Others								
+ long positions	—	7,841,006	3,757,164	11,136,325	3,327,954	1,730,500	27,500	—
+ short positions	—	21,576,153	1,190,000	318,342	2,977,954	1,730,500	27,500	—
4. Other OTC trades								
+ long positions	589,799	1,297,835	781,684	454,922	9,028,765	466,743	273,375	—
+ short positions	508,749	963,766	776,667	385,447	9,124,037	559,164	575,293	—

2. Banking book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	113,322	—	28,551
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	160,000
B. UCITS units			
B.1 Italian	30,081	—	116,060
- harmonized open	30,081	—	—
- non-harmonized open	—	—	—
- closed	—	—	107,068
- reserved	—	—	—
- speculative	—	—	8,992
B.2 Other EU states	255,376	—	234,942
- harmonized	—	—	—
- non-harmonized open	—	—	76,377
- non-harmonized closed	255,376	—	158,565
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	398,779	—	539,553

[1] which 37% Italian and 53% other EU member states.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurements techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 640 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

QUANTITATIVE INFORMATION

1. Assets, liabilities and Derivatives by currency

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish Krona	Swiss Franc	Other currencies
A. Financial assets	2,894,880	1,133,549	8,692	1,166	440,110	32,497
A.1 Debt securities	827,109	20,633	—	—	94,305	—
A.2 Equity securities	291,023	617,637	—	—	1,873	—
A.3 Due from banks	1,056,994	386,725	8,682	1,166	51,465	25,639
A.4 Due from customers	546,888	106,237	—	—	151,615	6,826
A.5 Other financial assets	172,866	2,317	10	—	140,852	32
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	3,517,971	570,183	73	369	299,452	32,780
C.1 Due to banks	1,333,396	484,392	3	201	232,501	32,548
C.2 Due to customers	95,754	50,959	—	168	—	117
C.3 Debt securities in issue	1,897,775	33,200	—	—	—	—
C.4 Other financial liabilities	191,046	1,632	70	—	66,951	115
D. Other liabilities	—	—	—	—	—	—
E. Financial Derivatives						
- Options						
+ Long positions	170,105	82,593	13,846	—	9,516	1,523
+ Short positions	163,982	91,788	20,496	—	9,721	—
- Other Derivatives						
+ Long positions	3,896,385	629,643	186,507	2,606	617,644	200,327
+ Short positions	3,272,997	1,191,250	195,076	16	758,603	189,127
Total assets	6,961,370	1,845,785	209,045	3,772	1,067,270	234,347
Total liabilities	6,954,950	1,853,221	215,645	385	1,067,776	221,907
Difference (+/-)	6,420	(7,436)	(6,600)	3,387	(506)	12,440

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level showed major changes in balances for the first six months of the financial year, before remaining stably at high levels until February 2020, after which there was a marked decrease in the absolute figures until the reporting date. Volatility for all major currencies remained at low levels until the Covid-19 crisis, which caused it to increase suddenly. Equally, the VaR for the exchange rate component fluctuated at low levels until mid-March 2020, when it reached a high, before decreasing slightly by end-June 2020. The average reading for VaR was around €10m, slightly lower than last year (€11.7m); while the point-in-time reading at 30 June 2020 was €11.8m (30/6/19: €9.2m).

Derivative instruments and hedging policies

3.1 Trading Derivatives

In the following tables, the figures for certificates as at 30 June 2019 have been reclassified by underlying instrument, to enable better comparison with the data as at 30 June 2020.

A. Financial Derivatives

A.1 Trading financial Derivatives: average and reporting-date notional values

Underlying assets / Type of Derivatives	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	42,145,449	45,099,677	1,421,512	122,834,994	32,013,915	52,535,529	927,838	99,014,423
a) Options	-	11,186,213	260,000	120,846,902	-	12,115,937	280,000	96,703,913
b) Swap	42,145,449	31,368,420	1,161,512	-	32,013,915	32,309,212	647,838	-
c) Forward	-	389,044	-	-	-	124,380	-	-
d) Futures	-	-	-	1,988,092	-	-	-	2,310,510
e) Others	-	2,156,000	-	-	-	7,986,000	-	-
2. Equities and stock indexes	-	21,548,112	2,010,092	18,380,123	-	14,442,921	2,910,398	14,158,852
a) Options	-	19,730,713	603,365	17,881,937	-	12,289,056	2,182,737	13,822,601
b) Swap	-	1,665,996	-	-	-	2,002,462	-	-
c) Forward	-	151,403	-	-	-	151,403	-	-
d) Futures	-	-	-	498,186	-	-	-	336,251
e) Others [1]	-	-	1,406,727	-	-	-	727,661	-
3. Currencies and gold	-	8,668,772	739,268	-	-	9,473,310	108,554	-
a) Options	-	654,466	1,233	-	-	1,534,191	-	-
b) Swap	-	3,125,183	379,295	-	-	3,137,018	105,448	-
c) Forward	-	4,889,123	358,740	-	-	4,802,101	7,418	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	42,145,449	75,316,561	4,170,872	141,215,117	32,013,915	76,451,760	3,946,790	113,173,275

[1] Regards exclusively certificates issued.

A.2 Trading financial Derivatives: positive and negative fair values by product

Types of Derivatives	30/6/20				30/6/20			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	—	1,168,381	2,717	824,337	—	571,984	3,820	487,169
b) Interest rate swap	220	1,002,609	70,326	—	2,489	993,648	66,165	—
c) Cross currency swap	—	155,455	12,491	—	—	326,406	10,067	—
d) Equity swap	—	139,911	—	—	—	9,181	—	—
e) Forward	—	45,214	10,037	—	—	45,221	6,165	—
f) Futures	—	—	—	43,620	—	—	—	10,352
g) Others	—	—	—	—	—	—	—	—
Total	220	2,511,570	95,571	867,957	2,489	1,946,440	86,217	497,521
2. Negative fair value								
a) Options	—	1,062,855	16,385	1,232,182	—	677,781	60,315	629,169
b) Interest rate swap	493,683	451,225	14,086	—	228,968	655,970	7,544	—
c) Cross currency swap	—	114,747	—	—	—	99,056	—	—
d) Equity swap	—	25,574	—	—	—	20,436	—	—
e) Forward	—	160,064	3,450	—	—	166,527	885	—
f) Futures	—	—	—	10,490	—	—	—	20,479
g) Others [1]	—	—	1,184,888	—	—	—	713,336	—
Total	493,683	1,814,465	1,218,809	1,242,672	228,968	1,619,770	782,080	649,648

[1] Regards exclusively certificates issued.

A.3 OTC trading financial Derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	70,000	269,086	1,082,426
- positive fair value	X	55,662	6,414	9,155
- negative fair value	X	87	14,156	3,817
2) Equities and stock indexes				
- notional value [1]	X	1,918,270	91,802	20
- positive fair value	X	6,490	643	3,044
- negative fair value [1]	X	1,197,564	91	1,995
3) Currencies and gold				
- notional value	X	220,679	14,434	504,154
- positive fair value	X	534	42	13,586
- negative fair value	X	831	130	138
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	42,145,449	30,133,761	8,875,883	6,090,033
- positive fair value	220	811,282	165,852	334,199
- negative fair value	493,683	421,432	337,537	45,362
2) Equities and stock indexes				
- notional value	—	12,272,080	7,524,014	1,752,018
- positive fair value	—	449,106	293,217	255,575
- negative fair value	—	536,547	311,197	9,994
3) Currencies and gold				
- notional value	—	5,328,533	1,843,349	1,496,890
- positive fair value	—	80,907	67,327	54,108
- negative fair value	—	85,045	15,833	51,518
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

[1] Of which certificates with a notional value of 1,406,727 and a fair value of 1,184,888.

A.4 Outstanding life of OTC financial Derivatives: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	19,674,823	43,828,533	25,163,282	88,666,638
A.2 Financial derivative contracts on equity securities and stock indexes	8,071,439	14,455,940	1,030,825	23,558,204
A.3 Financial Derivatives on currencies and gold	5,820,800	3,051,430	535,810	9,408,040
A.4 Financial Derivatives on goods	—	—	—	—
A.5 Other financial Derivatives	—	—	—	—
Total 30/6/20	33,567,062	61,335,903	26,729,917	121,632,882
Total 30/6/19	29,997,284	57,254,165	25,161,016	112,412,465

B. Credit Derivatives

B.1 Trading credit Derivatives: average and reporting-date notional values

Type of transaction	Trading Derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	3,906,332	22,413,129
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	167,600	—
Total 30/6/20	4,073,932	22,413,129
Total 30/6/19	5,365,395	17,549,942
2. Security sales		
a) Credit default products	2,635,022	22,442,171
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total 30/6/20	2,635,022	22,442,171
Total 30/6/19	2,652,999	17,549,944

[1] Regards exclusively certificates issued.

The column headed “Basket” shows the positions in skew that hedge issues open, both benchmark index and with single-name underlying, and are balanced between buys and sales. The derivative embedded in the issues, for the hedge buys, is represented by individual constituents, with notional value equal to the nominal value of the issues.

B.2 Trading credit Derivatives: positive and negative fair values by product

Types of Derivatives	30/6/20	30/6/19
1. Positive fair value		
a) Credit default products	185,611	490,192
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	185,611	490,192
2. Negative fair value		
a) Credit default products	247,133	551,263
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	172,228	151,403
Total	419,361	702,366

([1]) Regards exclusively certificates issued.

B.3 Trading book OTC credit Derivatives: notional values and gross positive/negative fair value, by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value [1]	X	930,951	678,992	—
– positive fair value	X	23,426	7,154	—
– negative fair value [1]	X	173,123	—	—
2) protection sale				
– notional value	X	14,526	—	—
– positive fair value	X	2,306	—	—
– negative fair value	X	623	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
– notional value	3,676,182	9,814,263	11,386,674	—
– positive fair value	—	37,513	14,501	—
– negative fair value	3,611	94,244	75,719	—
2) protection sale				
– notional value	3,626,146	10,254,063	11,182,458	—
– positive fair value	—	52,185	48,526	—
– negative fair value	14,009	42,309	15,721	—

[1] Of which certificates with a notional value of €167,600 and a fair value of €172,228.

B.4 Outstanding life of OTC trading credit Derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1. Sale protection	1,084,304	23,498,167	494,722	25,077,193
2. Buy protection	549,768	25,450,034	487,260	26,487,062
Total 30/06/20	1,634,072	48,948,201	981,982	51,564,255
Total 30/06/19	1,554,766	38,227,205	3,336,309	43,118,280

3.2 Hedging policies

A. Financial hedging Derivatives

A.1 Financial hedging Derivatives: reporting-date notional value

Underlying assets/Type of Derivatives	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	23,863,465	5,668,716	—	—	18,787,256	6,038,647	—	—
a) Options	—	2,025,181	—	—	—	130,000	—	—
b) Swap	23,863,465	3,643,535	—	—	18,787,256	5,808,647	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	100,000	—	—
2. Equities and stock indexes	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	313,449	—	—	—	308,436	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	313,449	—	—	—	308,436	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	23,863,465	5,982,165	—	—	18,787,256	6,347,083	—	—

A.2 Financial hedging Derivatives: positive and negative fair values by product

Types of Derivatives	positive and negative fair values								Change in the value used to calculate the ineffectiveness of the hedge	
	30/6/20				30/6/19				30/6/20	30/6/19
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	5,093	—	—	—	6,505	—	—	—	—
b) Interest rate swap	416,547	49,644	—	—	305,510	96,710	—	—	241,478	356,659
c) Cross currency swap	—	365	—	—	—	1,138	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	416,547	55,102	—	—	305,510	104,353	—	—	241,478	356,659
2. Negative fair value										
a) Options	—	8,140	—	—	—	14,209	—	—	—	—
b) Interest rate swap	56,317	68,094	—	—	50,302	120,038	—	—	141,854	85,399
c) Cross currency swap	—	—	—	—	—	101	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	56,317	76,234	—	—	50,302	134,348	—	—	141,854	85,399

A.3 OTC financial hedging Derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	23,863,465	5,065,787	602,929	—
- positive fair value	416,547	44,348	10,388	—
- negative fair value	56,317	72,112	4,122	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	298,268	15,181	—
- positive fair value	—	331	35	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC financial hedging Derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	7,535,427	15,567,909	6,428,845	29,532,181
A.2 Financial derivative contracts on equity securities and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	313,449	—	313,449
A.3 Financial derivative on goods	—	—	—	—
A.5 Other financial Derivatives	—	—	—	—
Total 30/06/20	7,535,427	15,881,358	6,428,845	29,845,630
Total 30/06/19	6,216,016	13,650,138	5,268,185	25,134,339

C. Non Derivatives hedging instruments

C.1 Hedging instruments other than Derivatives: breakdown by accounting portfolio and hedge type

	Book value			Change in the value used to relieve the ineffectiveness of the hedge		
	Fair value hedges	Coverage of financial flows	Coverage of foreign investment	Fair value hedges	Coverage of financial flows	Coverage of foreign investment
Financial assets other than Derivatives	—	—	—	—	—	—
of which: trading activities	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/06/20	—	—	—	—	—	—
Total 30/06/19	—	—	—	—	—	—
Financial liabilities other than Derivatives	—	—	—	—	—	—
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	—	—	—	—
Total 30/06/20	—	—	—	—	—	—
Total 30/06/19	—	—	—	—	5,417	—

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets						
1. Financial assets at fair value with impact taken to comprehensive income - hedges of:	1,080,087	—	9,557	—	333	—
1.1 Debt securities and interest rate	1,080,087	—	9,557	—	333	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	3,581,404	—	17,958	—	10,864	—
2.1 Debt securities and interest rate	3,581,404	—	17,958	—	10,864	X
2.2 Equity securities and stock price indices	—	—	—	—	—	X
2.3 Currencies and gold	—	—	—	—	—	X
2.4 Credits	—	—	—	—	—	X
2.5 Other	—	—	—	—	—	X
Total 30/06/20	4,661,491	—	27,515	—	11,197	—
Total 30/06/19	4,647,306	—	24,557	—	30,100	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	23,229,975	—	383,679	—	102,781	—
1.1 Debt securities and interest rate	23,229,975	—	383,679	—	102,781	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/06/20	23,229,975	—	383,679	—	102,781	—
Total 30/06/19	14,731,229	—	304,272	—	270,791	—

3.3 Other information on derivative instruments (trading and hedging instruments)

A. Financial and credit Derivatives

A.1 OTC financial and credit Derivatives: net fair value by counterparty

	Central counterparty	Banks	Other financial companies	Other entities
A. Financial Derivatives				
1) Debt securities and interest rates				
- notional amount	66,008,914	35,269,548	9,747,897	7,172,459
- positive fair value	416,767	911,292	182,653	343,355
- negative fair value	550,000	493,631	355,815	49,179
2) Equity instrument and stock index				
- notional amount	—	14,190,349	7,615,817	1,752,038
- positive fair value	—	455,596	293,860	258,618
- negative fair value	—	1,734,111	311,287	11,989
3) Currency and gold				
- notional amount	—	5,847,480	1,872,964	2,001,044
- positive fair value	—	81,772	67,404	67,694
- negative fair value	—	85,876	15,963	51,656
4) Goods				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit Derivatives				
1) Hedge purchase				
- notional amount	3,676,182	10,745,213	12,065,666	—
- positive fair value	—	60,939	21,654	—
- negative fair value	3,611	267,367	75,719	—
2) Hedge sale				
- notional amount	3,626,146	10,268,589	11,182,458	—
- positive fair value	—	54,491	48,526	—
- negative fair value	14,009	42,932	15,721	—

4. LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process which is a typical part of banking activity.

Liquidity risk has different timing profiles:

– the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term ("liquidity risk");
– the risk of the Bank not having stable sources of financing in the medium or long term, meaning it is unable to meet its financial requirements without incurring an excessive increase in the cost of financing ("funding risk").

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Group and the financial system in general, given that a single bank's difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

The Group Liquidity Risk Management Policy (the "Policy") approved by the Board of Directors of Mediobanca S.p.A. sets the objective of having an adequate level of highly liquid assets to cover the cash flows to be maintained over the short and medium/long term.

The Policy also sets out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system, and the contingency funding plan.

The Policy assigns various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The Group ALM Committee also discusses the issues most relevant to liquidity risk, defining the asset and liability structure and related risk of mismatch between them taken on, directing operations in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated level.

The parent company units responsible for ensuring that the Policy is applied accurately are:

– Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
– Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management which, in accordance with the principles of separation and independence, is responsible for the Group's second-level integrated control for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

In accordance with the Policy, the Group calculates and monitors the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the twelve months both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, at all times remained above the regulatory limits set. In response to the Covid-19 pandemic, in March 2020 the European Central Bank introduced temporary measures to increase banks' reserves in order to help address the crisis. Banks were therefore allowed to let their liquidity indicators fall to below the regulatory limits, and measures were adopted to relax the criteria for collateral eligibility at the Eurosystem level, to help credit institutions maintain and mobilize sufficient collateral to take part in the liquidity injection operations. These measures, which were adopted by the ECB's Governing Council on 7 April 2020, were then reinforced on 22 April 2020 in order to mitigate the adverse impact of possible rating downgrades due to the economic consequences of Covid-19 on the availability of collateral for the Eurosystem.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors and/or from situations which are specific to the Banking Group itself.

To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

– an adequate level of high-quality, highly liquid assets to offset any mismatches, extended or otherwise;
– precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
– a robust stress testing framework which is updated regularly;
– an efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable pre-alarm indicator system.

1. *Financial assets and liabilities by contractual outstanding life*

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	3,928,526	187,158	903,710	1,385,612	2,094,365	4,478,276	4,290,139	25,915,088	7,819,700	219,721
A.1 Government securities	1,338	788	1,623	2,351	7,150	532,155	341,583	3,368,689	1,511,466	
A.2 Other debt securities		26,867	5,523	26,626	290,196	1,454,604	1,732,322	2,792,806	957,902	
A.3 UCITS units										
A.4 Loans and advances	3,927,188	159,503	896,564	1,356,635	1,797,019	2,491,517	2,216,234	19,753,593	5,350,332	219,721
- to banks	1,549,859	81,383	399,285	111,589	725,884	1,079,109	1,068,569	9,737,123	4,692,108	219,721
- to customers	2,377,329	78,120	497,279	1,245,046	1,071,135	1,412,408	1,147,665	10,016,470	658,224	
Cash liabilities	21,451,174	126,861	734,585	477,762	602,874	2,408,002	4,474,063	16,910,848	5,977,829	—
B.1 Deposits and current accounts	20,109,063	—	—	—	—	—	—	—	—	—
- to banks	15,124,643									
- to customers	4,984,420									
B.2 Debt securities	837	136	13,338	5,647	127,261	782,032	1,537,827	9,377,908	4,350,999	
B.3 Other liabilities	1,341,274	126,725	721,247	472,115	475,613	1,625,970	2,936,236	7,532,940	1,626,830	
Off-balance-sheet transactions										
C.1 Financial Derivatives with exchange of principal										
- long positions	435,946	178,737	116,898	2,762,274	994,245	997,340	602,785	2,398,873	267,905	—
- short positions	103,405	174,587	129,856	2,085,622	789,404	2,922,299	522,353	3,506,512	267,905	—
C.2 Financial Derivatives without principal exchange of										
- long positions	2,164,541	6,999	10,180	2,985	28,788	43,892	103,967	—	—	—
- short positions	2,019,587	4,051	2,731	6,733	16,525	31,485	72,397	—	—	—
C.3 Deposits and loans for collection										
- long positions	508,749	121,256	370,128	46,939	84,952	217,695	75,049	109,381		—
- short positions	—	—	—	44,651	81,557	168,649	73,747	822,266	343,281	—
C.4 Irrevocable commitments to disburse funds										
- long positions		22,772				156,656	2,078	911,348	737,621	—
- short positions	589,799	76,011	420,347	282,154	61,150	219,486	72,856	108,671		—
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit Derivatives with exchange of principal										
- long positions	—	—	—	—	4,000	438,650	90,186	2,103,653	246,241	—
- short positions	—	—	—	—	4,000	444,650	120,186	2,275,931	37,963	—
C.8 Credit Derivatives without exchange of principal										
- long positions	200,882	—	—	—	—	—	—	—	—	—
- short positions	283,511	—	—	—	—	—	—	—	—	—

* This item does not include hedge sales perfectly matched by buys of the same amount.

5. OPERATIONAL RISK

QUALITATIVE INFORMATION

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirement for operational risks

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at 30 June 2020 was 109,0m (117,3m last year).

Risk mitigation

Operational risks are managed, in Mediobanca and the main Group companies, by a specific Operational risk management team within the Risk Management unit.

The processes of identifying, assessing, collecting and analysing loss data and mitigating operational risks are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

The operating losses recorded in the course of the financial year have been low and account for under 1% of the Group's total income.

As for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.

Event Type	% on Total Loss
Execution, delivery and process management	80%
Employment practices and workplace safety	14%
Clients, products and business practices	3%
Other	3%
Total	100%

Potential operational risks (based on estimates), operational risks are higher than they have been in the past because of launch of the Wealth Management business. The potential risk of low frequency/high severity events remains highg inherent in businesses which feature non-standard and large-sized transactions, such as CIB and in part Wealth Management. Operational risks have been mitigated and continue to be mitigated on an ongoing basis through an increase in the risk assessment and monitoring framework and enhancement of the governance and first-level controls.

With reference to IT risk in particular, an IT Governance unit has been set up which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans at Group level.

With regard to the IT incidents generated by the outsourcer responsible for managing the Group's technology infrastructure, a series of activities are currently in progress which, pending a more wide-ranging revision of the contract in force, include measures to strengthen governance of the service provided, and schedule actions in the short and medium term to guarantee the systems' levels of resilience still further.

Litigation risk: risks deriving from cases outstanding

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B - Liabilities on pp. 577-580.

Other risks

For a more in-depth description of the other risks, reference is made to Part E-Market Risks - Other Risks in the Notes to the Consolidated Accounts.

Part F - Information on capital

SECTION 1

Capital of the company

QUANTITATIVE INFORMATION

B.1 Net equity: compositio

Voci/Valori	30/06/20	30/06/19
1. Share capital	443,617	443,608
2. Share premium reserve	2,195,606	2,195,606
3. Reserves	2,192,792	2,217,665
- earnings	2,053,976	2,076,320
a) legal	88,722	88,704
b) statutory	1,029,580	1,157,437
c) treasury shares	231,538	141,989
d) others	704,136	688,190
- others	138,816	141,345
4. Equity instruments	—	—
5. Treasury shares	(231,538)	(141,989)
6. Valuation reserves:	73,982	85,744
- Equity instruments valued at fair value with impact taken to comprehensive income	61,743	59,562
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	8,771	24,161
- Tangible assets	—	—
- Intangible assets	—	—
- Hedging of foreign investments	—	—
- Hedging of cash flows	—	(3,432)
- Hedging instruments [not designated instruments]	—	—
- Exchange differences	—	—
- Non-current assets and group of assets being sold	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	(1,724)	—
- Actuarial gains (losses) on defined benefits pension schemes	(4,440)	(4,179)
- Valuation reserves share of equity-accounted interests	—	—
- Extraordinary revaluation laws	9,632	9,632
Net profit (loss) for the period	39,359	386,245
Total	4,713,818	5,186,879

For further information, please see Section 14 “Capital of the company - Headings 110, 130, 140, 150, 160, 170 and 180”.

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	30/6/20		30/6/19	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	19,410	(10,639)	30,585	(6,424)
2. Equity securities	64,851	(3,108)	60,278	(716)
3. Loans	—	—	—	—
Total	84,261	(13,747)	90,863	(7,140)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	24,161	59,562	—
2. Increases	14,793	21,260	—
2.1 Increases in fair value	11,311	21,260	—
2.2 Credit risk writedowns	3,178	X	—
2.3 P&L recycling of negative reserves due to realization	304	X	—
2.4 Transfers to other net equity components (equity instruments)	—	—	—
2.5 Other variations	—	—	—
3. Decreases	30,184	19,078	—
3.1 Reductions in fair value	15,384	19,078	—
3.2 Credit risk writebacks	321	—	—
3.3 P&L recycling of positive reserves:	14,479	—	—
-due to realization	14,479	—	—
3.4 Transfers to other net equity components (equity instruments)	—	—	—
3.5 Other variations	—	—	—
4. Closing balance	8,770	61,744	—

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception, one of the distinguishing features of Mediobanca has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines. The surplus capital is justified by the type of operations performed by the Bank on the corporate market.

2.1 Own funds

Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV), Capital Requirements Regulation (CRR/CRR II) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285 as amended,[1] the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024.[2]

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, since last year last year (IFRS 9 first-time adoption) the Group has applied the static approach provided by Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of neutralizing the effect of the increase in loan loss provisions for performing loans for a transitional period of five years,[3] by including a decreasing amount of loan loss provisions in CET1 over that time.

[1] Including the recent updates in response to the current economic situation contained in the "Quick Fix" banking package approved by the European Parliament and Commission on 19 June 2020.

[2] Application of Article 471 is limited to the book value recorded in December 2012 and compliance with the concentration limit versus large insurance groups. The most recent update to Bank of Italy circular no. 285 has amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the "Danish Compromise") are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group's investment in Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

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

For the moment the Group has decided not to take up the option to extend the phase-in regime (for another five years) to mitigate the impact on own funds of higher IFRS 9-related adjustments due to Covid-19, and to neutralize the impact deriving from changes in the valuation reserves for sovereign debt securities and the filter for excluding certain exposures to central banks from the those used to calculate the leverage ratio.

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €70.5m of the positive FVOCI financial assets reserves, €1.5m in government securities), plus profit for the period (€39.4m) which has been included in full in the calculation of CET1 following the ECB Recommendation not to pay dividends during the Covid-19 pandemic.

The deductions regard:

- Treasury shares as to €267.1m;
- Intangible assets as to €32.4m, slightly lower than last year (€35.7m);
- Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €45.6m (30/6/19: €47.5m);
- Interests in financial companies (banking and insurance firms) exceeding the limits set, totalling €22.3m, lower than the figure reported at end-June 2019 (€144.9m) due to the new concentration limit versus Assicurazioni Generali.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes subordinated liabilities, down in the twelve months from €1,522.7m to €1,225.1m due to prudential amortization, plus the buffer consisting of the difference between the higher value adjustments booked and the prudential expected losses linked to the AIRB models, which reflect a surplus of €49.4 m (versus €2.6 m last year).

No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

Issue	**30/6/20**		
	ISIN	**Gross nominal value**	**Book value***
MB Subordinato Mar 29	XS1579416741	50,000	48,502
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	45,194
MB OPERA 3.75 2026	IT0005188351	299,577	291,632
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	73,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,129
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	275,975
Total subordinated debt securities		**2,359,032**	**1,225,145**

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

QUANTITATIVE INFORMATION

	30/6/20	**30/6/19**
A. Common equity tier 1 (CET1) prior to application of prudential filters	4,713,818	4,678,052
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(43,843)	(44,088)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	4,669,975	4,633,964
D. Items to be deducted from CET1	(841,325)	(959,383)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime*	789,098	781,643
F. Total common equity tieer 1 (CET1) (C-D+/-E)	4,617,748	4,456,224
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,274,512	1,525,335
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(203,186)	(313,084)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,071,326	1,212,251
Q. Total own funds (F+L+P)	5,689,074	5,668,475

* Adjustments include application of the phase-in provisions for the introduction of IFRS 9

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

As at 30 June 2020, the Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.81%, higher than last year (14.37%) due to the entire profit for the year being included in the calculation (adding 15 bps), plus the lower deductions relating to the investment in Assicurazioni Generali as a result of the change in the concentration limit (which added 35 bps, including the changes to the other significant investments), which was only in part offset by the increase in RWAs (down 5 bps, from €31,006m to €31,179m).

The total capital ratio was stable at 18.25% (18.28%).

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (accounting for €786.6m, including the indirect effects) and with full application of the IFRS 9 effect (which accounted for -€2.5m, considering the indirect effects), the CET1 ratio was 13.72% and the total capital ratio 17.56%, also higher than the figures reported at end-June last year, which were 13.09% and 17.41% respectively.

The Leverage Ratio, calculated without taking advantage of the temporary possibility allowed by the regulator to exclude reserves held with central banks from the exposures, was 8.5% (30/6/19: 7.9%), well above the regulatory limit set (3%). Fully-loaded, the ratio declines to 7% (6.5%).

B. QUANTITATIVE INFORMATION

Categories/Values	Unweighted amounts*		Weighted amounts/requirements	
	30/6/20	30/6/19	30/6/20	30/6/19
A. RISK ASSETS				
A.1 Credit and counterpart risk	63,568,870	62,062,073	26,789,357	26,417,930
1. Standard methodology	46,478,456	46,695,828	17,454,541	17,714,112
2. Internal rating methodology	16,954,307	15,209,628	9,145,650	8,583,698
2.1 Basic	16,954,307	15,209,628	9,145,650	8,583,698
2.2 Advanced	—	—	—	—
3. Securitization	136,107	156,617	189,167	120,120
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			2,143,148	2,113,434
B.2 Credit valuation risk			43,764	49,712
B.3 Settlement risk			—	—
B.4 Market risk			198,459	199,990
1. Standard methodology			198,459	199,990
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			108,980	117,328
1. Basic Indicator Approach (BIA)			108,980	117,328
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			2,494,351	2,480,464
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			31,179,392	31,005,802
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.81%	14.37%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.81%	14.37%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.25%	18.28%

(*) For the standardized methodology, the "un-weighted amounts", as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the "un-weighted amounts" correspond to the "exposure at default" (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G - Combinations involving Group companies or business units

SECTION 1: TRANSACTIONS COMPLETED DURING THE PERIOD

No new business combinations were completed during the twelve months.

However, the purchase price allocation process for acquisition of a controlling interest in Messier Maris & Associés executed in April 2019 was completed during the year under review.

SECTION 2: TRANSACTIONS COMPLETED SINCE THE REPORTING DATE

No transactions have taken place since the reporting date.

SECTION 3: RETROSPECTIVE ADJUSTMENTS

No adjustments have been made to the accounts in connection with previous business combinations for the period under review.

Part H - Related party disclosure

1. Board member and senior management remuneration

Remuneration paid to directors, statutory auditors and management with strategic responsibilities (pursuant to Consob resolution no. 18049 of 23 December 2011)

	Compensation			
	Emoluments payable in connection to poat	Non-cash benefits*	Bonuses and other incentives	Other compensations
BOARD OF DIRECTORS[1]	1,845.0	1,086.3	1,592.3	5,100.0
of which: management	—	*1,086.3*	*1,592.3*	*5,100.0*
MANAGEMENT with strategic responsibilities[2]	—	346.3	1,238.2	4,085.8
STATUTORY AUDIT COMMITTEE[3]	368.0	—	—	—

* Includes the value of fringe benefits (according to which items are taxable), including insurance policies and complementary pension schemes, and hence does not include costs in respect of equity payments equal to €3.1m

1 Includes fifteen directors in office at 30 June 2020.

2 Includes eight strategic managers at 30 June 2020.

3 Includes three statutory auditors in office at 30 June 2020.

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in June 2019 and last July. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

1.1 Regular financial disclosure: most significant transactions

There were no such transactions to report during the financial year under review.

1.2 Quantitative information

The exposure to non-Group companies (representing the sum of assets plus guarantees and commitments) decreased during the year under review, from €1.4bn to €1.1bn, following the exit of the Unicredit Group due to the sale of its investment in Mediobanca. The contribution to the total assets therefore decreases from 2.1% to 1.7% as well as the contribution to net interest income (from 3.4% to 1.7%).

Situation as at 30 june 2020

(€ m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related party	Total
Assets	22,868.3	—	326.2	707.8	23,902.3
of which: other assets	*5,900.2*	—	*70.4*	*516.8*	*6,487.4*
loans and advances	*16,968.1*	—	*255.8*	*191.0*	*17,414.9*
Liabilities	17,579.3	—	0.1	28.3	17,607.7
Guarantees and commitments	7,534.2	—	14.0	22.8	7,571.0
Interest income	300.7	—	7.1	5.2	313.0
Interest expense	(226.9)	—	—	(0.2)	(227.1)
Net fee income	17.0	—	0.9	1.2	19.1
Other income (cost)	136.2	(22.5) [1]	(0.1)	(11.1)	102.5

[1] Of which: short-term benefits amounting to €19.3m and performance shares worth €3.1m. The figure refers to the eight staff members included in the definition of management with strategic responsibilities

Situation as at 30 june 2019

(€ m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related party	Total
Assets	23,337.8	—	355.1	1,007.7	24,700.6
of which: other assets	*6,880.5*	—	*138.8*	*771.7*	*7,791.0*
loans and advances	*16,457.3*	—	*216.3*	*236.0*	*16,909.6*
Liabilities	18,557.9	—	0.1	389.9	18,947.9
Guarantees and commitments	8,656.9	—	10.0	—	8,666.9
Interest income	335.2	—	8.9	15.2	359.3
Interest expense	(223.2)	—	—	—	(223.2)
Net fee income	14.0	—	0.5	7.0	21.5
Other income (cost)	241.8	(21.2) [1]	0.3	(21.2)	199.7

1 Of which: short-term benefits amounting to €18.1m and performance shares worth €3m. The figure refers to the eight staff members included in the definition of management with strategic responsibilities

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved reflect the following situation:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising option	No. of options and performance shares awarded
Stock options schemes				
28 october 2004	15,000,000	28 ottobre 2009	1 luglio 2020	12,765,000
Of which: to directors[1]	*4,000,000*	*28 ottobre 2009*	*1 luglio 2020*	*3,375,000* [2]
27 october 2007	40,000,000	27 giugno 2012	1 luglio 2022	15,536,000
Performance shares schemes				
28 october 2015	20,000,000	X	28 ottobre 2020	5,255,453 [3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] Of these, 2,000,000 were granted to one former director.

[3] In respect of awards made in 2015, 2016, 2017,2018,2019 and 2020

2. Description of stock option and performance stock option schemes

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with a dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allocated are taken in view of the role performed by the person concerned within the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2019 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2015).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;

– Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, giving to the BoD the right to issue up to 20 milion new Mediobanca shares; the 26,611,288 treasury shares owned by the Bank may also be used for this purpose.

On 19 December 2019, the Board of Directors approved the Long-Term Incentive (LTI) plan, addressed to the Mediobanca Chief Executive Officer and to Mediobanca General Manager. The beneficiaries of the LTI plan were awarded up to 276,093 Mediobanca shares, to be attributed over a five-year period after the finalization of the plan itself, from the performance shares approved by shareholders in Annual General Meeting.

During the period under review a total of 1,736,547 performance shares were awarded of which 276,093 as part of LTI 19/23 plan and 1,460,454, as part of staff variable remuneration for the 2019 financial year; the shares, which are conditional upon certain performance targets being met over a three- and/or five-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches FY 2021/22 (up to 698,539), FY 2022/23 (up to 401,034), FY 2023/24 (up to 283,556) and FY 2024/25 (up to 77,325).

Beneficiaries were also awarded a total of 1,640,426 shares, all treasury shares.

After the reporting date, as part of staff variable remuneration for the 2019 financial year, a total of 1,235,209 performance shares were awarded, at notional cost of €7.4m in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a time horizon of up to 6 years, will be made available in tranches in November 2021 (up to 598,598), November 2022 (up to 155,810), November 2023 (up to 263,802), November 2024 (up to 109,007) and November 2025 (up to 107,992).

QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/20			30/6/19		
	No. of option	Avg. price	Avg. maturity	No. of option	Avg. price	Avg. maturity
A. Balance at start of period	—	—	0	642,500	6.51	Ottobre 2019
B. Additions						
B.1 New issues			X	—	—	X
B.2 Other additions			X	—	—	X
C. Reductions						
C.1 Performance shares canceled			X	—	—	X
C.2 Performance shares made available	—	—	X	642,500	6.43	X
C.3 Performance shares expired			X	—	—	X
C.4 Other reductions			X	—	—	X
D. Balance at end of period	—	—		—		
E. Performance shares exercisable as at reporting date	—	—	X	—		X

2. Changes to performance share scheme during the period

	30/6/20		30/6/19	
	No. of performance shares	Avg. price	No. of performance shares	Avg. price
A. Balance at start of period	4,659,074	6.80	4,777,174	6.67
B. Additions				
B.1 New issues	1,736,547	7.38	1,639,456	6.73
B.2 Other additions			—	—
C. Reductions				
C.1 Performance shares canceled			—	—
C.2 Performance shares made available	1,640,426	6.99	1,757,556	6.36
C.3 Performance shares expired			—	—
C.4 Other reductions	30,391	6.82	—	6.99
D. Balance at end of period	4,724,804	6.95	4,659,074	6.80

Part M - Disclosure on leasing

SECTION 1

Lessee

QUALITATIVE INFORMATION

With reference to IFRS 16 coming into force and the contracts which fall within its scope of application, virtually the only leases the Mediobanca Group has outstanding in this connection are for properties and company cars, plus some hardware leases for only a residual amount. The property leases mostly involve premises used as offices. Such leases normally have durations of more than twelve months, and typically contain renewal or termination clauses which both lessor and lessee can exercise in accordance with the provisions of law and/or specific contractual arrangements, if any. Generally speaking such leases do not contain an option to buy at expiry or entail substantial reinstatement costs for the Bank. As for the car leases, these are long-term agreements for the fleet of company cars available for use by staff members for work-related purposes in accordance with Group policy in this area. Lease contracts, other than those related to properties and vehicles, are of negligible amount.

At the first-time adoption stage for IFRS 16, some simplifications have been used as allowed by the standard itself. In particular, leases with duration of twelve months or less (“short-term leases”) have been excluded, as have those involving amounts of less than €5,000 (“low value leases”), and those for intangibles. It has also been decided not to strip out the service component from the lease proper; hence the full contract has been recognized. The discount rate used has been derived from the Funds Transfer Pricing curve used in treasury management by the Group Treasury unit.

In cases where the original lease has been replicated with another counterparty (i.e. sub-leased), the related liability is matched by an amount receivable from the counterparty at the date rather than by its value in use. Sub-leasing arrangements involve only negligible amounts.

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Bank's financial and earnings situation, reference is made to the contents of the following sections of the Notes to the Accounts:

- Information on rights of use acquired, in "Notes to the consolidated balance sheet – Assets – Section 8";
- Information on amounts due under leases, in the "Notes to the consolidated balance sheet – Liabilities – Section 1";
- For the effects on earnings, "Part C Notes to the consolidated profit and loss account", in particular the headings for interest income and expense and net adjustments to tangible assets.

The value in use recorded in the balance sheet at 30 June 2020 was €22,717,000, broken down as follows:

- Value in use of properties: €18,518,000;
- Value in use of vehicles: €4,105,000;
- Value in use of other assets: €94,000;

The increase in assets on the balance sheet had a 1 bps impact on RWAs at 30 June 2020.

SECTION 2

Lessor

QUALITATIVE INFORMATION

With reference to contracts covered by the new IFRS 16, the only ones that are relevant for Mediobanca are sub-leasing contracts for properties. These contracts, which form part of finance lease operations, are not recurring and involve negligible amounts (€2.3m as at end-June 2020).

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Bank's financial and earnings situation, reference is made to the contents of the relevant sections of the Notes to the Accounts:

– for information on amounts due under sub-leases, "Part B Notes to the balance sheet – Assets – Section 4"
– for the effects on earnings, "Part C Notes to the profit and loss account", specifically under the items interest income and interest expense and net adjustments to tangible assets.

1. Balance-sheet and earnings data

2. Finance leases

2.1 Maturity analysis of lease payments receivable by timing bracket and reconciliation of undiscounted lease payments to the net investment in the lease

Time bands	**30/06/20**
	Lease payment to be received
Up to 1 year	454
Between 1 and 2 years	453
Between 2 and 3 years	450
Between 3 and 4 years	444
Between 4 and 5 years	444
Over 5 years	112
Total lease payments to be received	**2,357**
Reconciliation with loans	**(65)**
Not accrued gains (+)	(65)
Unguaranteed residual value (-)	—
Loans for leases	**2,292**

As permitted by IFRS 16, the Bank has decided not to restate comparative data in connection with the first-time adoption of the new standard. Accordingly, the table does not contain the equivalent balances as at 30 June 2019.

The table provides a maturity analysis of the lease payments receivable, and a reconciliation of the undiscounted lease payments to the net investment in the lease, as required by IFRS 16, paragraph 94. In particular it should be noted that the payments receivable under the lease, which consist of the sum of minimum payments due by way of principal and interest, are stated net of any provisions and the discounted unguaranteed residual value due to the lessor. These are reconciled with the net investment in the lease, recognized in the balance sheet under financial assets recognized at amortized cost, by subtracting financial profits not accrued and adding the unguaranteed residual value. Non-performing leases acquired are not included.

3. *Operating leases*

The Group currently has no operating leases outstanding.

ANNEXES

Consolidated financial statements
Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth updat

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

– The heading "Treasury financial assets" includes "Cash and cash equivalents" (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively), plus certain items booked as "Other assets" (heading 130);

– The heading "Banking book securities" includes the debt securities booked as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);

– The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";

– The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (heading 60) for loans and receivables;

– The heading "Other assets" includes the amounts booked under headings 130 "Other assets", 110 "Tax assets" and 50 "Hedging derivatives", and the sundry debtor items booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b);

As for Liabilities:

- he heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
- The heading “Treasury financial liabilities” includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
- The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

Balance sheet as at 30 June 2020 - Assets

(€ m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	3,220.0	—	—	—	—	—	3,220.0
20. Financial assets at fair value with impact taken to profit and loss	8,818.6	—	53.1	50.3	663.3	—	—	9,585.3
a) Financial assets held for trading	*8,818.6*	—	—	—	—	—	—	*8,818.6*
b) Financial assets designated at fair value	—	—	*51.0*	—	—	—	—	*51.0*
c) Other financial assets mandatorily at fair value	—	—	*2.1*	*50.3*	*663.3*	—	—	*715.7*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,485.9	—	141.7	—	—	3,627.6
40. Financial assets at amortized cost	—	6,037.0	3,285.5	46,634.8	—	—	—	55,957.3
50. Hedging derivatives	—	—	—	—	—	—	464.7	464.7
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,204.7	—	—	3,204.7
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	495.8	—	495.8
100. Intangible assets	—	—	—	—	—	816.0	—	816.0
110. Tax assets	—	—	—	—	—	—	908.8	908.8
120. Assets classified as held for sale	—	—	—	—	—	—	—	—
130. Other assets	—	—	—	—	—	—	669.5	669.5
Total assets	**8,818.6**	**9,257.0**	**6,824.5**	**46,685.1**	**4,009.7**	**1,311.8**	**2,043.0**	**78,949.7**

Balance sheet as at 30 June 2020 - Liabilities

(€ m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	54,701.0	3,988.0	—	252.4	—	—	58,941.4
a) Due to banks	*9,998.6*	*2,807.0*	—	*4.7*	—	—	*12,810.3*
b) Due to customers	*24,944.7*	*1,181.1*	—	*247.5*	—	—	*26,373.3*
c) Debt securities in issue	*19,757.7*	—	—	*0.2*	—	—	*19,757.9*
20. Trading financial liabilities	—	—	7,956.9	—	—	—	7,956.9
30. Financial liabilities designated at fair value	216.0	—	—	—	—	—	216.0
40. Hedging derivatives	—	—	—	465.2	—	—	465.2
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	517.3	—	—	517.3
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	—	—	798.2	—	—	798.2
90. Staff severance indemnity provision	—	—	—	—	27.9	—	27.9
100. Provisions	—	—	—	—	129.5	—	129.5
110. Insurance reserves	—	—	—	157.2	—	—	157.2
120. Revaluation reserves	—	—	—	—	—	374.7	374.7
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	**—**	**—**	**—**	**—**	**—**	**—**	**—**
150. Reserves	**—**	**—**	**—**	**—**	**—**	**6,265.8**	**6,265.8**
160. Share premium reserve	**—**	**—**	**—**	**—**	**—**	**2,195.6**	**2,195.6**
170. Share capital	**—**	**—**	**—**	**—**	**—**	**443.6**	**443.6**
180. Treasury share (-)	**—**	**—**	**—**	**—**	**—**	**(231.5)**	**(231.5)**
190. Minority interests (+/-)	**—**	**—**	**—**	**—**	**—**	**91.5**	**91.5**
200. Profit/(loss) for the period (+/-)	**—**	**—**	**—**	**—**	**—**	**600.4**	**600.4**
Total liabilities and net equity	**54,917.0**	**3,988.0**	**7,956.9**	**2,190.3**	**157.4**	**9,740.1**	**78,949.7**

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, fifth update

The profit and loss account shown in the Review of operations reflects the following restatements:

- "Net interest income" includes the items stated under headings 10 "Interest and similar income", 20 "Interest and similar expense", the margins on derivatives trading stated under heading 80 "Net trading income", and the net profit or loss on hedges of customer loans and funding stated under heading 90 "Net hedging income";
- "Net treasury income" contains the amounts stated under heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for amounts booked as Net interest income and considering that the heading includes €18.1m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 "Net gains (losses) on disposals/repurchases", the share of securities lending transactions stated under headings 40 "Fee and commission income" and 50 "Fee and commission expense", and the share of heading 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" not related to lending funds;
- The heading "Net fee and commission income" contains the amounts stated under heading 60 "Net fee and commission income", the operating income stated under heading 230 "Other operating income (expense)", and the writebacks due to collections on NPLs acquired stated under heading 130 "Net writeoffs (writebacks) for credit risk" and the "Net profit from insurance activities" of headings 160 and 170;
- The heading "Loan loss provisions" contains the amounts relating to loans stated under headings 130 "Net value adjustments for credit risk" (net of the writebacks to NPLs), 100 "Net gains (losses) on disposals/repurchases", 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" and 140 "Gain (losses) from contractual modifications without derecognition" and the share of heading 200 "Net transfers to provisions – a) commitments and guarantees issued" related to leasing;

- The heading “Gains (losses) on disposal of equity holdings” contains the earnings effects of the Group’s holdings in equity investments stated under headings 250 “Gains (losses) on equity investments” while the effects of securities and funds stated under heading 110 “Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value” are reclassified under heading “Provisions for other financial assets”;
- The heading “Operating costs” includes amounts booked under heading 190 “Administrative expenses”, net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading “Other income (losses)” contains the non-recurring costs stated under heading 190 “Administrative expenses”, in particular contributions to the Single Resolution Fund and Deposit Guarantee scheme, amounts set aside in respect of refurbishments, and depreciation/amortization of tangible and/or intangible assets.

Profit and loss account as at 30 June 2020

(€ m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	1,941.8	1.1	—	—	—	—	—	1.0	—	—	1,943.9
20. Interest expense and similar charges	(491.3)	(7.6)	—	—	—	—	—	(3.3)	—	—	(502.2)
30. Net interest income	**1,450.5**	**(6.5)**	**—**	**—**	**—**	**—**	**—**	**(2.3)**	**—**	**—**	**1,441.7**
40. Fee and commission income	1.4	12.1	611.8	—	—	—	—	—	—	—	625.3
50. Fee and commission expense	—	(10.8)	(127.8)	—	—	—	—	—	—	—	(138.6)
60. Net fee and commission income	**1.4**	**1.3**	**484.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**486.7**
70. Dividends and similar income	—	87.4	—	—	—	—	—	—	—	—	87.4
80. Net trading income	(4.9)	(13.1)	—	—	—	—	—	—	—	—	(18.0)
90. Net hedging income (expense)	(4.8)	—	—	—	—	—	—	—	—	—	(4.8)
100. Gain (loss) on disposal/repurchase	—	64.9	—	—	—	(6.5)	—	—	—	—	58.4
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	2.3	—	—	—	42.4	(11.7)	—	—	—	33.0
120. Total income	**1,442.2**	**136.3**	**484.0**	**—**	**—**	**35.9**	**(11.7)**	**(2.3)**	**—**	**—**	**2,084.4**
130. Net writeoffs (writebacks) for credit risk	—	—	13.6	—	—	(407.1)	(8.8)	—	—	—	(402.3)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	(0.3)		—	—	—	(0.3)
150. Net income from financial operations	**1,442.2**	**136.3**	**497.6**	**—**	**—**	**(371.5)**	**(20.5)**	**(2.3)**	**—**	**—**	**1,681.8**
160. Premiums earned (net)	—	—	57.5	—	—	—	—	—	—	—	57.5
170. Other income (net) from insurance activities	—	—	(15.8)	—	—	—	—	—	—	—	(15.8)
180. Net profit from financial and insurance activities	**1,442.2**	**136.3**	**539.3**	**—**	**—**	**(371.5)**	**(20.5)**	**(2.3)**	**—**	**—**	**1,723.5**
190. Administrative expenses	—	—	(1.0)	—	(1,167.9)	—	—	(66.5)	—	—	(1,235.4)
200. Net transfers to provisions	—	—	—	—	(3.9)	(3.4)	—	21.0	—	—	13.7
210. Net adjustments to tangible assets	—	—	—	—	(53.6)	—	—	—	—	—	(53.6)
220. Net adjustments to intangible assets	—	—	—	—	(30.2)	—	—	—	—	—	(30.2)
230. Other operating income (expense)	—	—	91.9	—	66.7	—	—	33.6	—	(2.8)	189.4
240. Operating costs	**—**	**—**	**90.9**	**—**	**(1,188.9)**	**(3.4)**	**—**	**(11.9)**	**—**	**(2.8)**	**(1,116.1)**
250. Gain (loss) on equity investments	—	—	—	304.2	—	—	—	—	—	—	304.2
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill writeoffs	—	—	—	—	—	—	—	(96.9)	—	—	(96.9)
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	0.1	—	—	0.1
290. Profit (loss) on ordinary activity before tax	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(111.0)**	**—**	**(2.8)**	**814.8**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	(22.4)	(191.0)	—	(213.4)
310. Profit (loss) on ordinary activities after tax	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(2.8)**	**601.4**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(2.8)**	**601.4**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	(1.0)	(1.0)
350. Net profit (loss) for the period attributable to Mediobanca	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(3.8)**	**600.4**

Mediobanca S.p.A.: Reconciliation of Financial Statements

Mediobanca S.p.A. financial statements
Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

– The heading "Treasury financial assets" includes "Cash and cash equivalents" (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively), plus certain items booked as "Other assets" (heading 130);

– The heading "Banking book securities" includes the debt securities booked as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);

– The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";

– The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (heading 60) for loans and receivables;

– The heading "Other assets" includes the amounts booked under headings 130 "Other assets", 110 "Tax assets" and 50 "Hedging derivatives", and the sundry debtor items booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b);

As for Liabilities:

- The heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
- The heading “Treasury financial liabilities” includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
- The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

Balance sheet as at 30 June 2020 (€m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	3,102.0	—	—	—	—	—	3,102.0
20. Financial assets at fair value with impact taken to profit and loss	9,214.7	—	53.1	54.3	639.3	—	—	9,961.4
a) Financial assets held for trading	*9,214.7*	—	—	—	—	—	—	*9,214.7*
b) Financial assets designated at fair value	—	—	*51.0*	—	—	—	—	*51.0*
c) Other financial assets mandatorily at fair value	—	—	*2.1*	*54.3*	*639.3*	—	—	*695.7*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,485.9	—	299.0	—	—	3,784.9
40. Financial assets at amortized cost	—	7,204.8	6,053.2	30,453.1	—	—	—	43,711.1
50. Hedging Derivatives	—	—	—	—	—	—	471.6	471.6
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,150.7	—	—	3,150.7
80. Property, plant and equipments	—	—	—	—	—	139.2	—	139.2
90. Intangible assets	—	—	—	—	—	29.2	—	29.2
100. Tax assets	—	—	—	—	—	—	277.3	277.3
110. Assets classified as held for sale	—	—	—	—	—	—	—	—
120. Other assets	—	—	—	—	—	—	210.5	210.5
Total assets	**9,214.7**	**10,306.8**	**9,592.2**	**30,507.4**	**4,089.0**	**168.4**	**959.4**	**64,837.9**

Balance sheet as at 30 June 2020

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	46,057.9	4,614.1	—	26.3	—	—	50,698.3
a) Due to banks	*23,266.6*	*3,433.0*	—	*4.4*	—	—	*26,704.0*
b) Due to customers	*6,324.2*	*1,181.1*	—	*21.8*	—	—	*7,527.1*
c) Debt securities in issue	*16,467.2*	—	—	*0.2*	—	—	*16,467.4*
20. Trading financial liabilities	—	—	8,351.7	—	—	—	8,351.7
30. Financial liabilities designated at fair value	216.0	—	—	—	—	—	216.0
40. Hedging Derivatives	—	—	—	132.6	—	—	132.6
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	351.4	—	—	351.4
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	—	—	252.4	—	—	252.4
90. Staff severance indemnity provision	—	—	—	—	7.7	—	7.7
100. Provisions	—	—	—	—	113.9	—	113.9
110. Revaluation reserves	—	—	—	—	—	74.0	74.0
120. Redeemable shares repayable on demand	—	—	—	—	—	—	—
130. Equity instruments repayable on demand	—	—	—	—	—	—	—
140. Reserves	—	—	—	—	—	2,192.8	2,192.8
150. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
160. Share capital	—	—	—	—	—	443.6	443.6
170. Treasury share (-)	—	—	—	—	—	(231.5)	(231.5)
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	39.4	39.4
Total liabilities and net equity	**46,273.9**	**4,614.1**	**8,351.7**	**762.7**	**121.6**	**4,713.9**	**64,837.9**

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, sixth update

The profit and loss account shown on p. 428 reflects the following restatements:

– “Net interest income” includes the items stated under headings 10 “Interest and similar income”, 20 “Interest and similar expense”, the margins on derivatives trading stated under heading 80 “Net trading income”, and the net profit or loss on hedges of customer loans and funding stated under heading 90 “Net hedging income”;

– “Net treasury income” contains the amounts stated under heading 70 “Dividends and similar income”, heading 80 “Net trading income” (except for amounts booked as Net interest income and considering that the heading includes €18.1m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 “Net gains (losses) on disposals/repurchases”, the share of securities lending transactions stated under headings 40 “Fee and commission income” and 50 “Fee and commission expense”, and the share of heading 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” not related to lending funds;

– The heading “Net fee and commission income” contains the amounts stated under heading 60 “Net fee and commission income”, the operating income stated under heading 230 “Other operating income (expense)”, and the writebacks due to collections on NPLs acquired stated under heading 130 “Net write-offs (write-backs) for credit risk” and the “Net profit from insurance activities” of headings 160 and 170;

– The heading “Loan loss provisions” contains the amounts relating to loans stated under headings 130 “Net value adjustments for credit risk” (net of the writebacks to NPLs), 100 “Net gains (losses) on disposals/ repurchases”, 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” and 140 “Gain (losses) from contractual modifications without derecognition” and the share of heading 200 “Net transfers to provisions – a) commitments and guarantees issued” related to leasing;

- The heading "Gains (losses) on disposal of equity holdings" contains the earnings effects of the Group's holdings in equity investments stated under headings 250 "Gains (losses) on equity investments" while the effects of securities and funds stated under heading 110 "Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value" are reclassified under heading "Provisions for other financial assets";
- The heading "Operating costs" includes amounts booked under heading 190 "Administrative expenses", net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading "Other income (losses)" contains the non-recurring costs stated under heading 190 "Administrative expenses", in particular contributions to the Single Resolution Fund and Deposit Guarantee scheme, amounts set aside in respect of refurbishments, and depreciation/amortization of tangible and/or intangible assets.

Profit and loss account as at 30 June 2020

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	706.6	1.1	—	—	—	—	—	—	—	—	—	707.7
20. Interest expense and similar charges	(617.6)	(7.6)	—	—	—	—	—	—	—	(3.3)	—	(628.5)
30. Net interest income	**89.0**	**(6.5)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3.3)**	**—**	**79.2**
40. Fee and commission income	5.6	12.1	246.2	—	—	—	—	—	—	—	—	263.9
50. Fee and commission expense	(0.1)	(13.4)	(30.6)	—	—	—	—	—	—	—	—	(44.1)
60. Net fee and commission income	**5.5**	**(1.3)**	**215.6**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**219.8**
70. Dividends and similar income	—	87.3	—	104.2	—	—	—	—	—	—	—	191.5
80. Net trading income	7.6	(20.3)	—	—	—	—	—	—	(10.5)	—	—	(23.2)
90. Net hedging income (expense)	(2.2)	—	—	—	—	—	—	—	—	—	—	(2.2)
100. Gain (loss) on disposal/repurchase	—	65.6	—	—	—	—	—	—	—	—	—	65.6
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	2.3	—	—	—	—	42.4	(11.3)	—	—	—	33.4
120. Total income	**99.9**	**127.1**	**215.6**	**104.2**	**—**	**—**	**42.4**	**(11.3)**	**(10.5)**	**(3.3)**	**—**	**564.1**
130. Net writeoffs (writebacks) for credit risk	—	—	—	—	—	—	(5.9)	(10.5)	—	—	—	(16.4)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	—	—		—	—	—
150. Net income from financial operations	**99.9**	**127.1**	**215.6**	**104.2**	**—**	**—**	**36.5**	**(21.8)**	**(10.5)**	**(3.3)**	**—**	**547.7**
160. Administrative expenses	—	—	(1.0)	—	(386.2)	—	—	—	—	(39.7)	—	(426.9)
170. Net transfers to provisions	—	—	—	—	(0.7)	—	(20.8)	—	—	25.7	—	4.2
180. Net adjustments to tangible assets	—	—	—	—	(10.2)	—	—	—	—	—	—	(10.2)
190. Net adjustments to intangible assets	—	—	—	—	(3.4)	—	—	—	—	—	—	(3.4)
200. Other operating income (expense)	—	—	17.1	—	(2.2)	—	—	—	—	—	—	14.9
210. Operating costs	**—**	**—**	**16.1**	**—**	**(402.7)**	**—**	**(20.8)**	**—**	**—**	**(14.0)**	**—**	**(421.4)**
220. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(50.9)	—	—	(50.9)
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
240. Goodwill writeoffs	—	—	—	—	—	—	—	—	—	—	—	—
250. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	**99.9**	**127.1**	**231.7**	**104.2**	**(402.7)**	**—**	**15.7**	**(21.8)**	**(61.4)**	**(17.3)**	**—**	**75.4**
270. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	-22.4	(13.6)	(36.0)
280. Profit (loss) on ordinary activities after tax	**99.9**	**127.1**	**231.7**	**104.2**	**(402.7)**	**—**	**15.7**	**(21.8)**	**(61.4)**	**(39.7)**	**(13.6)**	**39.4**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
300. Net profit (loss) for the period	**99.9**	**127.1**	**231.7**	**104.2**	**(402.7)**	**—**	**15.7**	**(21.8)**	**(61.4)**	**(39.7)**	**(13.6)**	**39.4**

Table A

Asset Revaluation Statement

(€)

Revalued assets	Original revaluation	Decrease due to disposal or writedown	Current revaluation
– property in Piazzetta Enrico Cuccia 1			
(formerly Via Filodrammatici 6-8-10)			
revaluation effected under Law no. 576 of 2 december 1975	2,609,651.24	—	2,609,651.24
revaluation effected under Law no. 72 of 19 march 1983	11,620,280.23	—	11,620,280.23
revaluation effected under Law no. 413 of 30 december 1991	4,174,707.04	—	4,174,707.04
			18,404,638.51
– property in Piazza Paolo Ferrari 6			
revaluation effected under Law no. 72 of 19 march 19832	815,743.67	—	815,743.67
			815,743.67

Balance sheets and profit and loss accounts of investments in Group undertakings (including indirect investments)

Banks (IAS/IFRS) Table B

BALANCE SHEET

		COMPAGNIE MONEGASQUE DE BANQUE S.A. (*)	CheBanca! S.p.A.	COMPASS BANCA S.p.A.
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	3,722	108,475	5,791
20.	Financial assets at fair value with impact taken to profit and loss	39,707	20,253	—
	a) Financial assets held for trading	*37,510*	—	—
	b) Financial assets designated at fair value	—	—	—
	c) Other financial assets mandatorily at fair value	*2,197*	*20,253*	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	2,590
40.	Financial assets at amortized cost	5,316,001	22,946,108	11,909,150
	a) Due from banks	*3,303,358*	*12,168,404*	*22,066*
	b) Due from customers	*2,012,643*	*10,777,704*	*11,887,084*
50.	Hedging Derivatives	527	—	1,923
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	648	69	105,681
80.	Property, plant and equipments	20,068	119,559	72,103
90.	Intangible assets	13,318	9,814	354,449
	of which:			
	goodwill	—	—	*354,033*
100.	Tax assetsi	—	43,597	506,972
	a) current	—	*511*	*38,390*
	b) deferred	—	*43,086*	*468,582*
110.	Assets classified as held for sale	—	—	—
120.	Other assets	22,258	218,186	70,900
	TOTAL ASSETS	**5,416,249**	**23,466,061**	**13,029,559**

(*) Table compiled in accordance with the provisions Article 15 of Consob's Market Regulation and Article 2, 6, 2 of Borsa Italiana's Market Rules (pro forma, as at 30 June 2020, drawn up for purposes of the Group's financial statements).

Banks (IAS/IFRS) — Table B

BALANCE SHEET

		COMPAGNIE MONEGASQUE DE BANQUE S.A. (*)	CheBanca! S.p.A.	COMPASS BANCA S.p.A.
		(€/000)	(€/000)	(€/000)
	LIABILITIES			
10.	Financial liabilities at amortized cost	4,536,023	22,373,108	10,624,133
	a) Due to banks	*325,141*	*6,982,333*	*7,008,152*
	b) Due to customers	*4,210,882*	*15,390,775*	*3,615,981*
	c) Debt securities in issue	—	—	—
20.	Trading financial liabilities	1,129	—	—
30.	Financial liabilities designated at fair value	—	—	—
40.	Hedging Derivatives	900	329,274	38,866
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	—	7,254	43,198
	a) current	—	*5,283*	*39,765*
	b) deferred	—	*1,971*	*3,433*
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	39,948	206,712	144,704
90.	Staff severance indemnity provision	—	2,192	8,075
100.	Provisions	3,849	19,696	5,993
	a) commitments and financial guarantees	—	*265*	*2,840*
	b) post-employment and similar benefits	—	—	—
	c) other provisions	*3,849*	*19,431*	*3,153*
110.	Revaluation reserves	—	(645)	(24,973)
120.	Redeemable shares	—	—	—
130.	Equity instruments	—	160,000	—
140.	Reserves	690,900	(113,957)	1,356,528
150.	Share premium reserves	4,573	233,750	—
160.	Share capital	111,110	226,250	587,500
170.	Treasury shares	—	—	—
180.	Profit (loss) for the period (+/-)	27,817	22,427	245,535
	TOTAL LIABILITIES AND NET EQUITY	**5,416,249**	**23,466,061**	**13,029,559**

(*) Table compiled in accordance with the provisions Article 15 of Consob's Market Regulation and Article 2, 6, 2 of Borsa Italiana's Market Rules (pro forma, as at 30 June 2020, drawn up for purposes of the Group's financial statements).

Banks (IAS/IFRS)

PROFIT AND LOSS

	COMPAGNIE MONEGASQUE DE BANQUE S.A. (*)	CheBanca! S.p.A.	COMPASS BANCA S.p.A.
	(€/000)	**(€/000)**	**(€/000)**
10. Interest and similar income	64,333	340,202	1,052,660
of which: interest income calculated according to the effective interest method	—	*169,868*	*1,051,675*
20. Interest expense and similar charges	(18,893)	(125,126)	(151,468)
30. Net interest income	**45,440**	**215,076**	**901,192**
40. Fee and commission income	53,158	144,973	41,268
50. Fee and commission expense	(8,256)	(43,930)	(36,085)
60. Net fee and commission income	**44,902**	**101,043**	**5,183**
70. Dividends and similar income	2,414	—	12
80. Net trading income	4,839	1,371	—
90. Net hedging income (expense)	—	23	—
100. Gain (loss) on disposal/repurchase:	—	(717)	(7,091)
a) financial assets measured at amortized cost	—	*(717)*	*(7,091)*
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	(15)	32	—
a) financial assets and liabilities designated at fair value	—	—	—
b) other financial assets mandatorily valued at fair value	*(15)*	*32*	—
120. Total income	**97,580**	**316,828**	**899,296**
130. Net writeoffs (writebacks) for credit risk:	(587)	(20,538)	(314,476)
a) financial assets measured at amortized cost	*(587)*	*(20,538)*	*(314,476)*
b) financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	(169)	(83)
150. Net income from financial operations	**96,993**	**296,121**	**584,737**
160. Administrative expenses:	(64,316)	(275,812)	(308,916)
a) personnel coss	*(44,323)*	*(115,728)*	*(96,810)*
b) other administrative expenses	*(19,993)*	*(160,084)*	*(212,106)*
170. Net transfers to provisions:	(2,661)	(2,662)	334
a) commitments and financial guarantees	—	*(109)*	*1,305*
b) other sums set aside (net)	*(2,661)*	*(2,553)*	*(971)*
180. Net adjustments to tangible assets	(2,205)	(18,819)	(12,906)
190. Net adjustments to intangible assets	(2,156)	(6,415)	(187)
200. Other operating income (expense)	6,074	41,634	103,558
210. Operating costs	**(65,264)**	**(262,074)**	**(218,117)**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill writeoffs	—	—	—
250. Gain (loss) on disposal of investments	—	13	—
260. Profit (loss) on ordinary activity before tax	**31,729**	**34,060**	**366,620**
270. Income tax for the year on ordinary activities	(3,912)	(11,633)	(121,085)
280. Profit (loss) on ordinary activities after tax	**27,817**	**22,427**	**245,535**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—
300. Net profit (loss) for the period	**27,817**	**22,427**	**245,535**

(*) Table compiled in accordance with the provisions Article 15 of Consob's Market Regulation and Article 2, 6, 2 of Borsa Italiana's Market Rules (pro forma, as at 30 June 2020, drawn up for purposes of the Group's financial statements).

BALANCE SHEET

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	1
20.	Financial assets at fair value with impact taken to profit and loss	121,304
	a) Financial assets held for trading	*121,304*
	b) Financial assets designated at fair value	—
	c) Other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	6,228,743
	a) Due from banks	*2,086,446*
	b) Due from customers	*4,142,297*
50.	Hedging Derivatives	38,813
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	4,150
80.	Property, plant and equipments	268
90.	Intangible assets	—
	of which:	
	goodwill	—
100.	Tax assets	10,631
	a) current	*7,239*
	b) deferred	*3,392*
110.	Assets classified as held for sale	—
120.	Other assets	24,687
	TOTAL ASSETS	**6,428,597**
	LIABILITIES	
10.	Financial liabilities at amortized cost	5,967,482
	a) Due to banks	*2,696,499*
	b) Due to customers	*133,305*
	c) Debt securities in issue	*3,137,678*
20.	Trading financial liabilities	118,768
30.	Financial liabilities designated at fair value	—
40.	Hedging Derivatives	—
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	3,187
	a) current	*3,187*
	b) deferred	—
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	7,333
90.	Staff severance indemnity provision	—
100.	Provisions	1,142
110.	Revaluation reserves	—
120.	Redeemable shares	—
130.	Equity instruments	—
140.	Reserves	331,470
150.	Share premium reserves	—
160.	Share capital	10,000
170.	Treasury shares	—
180.	Profit (loss) for the period (+/-)	(10,785)
	TOTAL LIABILITIES AND NET EQUITY	**6,428,597**

Banks (IAS/IFRS)

continued **Table B**

PROFTI AND LOSS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
		(€/000)
10.	Interest and similar income	95,003
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	(89,630)
30.	**Net interest income**	**5,373**
40.	Fee and commission income	15,112
50.	Fee and commission expense	(9,407)
60.	**Net fee and commission income**	**5,705**
70.	Dividends and similar income	—
80.	Net trading income	(275)
90.	Net hedging income (expense)	(90)
100.	Gain (loss) on disposal/repurchase:	1,279
	a) financial assets measured at amortized cost	*115*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
	c) financial liabilities	*1,164*
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets and liabilities designated at fair value	—
	b) other financial assets mandatorily valued at fair value	—
120.	**Total income**	**11,992**
130.	Net writeoffs (writebacks) for credit risk:	(13,896)
	a) financial assets measured at amortized cost	*(13,896)*
	b) financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**(1,904)**
160.	Administrative expenses:	(9,569)
	a) personnel coss	*(2,484)*
	b) other administrative expenses	*(7,085)*
170.	Net transfers to provisions:	(404)
180.	Net adjustments to tangible assets	(239)
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	(1,074)
210.	**Operating costs**	**(11,286)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill writeoffs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**(13,190)**
270.	Income tax for the year on ordinary activities	2,405
280.	**Profit (loss) on ordinary activities after tax**	**(10,785)**
290.	Gain (loss) of ceded operating assets, net of tax	—
300.	**Net profit (loss) for the period**	**(10,785)**

Financial companies (IAS/IFRS)

BALANCE SHEET

		FUTURO S.p.A. (€/000)	MBCREDIT SOLUTIONS S.p.A. (€/000)
	ASSETS		
10.	Cash and cash equivalents	—	1
20.	Financial assets at fair value with impact taken to profit and loss	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—
40.	Financial assets at amortized cost	1,599,853	373,546
	a) Due from banks	*200*	*14,413*
	b) Due from financial companies	—	*339*
	c) Due from customers	*1,599,653*	*358,794*
50.	Hedging Derivatives	126	—
60.	Adjustment of hedging financial assets (+/-)	—	—
70.	Equity investments	9	500
80.	Property, plant and equipments	2,873	6,179
90.	Intangible assets	24	610
100.	Tax assets	9,569	16,523
	a) current	*2,925*	*2,968*
	b) deferred	*6,644*	*13,555*
110.	Assets classified as held for sale	—	—
120.	Other assets	5,289	19,034
	TOTAL ASSETS	**1,617,743**	**416,393**
	LIABILITIES		
10.	Financial liabilities at amortized cost	1,424,126	235,594
	a) Due to	*1,424,126*	*235,594*
20.	Trading financial liabilities	—	—
30.	Financial liabilities designated at fair value	—	—
40.	Hedging Derivatives	10,510	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—
60.	Tax liabilities	2,692	1,858
	a) current	*2,674*	*1,858*
	b) deferred	*18*	—
70.	Liabilities included in disposal groups classified as held for sale	—	—
80.	Oher liabilities	19,290	9,262
90.	Staff severance indemnity provision	143	4,961
100.	Provisions	2,112	1,806
	a) commitments and financial guarantees	*77*	*284*
	b) post-employment and similar benefits	—	—
	c) other provisions	*2,035*	*1,522*
110.	Share capital	14,800	32,500
120.	Treasury shares (-)	—	—
130.	Equity instruments	—	—
140.	Share premium reserve	—	—
150.	Reserves	136,357	119,829
160.	Valuation reserves	(6,895)	(857)
180.	Profit (loss) for the period	14,608	11,440
	TOTAL LIABILITIES AND NET EQUITY	**1,617,743**	**416,393**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	FUTURO S.p.A.	MBCREDIT SOLUTIONS S.p.A.
	(€/000)	**(€/000)**
10. Interest and similar income	69,685	35,926
of which: interest income calculated according to the effective interest method	*69,625*	—
20. Interest expense and similar charges	(26,286)	(3,178)
30. Net interest income	**43,399**	**32,748**
40. Fee and commission income	1,337	24,078
50. Fee and commission expense	(3,346)	(7,338)
60. Net fee and commission income	**(2,009)**	**16,740**
70. Dividends and similar income	—	—
80. Net trading income	—	9
90. Net hedging income (expense)	—	—
100. Gain (loss) on disposal/repurchase:	—	1,918
a) Financial assets recognized at amortized cost	—	*1,918*
b) Financial assets recognized at fair value through other comprehensive income	—	—
c) Financial liabilities	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—
120. Total income	**41,390**	**51,415**
130. Net writeoffs (writebacks) for credit risk:	(4,017)	7,495
a) Financial assets valued at amortized cost	*(4,017)*	*7,495*
140. Gains (losses) from contractual modifications without derecognition	—	—
150. Net income from financial operations	**37,373**	**58,910**
160. Administrative expenses:	(14,187)	(43,564)
a) personnel costs	*(4,960)*	*(14,929)*
b) other administrative expenses	*(9,227)*	*(28,635)*
170. Net transfers to provisions:	(891)	(254)
a) commitments and financial guarantees	*79*	*(284)*
b) other sums set aside (net)	*(970)*	*30*
180. Net adjustments to tangible assets	(285)	(726)
190. Net adjustments to intangible assets	(52)	(525)
200. Other operating income (expense)	(425)	2,694
210. Operating costs	**(15,840)**	**(42,375)**
220. Gain (loss) on equity investments	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—
240. Goodwill writeoffs	—	—
250. Gain (loss) on disposal of investments	—	—
260. Profit (loss) on ordinary activity before tax	**21,533**	**16,535**
270. Income tax for the year on ordinary activities	(6,925)	(5,095)
280. Profit (loss) on ordinary activities after tax	**14,608**	**11,440**
290. Gain (loss) of ceded operating assets, net of tax	—	—
300. Net profit (loss) for the period	**14,608**	**11,440**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		SELMABIPIEMME LEASING S.p.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	4
20.	Financial assets at fair value with impact taken to profit and loss	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	1,829,726
	a) Due from banks	*11,693*
	b) Due from financial companies	*15,006*
	c) Due from customers	*1,803,027*
50.	Hedging Derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	55,865
90.	Intangible assets	689
100.	Tax assets	40,511
	a) current	*1,340*
	b) deferred	*39,171*
110.	Assets classified as held for sale	—
120.	Other assets	25,824
	TOTAL ASSETS	**1,952,619**
	LIABILITIES	
10.	Financial liabilities at amortized cost	1,692,108
	a) Due to	*1,692,108*
20.	Trading financial liabilities	303
30.	Financial liabilities designated at fair value	—
40.	Hedging Derivatives	8,925
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	9,630
	a) current	*1,250*
	b) deferred	*8,380*
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	17,133
90.	Staff severance indemnity provision	1,632
100.	Provisions	10,117
	a) commitments and financial guarantees	*69*
	b) post-employment and similar benefits	—
	c) other provisions	*10,048*
110.	Share capital	41,305
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	4,620
150.	Reserves	170,736
160.	Valuation reserves	(5,730)
180.	Profit (loss) for the period	1,840
	TOTAL LIABILITIES AND NET EQUITY	**1,952,619**

Financial companies (IAS/IFRS)

PROFIT AND LOSS

		SELMABIPIEMME LEASING S.p.A. (€/000)
10.	Interest and similar income	47,371
	of which: interest income calculated according to the effective interest method	*47,371*
20.	Interest expense and similar charges	(10,263)
30.	**Net interest income**	**37,108**
40.	Fee and commission income	2,352
50.	Fee and commission expense	(1,131)
60.	**Net fee and commission income**	**1,221**
70.	Dividends and similar income	—
80.	Net trading income	(17)
90.	Net hedging income (expense)	14
100.	Gain (loss) on disposal/repurchase:	—
	a) Financial assets recognized at amortized cost	—
	b) Financial assets recognized at fair value through other comprehensive income	—
	c) Financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) Financial assets and liabilities recognized at fair value	—
	b) Other financial assets mandatorily recognized at fair value	—
120.	**Total income**	**38,326**
130.	Net writeoffs (writebacks) for credit risk:	(9,632)
	a) Financial assets valued at amortized cost	*(9,632)*
	b) Financial assets recognized at fair value through other comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	(1)
150.	**Net income from financial operations**	**28,693**
160.	Administrative expenses:	(25,108)
	a) personnel coss	*(16,681)*
	b) other administrative expenses	*(8,427)*
170.	Net transfers to provisions:	(674)
	a) commitments and financial guarantees	*(25)*
	b) other sums set aside (net)	*(649)*
180.	Net adjustments to tangible assets	(2,318)
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	1,567
210.	**Operating costs**	**(26,533)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill writeoffs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**2,160**
270.	Income tax for the year on ordinary activities	(320)
280.	**Profit (loss) on ordinary activities after tax**	**1,840**
290.	Gain (loss) of ceded operating assets, net of tax	—
300.	**Net profit (loss) for the period**	**1,840**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	PROMINVESTMENT (under liquidation and arrangement with customers) S.p.A. (€/000)	MEDIOBANCA INTERNATIONAL IMMOBILIERE S.a.r.l. (€/000)	MB FUNDING LUX S.A. (€/000)	CAIRN CAPITAL LIMITED GROUP LTD (*) (€/000)	CMB WEALTH MANAGEMENT LTD (under liquidation) (*) (**) (€/000)
ASSETS					
10. Cash and cash equivalents	—	—	18	—	—
20. Financial assets at fair value with impact taken to profit and loss	—	—	—	1,527	—
a) Financial assets held for trading	—	—	—	—	—
b) Financial assets designated at fair value	—	—	—	—	—
c) Other financial assets mandatorily at fair value	—	—	—	*1,527*	—
30. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	—
40. Financial assets at amortized cost	390	237	850,000	2,447	116
a) Due from banks	*197*	*237*	*850,000*	*2,447*	*116*
b) Due from financial companies	—	—	—	—	—
c) Due from customers	*193*	—	—	—	—
50. Hedging Derivatives	—	—	—	—	—
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—
70. Equity investments	—	—	—	—	—
80. Property, plant and equipments	—	1,626	—	332	—
90. Intangible assets	—	—	—	—	—
of which:					
goodwill	—	—	—	—	—
100. Tax assets	5	2	—	—	—
a) current	*5*	*2*	—	—	—
b) deferred	—	—	—	—	—
110. Assets classified as held for sale	—	—	—	—	—
120. Other assets	29	11	1,473	10,105	—
TOTAL ASSETS	**424**	**1,876**	**851,491**	**14,411**	**116**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

(**) The company has not published any individual financial statements due to the ongoing liquidation process.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	PROMINVESTMENT (under liquidation and arrangement with customers) S.p.A. (€/000)	MEDIOBANCA INTERNATIONAL IMMOBILIERE S.a.r.l. (€/000)	MB FUNDING LUX S.A. (€/000)	CAIRN CAPITAL LIMITED GROUP LTD (*) (€/000)	CMB WEALTH MANAGEMENT LTD (under liquidation) (*) (**) (€/000)
LIABILITIES					
10. Financial liabilities at amortized cost	—	—	850,185	6,671	—
a) Due to	—	—	—	*6,671*	—
b) Securities in issue	—	—	*850,185*	—	—
20. Trading financial liabilities	—	—	—	66	—
30. Financial liabilities designated at fair value	—	—	—	—	—
40. Hedging Derivatives	—	—	—	—	—
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—
60. Tax liabilities	—	7	15	1,226	—
a) current	—	*7*	*15*	*1,226*	—
b) deferred	—	—	—	—	—
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—
80. Oher liabilities	1,067	2	379	1,550	5
90. Staff severance indemnity provision	—	—	—	—	—
100. Provisions	—	—	—	—	—
a) commitments and financial guarantees	—	—	—	—	—
b) post-employment and similar benefits	—	—	—	—	—
c) other provisions	—	—	—	—	—
110. Share capital	743	40	831	—	1800
120. Treasury shares (-)	—	—	—	—	—
130. Equity instruments	—	—	—	—	—
140. Share premium reserve	—	—	—	9,500	—
150. Reserves	(1,342)	1,759	60	(238)	(1,683)
160. Valuation reserves	—	—	—	—	—
180. Profit (loss) for the period	(44)	68	21	(4,364)	(6)
TOTAL LIABILITIES AND NET EQUITY	**424**	**1,876**	**851,491**	**14,411**	**116**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

(**) The company has not published any individual financial statements due to the ongoing liquidation process.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	PROMINVESTMENT (under liquidation and arrangement with customers) S.p.A.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S.a.r.l.	MB FUNDING LUX S.A.	CAIRN CAPITAL LIMITED GROUP LTD (*)	CMB WEALTH MANAGEMENT LTD (under liquidation) (*) (**)
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
10. Interest and similar income	—	—	7,713	13	—
of which: interest income calculated according to the effective interest method	—	—	—	—	—
20. Interest expense and similar charges	—	—	(7,704)	(210)	—
30. Net interest income	**—**	**—**	**9**	**(197)**	**—**
40. Fee and commission income	—	—	—	16,220	—
50. Fee and commission expense	—	—	—	—	—
60. Net fee and commission income	**—**	**—**	**—**	**16,220**	**—**
70. Dividends and similar income	—	—	—	158	—
80. Net trading income	—	—	—	(135)	—
90. Net hedging income (expense)	—	—	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—	—	—
a) Financial assets valued at amortized cost	—	—	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—
c) Financial liabilities	—	—	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—	(299)	—
a) financial assets designated at fair value	—	—	—	—	—
b) Other financial assets mandatorily valued at fair value	—	—	—	*(299)*	—
120. Total income	**—**	**—**	**9**	**15,747**	**—**
130. Net writeoffs (writebacks) for credit risk:	—	—	—	—	—
a) Financial assets valued at amortized cost	—	—	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—
150. Net income from financial operations	**—**	**—**	**9**	**15,747**	**—**
160. Administrative expenses:	(44)	—	(420)	(19,656)	(8)
a) personnel coss	*(16)*	*(25)*	—	*(13,580)*	—
b) other administrative expenses	*(28)*	—	*(420)*	*(6,076)*	*(8)*
170. Net transfers to provisions:	—	(25)	—	—	—
a) commitments and financial guarantees	—	—	—	—	—
b) other sums set aside (net)	—	—	—	—	—
180. Net adjustments to tangible assets	—	—	—	(1,114)	—
190. Net adjustments to intangible assets	—	(73)	—	—	—
200. Other operating income (expense)	—	—	435	—	2
210. Operating costs	**(44)**	**171**	**15**	**(20,770)**	**(6)**
220. Gain (loss) on equity investments	—	73	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—
240. Goodwill writeoffs	—	—	—	—	—
250. Gain (loss) on disposal of investments	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	**(44)**	**—**	**24**	**(5,023)**	**(6)**
270. Income tax for the year on ordinary activities	—	73	(3)	659	—
280. Profit (loss) on ordinary activities after tax	**(44)**	**(5)**	**21**	**(4,364)**	**(6)**
290. Gain (loss) of ceded operating assets, net of tax	—	68	—	—	—
300. Net profit (loss) for the period	**(44)**	**—**	**21**	**(4,364)**	**(6)**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

(**) The company has not published any individual financial statements due to the ongoing liquidation process.

Financial companies (IAS/IFRS)

BALANCE SHEET

		COMPAGNIE MONEGASQUE DE GESTION S.A. (*)	RAM ACTIVE INVESTMENTS S.A. (*)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. (*)
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	—	—	—
20.	Financial assets at fair value with impact taken to profit and loss	—	255	—
	a) Financial assets held for trading	—	*255*	—
	b) Financial assets designated at fair value	—	—	—
	c) Other financial assets mandatorily at fair value	—	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	—
40.	Financial assets at amortized cost	1,893	17,639	6,943
	a) Due from banks	*1,493*	*17,639*	*6,943*
	b) Due from financial companies	—	—	—
	c) Due from customers	*400*	—	—
50.	Hedging Derivatives	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	—	793	—
80.	Property, plant and equipments	—	1,064	71
90.	Intangible assets	—	181	5
	of which:			
	goodwill	—	—	—
100.	Tax assets	—	283	—
	a) current	—	*144*	—
	b) deferred	—	*139*	—
110.	Assets classified as held for sale	—	—	—
120.	Other assets	2,628	9,891	2,534
	TOTAL ASSETS	**4,521**	**30,106**	**9,553**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

	COMPAGNIE MONEGASQUE DE GESTION S.A. (*)	RAM ACTIVE INVESTMENTS S.A. (*)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. (*)
	(€/000)	**(€/000)**	**(€/000)**
LIABILITIES			
10. Financial liabilities at amortized cost	—	—	—
a) Due to	—	—	—
b) Securities in issue	—	—	—
20. Trading financial liabilities	—	—	—
30. Financial liabilities designated at fair value	—	—	—
40. Hedging Derivatives	—	—	—
50. Adjustment of hedging financial liabilities (+/-)	—	—	—
60. Tax liabilities	—	465	360
a) current	—	*465*	*360*
b) deferred	—	—	—
70. Liabilities included in disposal groups classified as held for sale	—	—	—
80. Oher liabilities	3,220	2,345	5,011
90. Staff severance indemnity provision	—	—	—
100. Provisions	—	—	—
a) commitments and financial guarantees	—	—	—
b) post-employment and similar benefits	—	—	—
c) other provisions	—	—	—
110. Share capital	600	1,000	782
120. Treasury shares (-)	—	(4,277)	—
130. Equity instruments	—	500	—
140. Share premium reserve	—	—	—
150. Reserves	(1,279)	27,063	2,830
160. Valuation reserves	—	—	(43)
180. Profit (loss) for the period	1,980	3,010	613
TOTAL LIABILITIES AND NET EQUITY	**4,521**	**30,106**	**9,553**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

PROFIT AND LOSS

	COMPAGNIE MONEGASQUE DE GESTION S.A. (*)	RAM ACTIVE INVESTMENTS S.A. (*)	RAM ACTIVE INVESTMENTS (LUXEMBOURG S.A. (*)
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	2
of which: interest income calculated according to the effective interest method	—	—	—
20. Interest expense and similar charges	—	(176)	(60)
30. Net interest income	**—**	**(176)**	**(58)**
40. Fee and commission income	12,228	25,559	8,470
50. Fee and commission expense	(6,668)	(2,849)	(5,344)
60. Net fee and commission income	**5,560**	**22,710**	**3,126**
70. Dividends and similar income	—	—	—
80. Net trading income	—	39	(26)
90. Net hedging income (expense)	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—
a) Financial assets valued at amortized cost	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) Financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
a) financial assets designated at fair value	—	—	—
b) Other financial assets mandatorily valued at fair value	—	—	—
120. Total income	**5,560**	**22,573**	**3,042**
130. Net writeoffs (writebacks) for credit risk:	—	—	—
a) Financial assets valued at amortized cost	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—
150. Net income from financial operations	**5,560**	**22,573**	**3,042**
160. Administrative expenses:	(2,728)	(18,414)	(2,286)
a) personnel coss	*(1,765)*	*(14,169)*	*(1,499)*
b) other administrative expenses	*(963)*	*(4,245)*	*(787)*
170. Net transfers to provisions:	—	—	—
a) commitments and financial guarantees	—	—	—
b) other sums set aside (net)	—	—	—
180. Net adjustments to tangible assets	—	(144)	(17)
190. Net adjustments to intangible assets	—	(32)	—
200. Other operating income (expense)	—	274	2
210. Operating costs	**(2,728)**	**(18,316)**	**(2,301)**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill writeoffs	—	—	—
250. Gain (loss) on disposal of investments	—	—	—
260. Profit (loss) on ordinary activity before tax	**2,832**	**4,257**	**741**
270. Income tax for the year on ordinary activities	(852)	(1,247)	(128)
280. Profit (loss) on ordinary activities after tax	**1,980**	**3,010**	**613**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—
300. Net profit (loss) for the period	**1,980**	**3,010**	**613**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		Messier Maris et associés S.C.A. (*)	Messier Maris et associés L.L.C. (*)
		(€/000)	**(€/000)**
	ASSETS		
10.	Cash and cash equivalents	—	—
20.	Financial assets at fair value with impact taken to profit and loss	—	—
	a) Financial assets held for trading	—	—
	b) Financial assets designated at fair value	—	—
	c) Other financial assets mandatorily at fair value	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—
40.	Financial assets at amortized cost	13,112	158
	a) Due from banks	*13,112*	*158*
	b) Due from financial companies	—	—
	c) Due from customers	—	—
50.	Hedging Derivatives	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—
70.	Equity investments	751	—
80.	Property, plant and equipments	311	—
90.	Intangible assets	17,006	—
	of which:		
	goodwill	—	—
100.	Tax assets	386	242
	a) current	*386*	—
	b) deferred	—	*242*
110.	Assets classified as held for sale	—	—
120.	Other assets	14,882	—
	TOTAL ASSETS	**46,448**	**400**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

PROFIT AND LOSS

		Messier Maris et associés S.C.A. (*)	Messier Maris et associés L.L.C. (*)
		(€/000)	**(€/000)**
	LIABILITIES		
10.	Financial liabilities at amortized cost	12,531	2,114
	a) Due to	*12,531*	*2,114*
	b) titoli in circolazione	—	—
20.	Trading financial liabilities	—	—
30.	Financial liabilities designated at fair value	—	—
40.	Hedging Derivatives	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—
60.	Tax liabilities	2,433	—
	a) current	*2,433*	—
	b) deferred	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—
80.	Oher liabilities	8,846	—
90.	Staff severance indemnity provision	—	—
100.	Provisions	—	—
	a) commitments and financial guarantees	—	—
	b) post-employment and similar benefits	—	—
	c) other provisions	—	—
110.	Share capital	50	211
120.	Treasury shares (-)	—	—
130.	Equity instruments	—	—
140.	Share premium reserve	17,732	—
150.	Reserves	(2,547)	(1,403)
160.	Valuation reserves	—	—
180.	Profit (loss) for the period	7,403	(522)
	TOTAL LIABILITIES AND NET EQUITY	**46,448**	**400**

(*) Pro forma as at 30 June 2020, used for purposes of preparing the consolidated financial statements.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	Messier Maris et associés S.C.A. (*) (€/000)	Messier Maris et associés L.L.C. (*) (€/000)
10. Interest and similar income	—	—
of which: interest income calculated according to the effective interest method	—	—
20. Interest expense and similar charges	—	—
30. Net interest income	**—**	**—**
40. Fee and commission income	33,755	—
50. Fee and commission expense	—	—
60. Net fee and commission income	**33,755**	**—**
70. Dividends and similar income	—	—
80. Net trading income	(2)	—
90. Net hedging income (expense)	—	—
100. Gain (loss) on disposal/repurchase:	—	—
a) Financial assets valued at amortized cost	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—
c) Financial liabilities	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—
a) financial assets designated at fair value	—	—
b) Other financial assets mandatorily valued at fair value	—	—
120. Total income	**33,753**	**—**
130. Net writeoffs (writebacks) for credit risk:	—	—
a) Financial assets valued at amortized cost	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—
150. Net income from financial operations	**33,753**	**—**
160. Administrative expenses:	(23,400)	(1,999)
a) personnel coss	*(16,421)*	*(1,513)*
b) other administrative expenses	*(6,979)*	*(486)*
170. Net transfers to provisions:	—	—
a) commitments and financial guarantees	—	—
b) other sums set aside (net)	—	—
180. Net adjustments to tangible assets	(88)	—
190. Net adjustments to intangible assets	—	—
200. Other operating income (expense)	13	1,236
210. Operating costs	**(23,475)**	**(763)**
220. Gain (loss) on equity investments	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—
240. Goodwill writeoffs	—	—
250. Gain (loss) on disposal of investments	4	—
260. Profit (loss) on ordinary activity before tax	**10,282**	**(763)**
270. Income tax for the year on ordinary activities	(2,879)	241
280. Profit (loss) on ordinary activities after tax	**7,403**	**(522)**
290. Gain (loss) of ceded operating assets, net of tax	—	—
300. Net profit (loss) for the period	**7,403**	**(522)**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MBFACTA S.p.A.	SPAFID S.p.A.	SPAFID FAMILY OFFICE SIM S.p.A.
		(€/000)	**(€/000)**	**(€/000)**
	ASSETS			
10.	Cash and cash equivalents	—	2	1
20.	Financial assets at fair value with impact taken to profit and loss	—	—	—
	a) Financial assets held for trading	—	—	—
	b) Financial assets designated at fair value	—	—	—
	c) Other financial assets mandatorily at fair value	—	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	—
40.	Financial assets at amortized cost	1,819,376	37,731	1,282
	a) Due from banks	*59,332*	*31,423*	*551*
	b) Due from financial companies	*237,570*	*114*	*168*
	c) Due from customers	*1,522,474*	*6,194*	*563*
50.	Hedging Derivatives	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	—	2,350	—
80.	Property, plant and equipments	1,110	2,773	212
90.	Intangible assets	—	7,219	37
	of which:			
	goodwill	—	—	—
100.	Tax assets	10,550	1,526	80
	a) current	*9,036*	*431*	—
	b) deferred	*1,514*	*1,095*	*80*
110.	Assets classified as held for sale	—	—	—
120.	Other assets	7,851	5,547	232
	TOTAL ASSETS	**1,838,887**	**57,148**	**1,844**
	LIABILITIES			
10.	Financial liabilities at amortized cost	1,653,993	2,763	214
	a) Due to	*1,653,993*	*2,763*	*214*
	b) Securities in issue	—	—	—
20.	Trading financial liabilities	—	—	—
30.	Financial liabilities designated at fair value	—	—	—
40.	Hedging Derivatives	—	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	7,216	—	22
	a) current	*7,183*	—	*22*
	b) deferred	*33*	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	10,866	6,932	445
90.	Staff severance indemnity provision	277	994	83
100.	Provisions	168	—	118
	a) commitments and financial guarantees	*53*	—	—
	b) post-employment and similar benefits	—	—	—
	c) other provisions	*115*	—	*118*
110.	Share capital	120,000	6,100	1,000
120.	Treasury shares (-)	—	—	—
130.	Equity instruments	—	—	—
140.	Share premium reserve	—	3,500	—
150.	Reserves	31,809	36,956	(116)
160.	Valuation reserves	(59)	(130)	—
170.	Profit (loss) for the period	14,617	33	78
	TOTAL LIABILITIES AND NET EQUITY	**1,838,887**	**57,148**	**1,844**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

		MBFACTA S.p.A.	SPAFID S.p.A.	SPAFID FAMILY OFFICE SIM S.p.A.
		(€/000)	**(€/000)**	**(€/000)**
10.	Interest and similar income	55,561	—	—
	of which: interest income calculated according to the effective interest method	*55,561*	—	—
20.	Interest expense and similar charges	(8,912)	(36)	—
30.	**Net interest income**	**46,649**	**(36)**	**—**
40.	Fee and commission income	7,102	10,067	1,669
50.	Fee and commission expense	(2,823)	(1,405)	(314)
60.	**Net fee and commission income**	**4,279**	**8,662**	**1,355**
70.	Dividends and similar income	—	—	—
80.	Net trading income	103	—	—
90.	Net hedging income (expense)	—	—	—
100.	Gain (loss) on disposal/repurchase:	—	—	—
	a) Financial assets valued at amortized cost	—	—	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
	c) Financial liabilities	—	—	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
	a) financial assets designated at fair value	—	—	—
	b) Other financial assets mandatorily valued at fair value	—	—	—
120.	**Total income**	**51,031**	**8,626**	**1,355**
130.	Net writeoffs (writebacks) for credit risk:	(18,633)	(700)	—
	a) Financial assets valued at amortized cost	*(18,633)*	*(700)*	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140.	Gains (losses) from contractual modifications without derecognition	—	—	—
150.	**Net income from financial operations**	**32,398**	**7,926**	**1,355**
160.	Administrative expenses:	(10,859)	(8,459)	(1,207)
	a) personnel coss	*(3,814)*	*(5,463)*	*(773)*
	b) other administrative expenses	*(7,045)*	*(2,996)*	*(434)*
170.	Net transfers to provisions:	(106)	—	38
	a) commitments and financial guarantees	*(37)*	—	—
	b) other sums set aside (net)	*(69)*	—	*38*
180.	Net adjustments to tangible assets	(143)	(400)	(24)
190.	Net adjustments to intangible assets	—	(327)	(18)
200.	Other operating income (expense)	447	1,324	—
210.	**Operating costs**	**10,661**	**7,862**	**1,211**
220.	Gain (loss) on equity investments	—	—	—
230.	Net result from fair value valuation of tangible and intangible assets	—	—	—
240.	Goodwill writeoffs	—	—	—
250.	Gain (loss) on disposal of investments	—	—	—
260.	**Profit (loss) on ordinary activity before tax**	**21,737**	**64**	**144**
270.	Income tax for the year on ordinary activities	7,120	31	66
280.	**Profit (loss) on ordinary activities after tax**	**14,617**	**33**	**78**
290.	Gain (loss) of ceded operating assets, net of tax	—	—	—
300.	**Net profit (loss) for the period**	**14,617**	**33**	**78**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MEDIOBANCA SGR S.p.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	1
20.	Financial assets at fair value with impact taken to profit and loss	—
	a) Financial assets held for trading	—
	b) Financial assets designated at fair value	—
	c) Other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	38,680
	a) Due from banks	—
	b) Due from financial companies	—
	c) Due from customers	*38,680*
50.	Hedging Derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	437
90.	Intangible assets	—
	of which:	
	goodwill	—
100.	Tax assets	64
	a) current	—
	b) deferred	*64*
110.	Assets classified as held for sale	—
120.	Other assets	8,162
	TOTAL ASSETS	**47,344**
	LIABILITIES	
10.	Financial liabilities at amortized cost	1,732
	a) Due to	*1,732*
	b) Securities in issue	—
20.	Trading financial liabilities	—
30.	Financial liabilities designated at fair value	—
40.	Hedging Derivatives	—
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	1,425
	a) current	*1,388*
	b) deferred	*37*
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	6,786
90.	Staff severance indemnity provision	404
100.	Provisions	245
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	*245*
110.	Share capital	10,330
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	—
150.	Reserves	18,418
160.	Valuation reserves	28
170.	Profit (loss) for the period	7,976
	TOTAL LIABILITIES AND NET EQUITY	**47,344**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

		MEDIOBANCA SGR S.p.A. (€/000)
10.	Commission income	29,645
20.	Commission expenses	(4,071)
30.	**Net fee and commission**	**25,574**
40.	Dividends and similar income	—
50.	Interest and similar income	—
	of which: interest income calculated according to the effective interest method	—
60.	Interest and similar charges	(2)
70.	Net trading income	—
80.	Net hedging income (expense)	—
90.	Gain (loss) on disposal/repurchase:	—
	a) Financial assets valued at amortized cost	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
	c) Financial liabilities	—
100.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) Other financial assets mandatorily valued at fair value	—
110.	**Total income**	**25,572**
120.	Net writeoffs (writebacks) for credit risk:	—
	a) Financial assets valued at amortized cost	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
130.	**Net income from financial operations**	**25,572**
140.	Administrative expenses:	(14,088)
	a) personnel coss	*(8,405)*
	b) other administrative expenses	*(5,683)*
150.	Net transfers to provisions:	—
160.	Net adjustments to tangible assets	(237)
170.	Net adjustments to intangible assets	—
180.	Other operating income (expense)	11
190.	**Operating costs**	**(14,314)**
200.	Gain (loss) on equity investments	—
210.	Net result from fair value valuation of tangible and intangible assets	—
220.	Goodwill writeoffs	—
230.	Gain (loss) on disposal of investments	—
240.	**Profit (loss) on ordinary activity before tax**	**11,258**
250.	Income tax for the year on ordinary activities	(3,282)
260.	**Profit (loss) on ordinary activities after tax**	**7,976**
270.	Gain (loss) of ceded operating assets, net of tax	—
280.	**Net profit (loss) for the period**	**7,976**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEET

		MEDIOBANCA COVERED BOND S.r.l.	QUARZO S.r.l.	QUARZO CQS S.r.l.
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	—	—	—
20.	Financial assets at fair value with impact taken to profit and loss	—	—	—
	a) Financial assets held for trading	—	—	—
	b) Financial assets designated at fair value	—	—	—
	c) Other financial assets mandatorily at fair value	—	—	—
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	—
40.	Financial assets at amortized cost	100	10	10
	a) Due from banks	*100*	*10*	*10*
	b) Due from financial companies	—	—	—
	c) Due from customers	—	—	—
50.	Hedging Derivatives	—	—	—
60.	Adjustment of hedging financial assets (+/-)	—	—	—
70.	Equity investments	—	—	—
80.	Property, plant and equipments	—	—	—
90.	Intangible assets	—	—	—
	of which:			
	goodwill	—	—	—
100.	Tax assets	—	—	—
	a) current	—	—	—
	b) deferred	—	—	—
110.	Assets classified as held for sale	—	—	—
120.	Other assets	530	564	37
	TOTAL ASSETS	**630**	**574**	**47**
	LIABILITIES			
10.	Financial liabilities at amortized cost	—	—	—
	a) Due to	—	—	—
	b) Securities in issue	—	—	—
20.	Trading financial liabilities	—	—	—
30.	Financial liabilities designated at fair value	—	—	—
40.	Hedging Derivatives	—	—	—
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—
60.	Tax liabilities	—	1	—
	a) current	—	*1*	—
	b) deferred	—	—	—
70.	Liabilities included in disposal groups classified as held for sale	—	—	—
80.	Oher liabilities	554	560	37
90.	Staff severance indemnity provision	—	—	—
100.	Provisions	—	—	—
	a) commitments and financial guarantees	—	—	—
	b) post-employment and similar benefits	—	—	—
	c) other provisions	—	—	—
110.	Share capital	100	10	10
120.	Treasury shares (-)	—	—	—
130.	Equity instruments	—	—	—
140.	Share premium reserve	—	—	—
150.	Reserves	(24)	3	—
160.	Valuation reserves	—	—	—
170.	Profit (loss) for the period	—	—	—
	TOTAL LIABILITIES AND NET EQUITY	**630**	**574**	**47**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS

	MEDIOBANCA COVERED BOND S.r.l.	QUARZO S.r.l.	QUARZO CQS S.r.l.
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	—
of which: interest income calculated according to the effective interest method	—	—	—
20. Interest expense and similar charges	—	—	—
30. Net interest income	**—**	**—**	**—**
40. Fee and commission income	—	—	—
50. Fee and commission expense	—	—	—
60. Net fee and commission income	**—**	**—**	**—**
70. Dividends and similar income	—	—	—
80. Net trading income	—	—	—
90. Net hedging income (expense)	—	—	—
100. Gain (loss) on disposal/repurchase:	—	—	—
a) Financial assets valued at amortized cost	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
c) Financial liabilities	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—	—
a) financial assets designated at fair value	—	—	—
b) Other financial assets mandatorily valued at fair value	—	—	—
120. Total income	**—**	**—**	**—**
130. Net writeoffs (writebacks) for credit risk:	—	—	—
a) Financial assets valued at amortized cost	—	—	—
b) Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
140. Gains (losses) from contractual modifications without derecognition	—	—	—
150. Net income from financial operations	**—**	**—**	**—**
160. Administrative expenses:	(74)	(177)	(103)
a) personnel coss	—	*(11)*	*(13)*
b) other administrative expenses	*(74)*	*(166)*	*(90)*
170. Net transfers to provisions:	—	—	—
a) commitments and financial guarantees	—	—	—
b) other sums set aside (net)	—	—	—
180. Net adjustments to tangible assets	—	—	—
190. Net adjustments to intangible assets	—	—	—
200. Other operating income (expense)	74	178	103
210. Operating costs	**—**	**1**	**—**
220. Gain (loss) on equity investments	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—
240. Goodwill writeoffs	—	—	—
250. Gain (loss) on disposal of investments	—	—	—
260. Profit (loss) on ordinary activity before tax	**—**	**1**	**—**
270. Income tax for the year on ordinary activities	—	(1)	—
280. Profit (loss) on ordinary activities after tax	**—**	**—**	**—**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—
300. Net profit (loss) for the period	**—**	**—**	**—**

BALANCE SHEET

		Compagnie Monégasque de Banque 31.12.2019 S.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	270,061
20.	Financial assets at fair value with impact taken to profit and loss	31,570
	a) Financial assets held for trading	—
	b) Financial assets designated at fair value	—
	c) Other financial assets mandatorily at fair value	*31,570*
30.	Financial assets at fair value with impact taken to comprehensive income	590,939
40.	Financial assets at amortized cost	4,103,253
	a) Due from banks	*2,469,934*
	b) Due from customers	*1,633,319*
70.	Equity investments	6,988
80.	Property, plant and equipments	185,483
90.	Intangible assets	9,578
100.	Tax assets	—
	a) current	—
	b) deferred	—
110.	Assets classified as held for sale	—
120.	Other assets	25,078
	TOTAL ASSETS	**5,222,950**
	LIABILITIES	
10.	Financial liabilities at amortized cost	4,178,966
	a) Due to banks	*220,028*
	b) Due to customers	*3,958,938*
	c) Securities in issue	—
20.	Trading financial liabilities	—
30.	Financial liabilities designated at fair value	—
40.	Hedging Derivatives	—
60.	Tax liabilities	—
	a) current	—
	b) deferred	—
80.	Oher liabilities	56,010
90.	Staff severance indemnity provision	—
100.	Provisions	19,499
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	*19,499*
110.	Valuation reserves	—
120.	Redeemable shares	—
130.	Equity instruments	—
140.	Reserves	840,083
150.	Share premium reserve	4,573
160.	Shares capital	111,110
170.	Treasury shares (-)	—
180.	Profit (loss) for the year	12,709
	TOTAL LIABILITIES AND NET EQUITY	**5,222,950**

Banks

continued **Table B**

PROFIT AND LOSS

		Compagnie Monégasque de Banque 31.12.2019 S.A. (€/000)
10.	Interest and similar income	65,760
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	(22,514)
30.	**Net interest income**	**43,246**
40.	Fee and commission income	56,803
50.	Fee and commission expense	(4,549)
60.	**Net fee and commission income**	**52,254**
70.	Dividends and similar income	1,814
80.	Net trading income	1,844
90.	Net hedging income (expense)	—
100.	Gain (loss) on disposal/repurchase:	2,297
	a) Financial assets valued at amortized cost	*2,297*
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
	c) Financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) Other financial assets mandatorily valued at fair value	—
120.	**Total income**	**101,455**
130.	Net writeoffs (writebacks) for credit risk:	(984)
	a) Financial assets valued at amortized cost	*(984)*
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**100,471**
160.	Administrative expenses:	(58,527)
	a) personnel coss	*(39,296)*
	b) other administrative expenses	*(19,231)*
170.	Net transfers to provisions:	2,250
	a) commitments and financial guarantees	—
	b) other sums set aside (net)	*2,250*
180.	Net adjustments to tangible assets	(3,470)
190.	Net adjustments to intangible assets	(18,850)
200.	Other operating income (expense)	(4,278)
210.	**Operating costs**	**(82,875)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill writeoffs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**17,596**
270.	Income tax for the year on ordinary activities	(4,887)
280.	**Profit (loss) on ordinary activities after tax**	**12,709**
290.	Gain (loss) of ceded operating assets, net of tax	—
350.	**Net profit (loss) for the period**	**12,709**

BALANCE SHEET

		MEDIOBANCA SECURITIES LLC
		($/000)
	ASSETS	
10.	Cash and cash equivalents	—
20.	Financial assets at fair value with impact taken to profit and loss	—
	a) Financial assets held for trading	—
	b) Financial assets designated at fair value	—
	c) Other financial assets mandatorily at fair value	—
30.	Financial assets at fair value with impact taken to comprehensive income	—
40.	Financial assets at amortized cost	6,595
	a) Due from banks	*6,595*
	b) Due from financial companies	—
	c) Due from customers	—
50.	Hedging Derivatives	—
60.	Adjustment of hedging financial assets (+/-)	—
70.	Equity investments	—
80.	Property, plant and equipments	—
90.	Intangible assets	—
	of which:	—
	goodwill	—
100.	Tax assets	222
	a) current	—
	b) deferred	*222*
110.	Assets classified as held for sale	—
120.	Other assets	155
	TOTAL ASSETS	**6,972**
	LIABILITIES	
10.	Financial liabilities at amortized cost	30
	a) Due to	*30*
	b) Securities in issue	—
20.	Trading financial liabilities	—
30.	Financial liabilities designated at fair value	—
40.	Hedging Derivatives	—
50.	Adjustment of hedging financial liabilities (+/-)	—
60.	Tax liabilities	—
	a) current	—
	b) deferred	—
70.	Liabilities included in disposal groups classified as held for sale	—
80.	Oher liabilities	1,077
90.	Staff severance indemnity provision	—
100.	Provisions	—
	a) commitments and financial guarantees	—
	b) post-employment and similar benefits	—
	c) other provisions	—
110.	Share capital	2,250
120.	Treasury shares (-)	—
130.	Equity instruments	—
140.	Share premium reserve	—
150.	Reserves	3,483
160.	Valuation reserves	—
180.	Profit (loss) for the period	132
	TOTAL LIABILITIES AND NET EQUITY	**6,972**

Financial companies

continued **Table B**

PROFIT AND LOSS

		MEDIOBANCA SECURITIES LLC ($/000)
10.	Interest and similar income	1
	of which: interest income calculated according to the effective interest method	—
20.	Interest expense and similar charges	—
30.	**Net interest income**	**1**
40.	Fee and commission income	1,882
50.	Fee and commission expense	—
60.	**Net fee and commission income**	**1,882**
70.	Dividends and similar income	—
80.	Net trading income	—
90.	Net hedging income (expense)	—
100.	Gain (loss) on disposal/repurchase:	—
	a) Financial assets valued at amortized cost	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
	c) Financial liabilities	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—
	a) financial assets designated at fair value	—
	b) Other financial assets mandatorily valued at fair value	—
120.	**Total income**	**1,883**
130.	Net writeoffs (writebacks) for credit risk:	—
	a) Financial assets valued at amortized cost	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—
140.	Gains (losses) from contractual modifications without derecognition	—
150.	**Net income from financial operations**	**1,883**
160.	Administrative expenses:	(2,541)
	a) personnel coss	*(1,703)*
	b) other administrative expenses	*(838)*
170.	Net transfers to provisions:	—
	a) commitments and financial guarantees	—
	b) other sums set aside (net)	—
180.	Net adjustments to tangible assets	—
190.	Net adjustments to intangible assets	—
200.	Other operating income (expense)	857
210.	**Operating costs**	**(1,684)**
220.	Gain (loss) on equity investments	—
230.	Net result from fair value valuation of tangible and intangible assets	—
240.	Goodwill writeoffs	—
250.	Gain (loss) on disposal of investments	—
260.	**Profit (loss) on ordinary activity before tax**	**199**
270.	Income tax for the year on ordinary activities	(67)
280.	**Profit (loss) on ordinary activities after tax**	**132**
290.	Gain (loss) of ceded operating assets, net of tax	—
350.	**Net profit (loss) for the period**	**132**

Financial companies

BALANCE SHEET

	CMB Asset Management S.A.M. 31.12.2019 (€/000)	Compagnie Monégasque de Gestion 31.12.2019 (€/000)
ASSETS		
10. Cash and cash equivalents	757	5,778
20. Financial assets at fair value with impact taken to profit and loss	—	—
a) Financial assets held for trading	—	—
b) Financial assets designated at fair value	—	—
c) Other financial assets mandatorily at fair value	—	—
30. Financial assets at fair value with impact taken to comprehensive income	—	400
40. Financial assets at amortized cost	—	—
a) Due from banks	—	—
b) Due from financial companies	—	—
c) Due from customers	—	—
50. Hedging Derivatives	—	—
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	—	—
80. Property, plant and equipments	—	—
90. Intangible assets	—	—
of which:		
goodwill	—	—
100. Tax assets	288	170
a) current	*288*	170
b) deferred	—	—
110. Assets classified as held for sale	—	—
120. Other assets	29	3,374
TOTAL ASSETS	**1,074**	**9,722**
LIABILITIES		
10. Financial liabilities at amortized cost	—	—
a) Due to	—	—
b) Securities in issue	—	—
20. Trading financial liabilities	—	—
30. Financial liabilities designated at fair value	—	—
40. Hedging Derivatives	—	—
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	53	—
a) current	*53*	—
b) deferred	—	—
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	790	6,645
90. Staff severance indemnity provision	—	—
100. Provisions	—	—
a) commitments and financial guarantees	—	—
b) post-employment and similar benefits	—	—
c) other provisions	—	—
110. Share capital	150	600
120. Treasury shares (-)	—	—
130. Equity instruments	—	—
140. Share premium reserve	—	—
150. Reserves	77	109
160. Valuation reserves	—	—
180. Profit (loss) for the period	4	2,368
TOTAL LIABILITIES AND NET EQUITY	**1,074**	**9,722**

Financial companies

continued **Table B**

PROFIT AND LOSS

		CMB Asset Management S.A.M. 31.12.2019	Compagnie Monégasque de Gestion 31.12.2019
		(€/000)	**(€/000)**
10.	Interest and similar income	—	—
	of which: interest income calculated according to the effective interest method	—	—
20.	Interest expense and similar charges	—	—
30.	**Net interest income**	**—**	**—**
40.	Fee and commission income	1,672	12,673
50.	Fee and commission expense	—	—
60.	**Net fee and commission income**	**1,672**	**12,673**
70.	Dividends and similar income	—	—
80.	Net trading income	—	—
90.	Net hedging income (expense)	—	—
100.	Gain (loss) on disposal/repurchase:	—	—
	a) Financial assets valued at amortized cost	—	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—	—
	c) Financial liabilities	—	—
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	—
	a) financial assets designated at fair value	—	—
	b) Other financial assets mandatorily valued at fair value	—	—
120.	**Total income**	**1,672**	**12,673**
130.	Net writeoffs (writebacks) for credit risk:	—	—
	a) Financial assets valued at amortized cost	—	—
	b) Financial assets valued at fair value with impact taken to comprehensive income	—	—
140.	Gains (losses) from contractual modifications without derecognition	—	—
150.	**Net income from financial operations**	**1,672**	**12,673**
160.	Administrative expenses:	(2,403)	(9,223)
	a) personnel coss	*(1,211)*	*(1,046)*
	b) other administrative expenses	*(1,192)*	*(8,177)*
170.	Net transfers to provisions:	—	—
	a) commitments and financial guarantees	—	—
	b) other sums set aside (net)	—	—
180.	Net adjustments to tangible assets	—	—
190.	Net adjustments to intangible assets	—	—
200.	Other operating income (expense)	737	(18)
210.	**Operating costs**	**(1,666)**	**(9,241)**
220.	Gain (loss) on equity investments	—	—
230.	Net result from fair value valuation of tangible and intangible assets	—	—
240.	Goodwill writeoffs	—	—
250.	Gain (loss) on disposal of investments	—	—
260.	**Profit (loss) on ordinary activity before tax**	**6**	**3,432**
270.	Income tax for the year on ordinary activities	(2)	**(1,064)**
280.	**Profit (loss) on ordinary activities after tax**	**4**	**2,368**
290.	Gain (loss) of ceded operating assets, net of tax	—	—
350.	**Net profit (loss) for the period**	**4**	**2,368**

BALANCE SHEET

	CAIRN CAPITAL GROUP LTD 31.12.2019	CAIRN CAPITAL LTD 31.12.2019
	(£/000)	**(£/000)**
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	211	—
Equity interests	1,688	—
Total non-current assets	**1,899**	**—**
Current assets		
Trade receivables	9,442	4,719
Cash and liquid assets	6,951	5,828
Financial assets/liabilities	—	—
Total current assets	**16,393**	**10,547**
TOTAL ASSETS	**18,292**	**10,547**
LIABILITIES		
Share capital	—	10,200
Share premium reserve	9,500	—
Legal reserve	—	—
Other reserves	(266)	—
Gains (losses) carried forward	(3,077)	1,773
Gain (loss) for the period	(542)	(6,089)
Total net equity	**5,615**	**5,884**
Trade payable	12,439	3,663
Financial liabilities	—	1,000
Provisions	238	—
Total current liabilities	**12,677**	**4,663**
TOTAL LIABILITIES AND NET EQUITY	**18,292**	**10,547**

Financial companies (IAS/IFRS)

PROFIT AND LOSS

	CAIRN CAPITAL GROUP LTD 31.12.2019	CAIRN CAPITAL LTD 31.12.2019
	(£/000)	**(£/000)**
Commission income	3,451	11,327
Dividends and similar income	147	—
Revenues	**3,598**	**11,327**
Administrative expenses	(4,079)	(18,529)
a) personnel costs	*(2,955)*	—
b) other administrative expenses	*(1,124)*	*(18,529)*
Other income and costs	(252)	(53)
Net writedowns/writebacks on tangible assets	(19)	
Operating result	**(752)**	**(7,255)**
Interest and similar income	120	4
Interest expense and similar charges	—	(102)
Gain (loss) for the period before tax	**(632)**	**(7,353)**
Income tax	90	1,264
Gain (loss) for the period after tax	**(542)**	**(6,089)**

Financial companies

BALANCE SHEET

	RAM ACTIVE INVESTMENTS S.A. 31.12.2019 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31.12.2019 (CHF/000)
ASSETS		
Non-current assets		
Intangible assets	179	5
Tangible assets	1,124	82
Equity interests	1,087	—
Total non-current assets	**2,390**	**87**
Current assets		
Trade receivables	11,395	2,348
Cash and liquid assets	17,606	5,947
Financial assets/liabilities	2,157	669
Total current assets	**31,158**	**8,964**
TOTAL ASSETS	**33,548**	**9,051**
LIABILITIES		
Share capital	1,000	782
Statutory retained earnings	500	—
Treasury shares	(4,198)	—
Revaluation reserve	—	(34)
Legal reserve	—	120
Other reserves	1,021	421
Equity instruments	500	—
Gains (losses) carried forward	20,725	1,804
Gain (loss) for the period	6,596	961
Total net equity	**26,144**	**4,054**
Provisions	—	7
Trade payable	2,011	923
Financial liabilities	—	3,380
Provisions	1,486	—
Other liabilities	3,907	687
Total current liabilities	**7,404**	**4,997**
TOTAL LIABILITIES AND NET EQUITY	**33,548**	**9,051**

Financial companies (IAS/IFRS)

PROFIT AND LOSS

	RAM ACTIVE INVESTMENTS S.A. 31/12/2019 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31/12/2019 (CHF/000)
Revenues	30,206	10,986
Personnel costs	(16,226)	(1,548)
Other administrative expenses	(4,937)	(8,067)
Operating result	**9,043**	**1,371**
Net adjustments to tangible assets	(146)	(16)
Interest and similar income	98	9
Interest expense and similar charges	(149)	(64)
Non-operational income	180	11
Extraordinary costs	—	(74)
Gain (loss) for the period before tax	**9,026**	**1,237**
Income tax	(2,430)	(276)
Gain (loss) for the period after tax	**6,596**	**961**

Financial companies

continued **Table B**

BALANCE SHEET

	Messier Maris et Associés S.C.A. 31/12/2019	Messier Maris et Associés L.L.C. 31/12/2019
	(€/000)	(USD/000)
ASSETS		
Non-current assets		
Intangible assets	17,054	—
Tangible assets	299	—
Equity interests	858	—
Total non-current assets	**18,211**	**—**
Current assets		
Trade receivables	14,870	—
Cash and liquid assets	9,198	139
Financial assets/liabilities	—	—
Total current assets	**24,068**	**139**
TOTAL ASSETS	**42,279**	**139**
LIABILITIES		
Share capital	17,781	199
Treasury shares	—	—
Revaluation reserve	—	—
Legal reserve	4	—
Other reserves	—	—
Equity instruments	—	—
Gains (losses) carried forward	65	9
Gain (loss) for the period	2,945	(75)
Total net equity	**20,796**	**133**
Provisions	—	—
Trade receivables (current accounts)	7,985	6
Due to Group societies	—	—
Tax liabilities	11,172	—
Other liabilities	2,326	—
Total current liabilities	**21,483**	**6**
TOTAL LIABILITIES AND NET EQUITY	**42,279**	**139**

Financial companies

PROFIT AND LOSS

	Messier Maris et Associés S.C.A. 31/12/2019 (€/000)	Messier Maris et Associés L.L.C. 31/12/2019 (USD/000)
Revenues	34,135	2,225
Personnel costs	(9,916)	(1,586)
Other administrative expenses	(18,080)	(714)
Operating result	**6,139**	**(75)**
Adjustments to tangible assets and other writedowns	(88)	—
Interest and similar income	—	—
Interest expense and similar charges	(193)	—
Foreign exchange gains (losses)	3	—
Contributions to provisions	(14)	—
Other gains (losses)	(1,731)	—
Gain (loss) for the period before tax	**4,116**	**(75)**
Income tax	(1,171)	—
Gain (loss) for the period after tax	**2,945**	**(75)**

Non-financial undertakings

continued **Table B**

BALANCE SHEETS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT S.p.A.	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.	MB CONTACT SOLUTIONS S.r.l.
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
ASSETS						
Non-current assets						
Intangible assets	—	25,131	888	—	2	57
Tangible assets	—	35,610	7	—	6	49
Other non-current financial assets	—	9,000	—	—	—	—
Advance tax assets	—	260	—	24	—	11
Total non-current assets	**—**	**70,001**	**895**	**24**	**8**	**117**
Current assets						
Trade receivables	19	—	—	—	—	—
Other receivables	1	5,833	3,107	332	6,011	—
Sundry receivables and other current assets	445	16,886	102	9	44	10
Curret tax assets	12	229	2,142	28	—	—
Other current financial assets	—	—	—	—	—	—
Cash and liquid assets	895	183	1,362	1,104	7,368	500
Total current assets	**1,372**	**23,131**	**6,713**	**1,473**	**13,423**	**510**
TOTAL ASSETS	**1,372**	**93,132**	**7,608**	**1,497**	**13,431**	**627**
LIABILITIES						
A) Shareholders' equity						
Share capital	100	35,000	6,000	500	500	500
Reserves	—	—	—	—	1,077	—
Share premium reserve	—	—	—	—	—	—
Gains (losses) carried forward	—	2,503	—	845	5,134	—
Legal reserve	3	—	—	70	50	—
Gain (loss) for the period	1	(2,451)	(1,007)	(61)	1,300	(33)
Total shareholders' equity	**104**	**35,052**	**4,993**	**1,354**	**8,061**	**467**
Non-current liabilities						
Provisions	573	450	—	—	—	—
Staff severance	196	1,424	173	58	—	—
Deferred tax liabilities	—	556	—	—	841	—
Other non-current liabilities	—	—	—	—	—	—
Total non-current liabilities	**769**	**2,430**	**173**	**58**	**841**	**—**
Current liabilities						
Due to banks	—	—	—	—	—	—
Trade payables	17	9,594	2,288	18	1,419	14
Due to associates	—	—	—	5	—	146
Current tax liabilities	54	—	17	19	—	—
Current financial liabilities	—	42,591	—	—	—	—
Other current liabilities	428	3,465	137	43	3,110	—
Total current liabilities	**499**	**55,650**	**2,442**	**85**	**4,529**	160
TOTAL LIABILITIES AND NET EQUITY	**1,372**	**93,132**	**7,608**	**1,497**	**13,431**	**627**

Non-financial undertakings

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT S.p.A	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.	MB CONTACT SOLUTIONS S.r.l.
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
Revenues	2,331	108,785	2,477	659	20,050	—
Production costs	(506)	(72,177)	(1,562)	(485)	(16,136)	(44)
Employees' costs	(1,810)	(12,814)	(846)	(244)	(918)	—
Other operating costs	—	(8,051)	—	—	(4)	—
Sundry costs	4	—	—	—	(1,275)	—
Adjustments to tangible assets	—	(13,331)	(1,592)	—	—	—
Adjustments to intangible assets	—	(2,481)	(4)	—	—	—
Other writedowns	—	—	—	(14)	—	—
Writedowns of current receivables	—	—	(60)	—	—	—
Operating result	**19**	**(69)**	**(1,587)**	**(84)**	**1,718**	**(44)**
Financial gains	—	10	—	—	—	—
Financial expenses	—	(20)	—	—	—	—
Other gains	—	89	—	—	25	—
Other expenses	—	(2,471)	(3)	(1)	—	—
Profit (loss) before taxes	**19**	**(2,461)**	**(1,590)**	**(85)**	**1,743**	**(44)**
Fiscal gain (expense)	(18)	10	583	24	(443)	11
Taxes for the period	*(18)*	*10*	—	—	*(443)*	—
Deffered and advance taxes	—	—	*583*	*24*	—	*11*
Net profit (loss) for the period	**1**	**(2,451)**	**(1,007)**	**(61)**	**1,300**	**(33)**

BALANCE SHEETS

	COMPASS RE S.A. (€/000)
ASSETS	
A) Amounts due from shareholderes by way of unpaid amounts on capital call	**—**
B) Intangible assets	**—**
C) Fixed assets	**367,621**
I) Lands and PPEs	—
II) Investments in affiliated undertakings and partecipating interests	
3) Loans to enterprises	353,497
a) parent company	*123,000*
e) others	*230,497*
III) Other financial investments	14,124
6) Banks deposits	*14,124*
D) Investments for the benefit of insured parties (life)	**—**
E) Receivables	**48**
II Receivables arising out of reinsurance operations	4
III Other receivables	44
F) Other assets	**19,984**
II Cash at bank and in hand	19,984
G) Accrued income and deferred expenses	**16,685**
1. Due to interests	2,887
3. Others	13,798
TOTAL ASSETS	**404,338**
LIABILITIES	
A) Shareholders' equity	**103,460**
I Share capital	15,000
IV Legal reserve	1,500
VIII Gains (losses) carried forward	61,721
IX Net gain (loss) for the period	25,239
B) Subordinated liabilities	
C) Technical reserves	**294,082**
I Non-life business	
1. Premiums reserve	*147,192*
2. Claims reserve	*10,052*
3. Equalization reserve	*136,838*
D) Tchnical reserves where risk is borne by insured party	**—**
E) Provisions	**33**
2) Taxation-related provisions	33
F) Deposits received from reinsurers	
G) Payables and other liabilities	**6,278**
VII Other payables	
3. Due to social agencies	*6,278*
H) Accrued income and deferred expenses	**485**
3. Others accruals and deferrals	485
TOTAL LIABILITIES AND NET EQUITY	**404,338**

Insurance companies

PROFIT AND LOSS ACCOUNTS

	COMPASS RE S.A. (€/000)
I) TECHNICAL ACCOUNT	
Gross premiums written	42,521
Change in the gross provision for unearned premiums	15,011
Total net premiums written	**57,532**
Gains arising from non-technical accounts investments	—
1) TOTAL REVENUES	**57,532**
Claims incurred, net of reinsurance (Gross amount)	(9,040)
Change in the provision for claims (Gross amount)	(1,417)
Acquisition costs	(4,264)
Change in deferred acquisition costs	(1,070)
Administrative expenses	(753)
2) TOTAL COSTS	**(16,544)**
Change in deferred acquisition costs	(7,757)
Technical-account profit (loss)	**33,231**
II) NON-TECHNICAL ACCOUNT	
Income form other investments	6,063
Gains on the realisation of investments	—
Investment management charges, including interest	(198)
Value adjustments on investments	(4,826)
Losses on the realisation of investments	—
Underwriting profit (loss)	**1,040**
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX	**34,270**
Income taxes for the period	(8,587)
Other taxes not shown under the preceding items	(444)
NET PROFIT (LOSS) FOR THE PERIOD	**25,239**

Associate companies

Table C

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2019 (€/000)
ASSETS	
A) Subscribed capital unpaid	**—**
B) Total intangible assets	**32,963**
C) Investments	
I) Land and buildings (total)	94,614
II) Investments in Group and other undertakings (total)	31,202,525
III) Other financial investments	
1) Shares and stock units	37,380
2) Mutual fund units	3,133,387
3) Bonds and other fixed-income securities	1,406,424
4) Loans	683
6) Deposits with banks	145,997
7) Other financial investments	441
Total other financial investments	4,724,312
IV) Deposits with reinsurers	4,453,378
Total investments (C)	**40,474,829**
D) Investments for the benefit of life policyholders who carry the risk and deriving from pension fund management (total)	**228,576**
Dbis) Reinsurers' share of technical reserves	
I) General business (total)	609,110
II) Life business (total)	1,210,592
Total reinsurers' share of technical reserves (Dbis)	**1,819,702**
E) Accounts receivable	
I) Amounts due in respect of primary insurances (total)	240,581
II) Amount due in respect of reinsurances (total)	604,836
III) Other accounts receivable	1,140,357
Total accounts receivable (E)	**1,985,774**
F) Other assets	
I) Tangible assets and inventories (total)	2,775
II) Cash (total)	467,385
IV) Other assets (total)	265,487
Total other assets (F)	**735,647**
G) Accruals and prepayments (total)	**144,254**
TOTAL ASSETS (A+B+C+D+Dbis+E+F+G)	**45,421,745**

Associate companies

continued **Table C**

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2019 (€/000)
LIABILITIES AND SHAREHOLDERS' EQUITY	
A) Shareholders' equity	
I) Share capital or equivalent fund	1,569,773
II-VII) Reserves (total)	11,997,543
IX) Profit (loss) for year	1,514,628
X) Negative reserve for treasury shares in portfolio	(3,040)
Total shareholders' equity (A)	**15,078,904**
B) Subordinated liabilities	7,834,489
C) Technical reserves	
I) General business (total)	2,550,106
II) Life business (total)	6,091,608
Total technical reserves (C)	**8,641,714**
D) Technical reserves where investment risk is carried by policyholders and reserves arising from pension fund management (total)	266,411
E) Provisions for risks and charges (total)	78,624
F) Deposits received from reinsurers	498,532
G) Accounts payable and other liabilities	
I) Amounts payable in respect of primary insurances	43,151
II) Amounts payable in respect of reinsurance	289,431
III) Bond issues	3,133,885
IV) Amounts payable to banks and financial institutions	1,017,062
VI) Loans and other debt	4,875,339
VII) Staff termination indemnity provision	1,566
VIII) Other accounts payable	3,003,068
IX) Other liabilities	391,515
Total accounts payable and other liabilities (G)	**12,755,017**
H) Accruals and deferrals (total)	268,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G+H)	**45,421,745**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS (non-technical account)

	ASSICURAZIONI GENERALI S.P.A. 31.12.2019 (€/000)
1) Underwriting profit (loss) from general business	190,325
2) Underwriting profit (loss) from life business	152,756
3) Investment income in general business	
a) Dividends	1,275,797
b) Other investment income (total)	79,501
c) Writebacks in book value of investments	7,629
d) Gain on disposal of investments	7,666
Total investment income in general business (3)	1,370,593
4) (+) Portion of investment income transferred from technical accounts of life business	1,044,531
5) Operating and financial expenses in general business	
a) Investment management expenses and interest paid	3,796
b) Writedowns to investments	110,808
c) Loss on disposal of investments	11,423
Total operating and financial expenses in general business (5)	126,027
6) (-) Portion of investment income transferred from technical accounts of general business	172,360
7) Other income	240,848
8) Other expenditure	1,622,376
9) Profit (loss) on ordinary operations	1,078,290
10) Extraordinary income	184,799
11) Extraordinary expenditure	16,246
12) Net extraordinary income (expenditure) (10-11)	168,553
13) Earnings before tax	1,246,843
14) Taxation for the year	(267,785)
15) Profit (loss) for the year (13-14)	**1,514,628**

Associate companies

continued **Table C**

BALANCE SHEETS

	BURGO GROUP S.P.A. 31.12.2019 (€/000)
ASSETS	
Non-current assets	**1,011,561**
Tangible assets	**460,194**
Property, plant and equipment	456,756
Real-estate investments	336
Real estate investments	3,102
Intangible assets	**13,208**
Goodwill and other long-term intangible assets	10,837
Other intangible assets with defined life	2,371
Investments in subsidiaries, associates and other non-current	**464,760**
Investments in subsidiaries	451,160
Investments in associates	—
Other investments	13,600
Other non-current financial assets	**10,036**
Financial receivables from subsidiaries	5,410
Non-current financial receivables	4,626
Anticipated-taxes assets	**63,363**
Current assets	**382,146**
Inventories	106,977
Trade receivables	123,527
Sundry receivables and other current assets	33,139
Available-for-sale financial assets	1,030
Other current financial assets	73,265
Cash and liquid assets	44,208
TOTAL ASSETS	**1,393,707**
LIABILITIES	
Shareholders' equity	**408,236**
Share capital	20,000
Reserves	350,516
Gains (losses) carried forward	26,000
Gain (loss) for the period	11,720
Non-current liabilities	**586,141**
Non-current financial liabilities	527,290
Severance provision and other employees-related provisions	21,347
Provisions	37,504
Non-current trade payable	—
Current liabilities	**399,330**
Financial current liabilities	84,446
Trade payables	283,814
Current-taxes liabilities	3,956
Other payables and other current liabilities	27,114
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,393,707**

Associate companies

PROFIT AND LOSS ACCOUNTS

	BURGO GROUP S.P.A. 31.12.2019
	(€/000)
Revenues	1,119,375
Other gains	36,164
Total revenues and operating gains	**1,155,539**
Raw-materials and services-related costs	(963,218)
Employees costs	(87,307)
Other operating costs	(23,931)
Variation in inventories (±)	(9,774)
Costs for improvements, capitalized	563
Total operating costs	**(1,083,667)**
Earnings before depreciations, amortizations and non-recurring restructuring expenses	**71,872**
Depreciations	(48,348)
Writeoffs (writebacks) on tangible assets	(10,805)
Proceeds from sale of plants and equipments	(1,457)
Net non-recurring income/expenses	(577)
Restructuring expenses	(1,800)
Operating result before financial items	**8,885**
Financial expenses	(25,845)
Proceeds from investments	25,301
Gain (loss) before taxes	**8,341**
Taxes	3,379
Gain (loss) for the period	**11,720**

Associate companies

continued **Table C**

BALANCE SHEETS

	GB HOLDING S.R.L. 31.12.2019 (€/000)
ASSETS	
B) Fixed assets:	
I) Intangible	—
II) Tangible	—
III) Financial	6,042
Total B	**6,042**
C) Current assets:	
II) Receivables:	
Due w/i 12 months	2
Due over 12 months	—
Total receivables	2
IV) Cash and liquid assets	17
Total C	**19**
TOTAL ASSETS	**6,061**

LIABILITIES	
A) Shareholders' equity:	
I) Share capital	97
II) Share-premium reserve	5,846
IV) Legal reserve	19
VII) Other reserves	—
IX) Gain (loss) for the period	96
Total A	**6,058**
D) Payables:	
Due w/i 12 months	3
Due over 12 months	—
Total payables	3
Total D	**3**
TOTAL LIABILITIES AND NET EQUITY	**6,061**

PROFIT AND LOSS ACCOUNTS

	GB HOLDING S.R.L. 31.12.2019
	(€/000)
A) Revenues:	
Other gains	—
Total revenues and other gains (A)	**—**
B) Production costs:	
7) Services-related	9
Total production costs (B)	—
Operating result (A-B)	**9**
Differenza tra valori e costo della produzione (A-B)	**(9)**
C) Financial gains (expenses)	
15) Proceeds from investments	333
16) Interest and similar income	—
17) Interest expense and similar charges	**—**
Total financial gains (expenses) (C)	**333**
D) Writedowns on financial assets	
19) Writedowns	
a) on investments	228
Total writedowns on financial assets (D)	**228**
Gain (loss) before taxes (A - B ± C ± D)	**96**
20) Income tax for the year (current, deferred and advance)	—
Gain (loss) for the period	**96**

Associate companies

continued **Table C**

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2019 S.r.l.
	(€/000)
ASSETS	
A) SUBSCRIBED CAPITAL UNPAID	—
B) FIXED ASSETS	
I - INTANGIBLE ASSETS	
3) Industrial patents right-of-use	—
4) Concessions, licences, brands and similar rights	2,262
6) Work-in-progress investments and advances	1,175
7) Others	664
TOTAL INTANGIBLE ASSETS	**4,101**
II - TANGIBLE ASSETS	
1) Lands and buildings	21,654
2) Plants and equipments	5,909
3) Industrial and commercial machineries	26,647
4) Other goods	3,949
5) Work-in-progress investments and advances	11,404
TOTAL TANGIBLE ASSETS	**69,563**
III - FINANCIAL ASSETS	
1) Investments in:	
a) Subsidiaries	58,142
d-bis) Others	345
Total investments	58,487
2) Receivables	
d-bis) Others	1,043
Total receivables	1,043
3) Other securities	
Total other securities	—
TOTAL FINANCIAL ASSETS	**59,530**
TOTAL INVESTMENTS (B)	**133,194**
C) CURRENT ASSETS	
I - INVENTORIES	
1) Raw-materials and consumable goods	9,229
TOTAL INVENTORIES	**9,229**
II - RECEIVABLES	
1) From customers	56,483
2) From subsidiaries	318
3) From associates	—
5-bis) Tax-related receivables	84
5-quater) From others	4,763
TOTAL RECEIVABLES	**61,648**
III - NON-FIXED FINANCIAL ASSETS	
6) Other securities	507
TOTAL NON-FIXED FINANCIAL ASSETS	**507**
IV - CASH AND LIQUID ASSETS	
1) Bank and postal deposits	31,605
3) Cash in hands	99
TOTAL CASH AND LIQUID ASSETS	**31,704**
TOTAL CURRENT ASSETS (C)	**103,088**
D) Prepaid income and deferred expenses	
Prepaid income	2,125
Deferred expenses	1,803
TOTAL PREPAID INCOME AND DEFERRED EXPENSES (D)	**3,928**
TOTAL ASSETS (A + B + C + D)	**240,210**

Associate companies

continued **Table C**

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2019 S.r.l (€/000)
LIABILITIES	
A) SHAREHOLDERS' EQUITY	
I - Share capital	80,579
IV - Legal reserve	6,573
V - Statutory reserve	—
- Research and development allowance	37,967
IX - Gain (loss) for the period	8,367
TOTAL SHAREHOLDERS' EQUITY (A)	**133,486**
B) PROVISIONS	
- Other	7,624
TOTAL PROVISIONS (B)	**7,624**
EMPLOYEES SEVERANCE PROVISION (C)	**5,438**
D) PAYABLES	
7) To suppliers	47,614
9) To subsidiaries	5,059
10) To associates	—
12) Fiscal liabilities	3,603
13) To social-securities entities and other social entities	4,955
14) Other payables	20,102
TOTAL PAYABLES (D)	**81,333**
E) DEFERRED INCOME AND ACCRUED EXPENSES	
Deferred income	64
Accrued expenses	12,265
TOTAL DEFERRED INCOME AND ACCRUED EXPENSES (E)	**12,329**
TOTAL LIABILITIES AND NET EQUITY (A + B + C + D + E)	**240,210**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2019 S.r.l.
	(€/000)
A) REVENUES	
1) Revenues from sales and services	211,849
5) Other gains:	40,964
- Sums received for research programmes	24,347
- Other proceeds	16,617
TOTAL REVENUES (A)	**252,813**
B) PRODUCTION COSTS	
6) Raw-materials and other goods	59,739
7) Services-related	56,892
8) Third-parties goods and services	7,579
9) Employees costs:	89,437
a) Remunerations	70,553
b) Social costs	15,266
c) Staff-severance	3,508
e) Other costs	110
10) Depreciations, amortizations and writedowns:	11,674
a) Amortizations	1,298
b) Depreciations	9,576
d) Writedowns of current financial assets and other liquid assets	800
11) Variations of inventory for raw-materials, consumables and other goods (±)	48
12) Contributions to provisions	4,318
14) Other operating expenses	16,862
TOTAL OPERATING COSTS (B)	**246,549**
OPERATING RESULT (A - B)	**6,264**
C) FINANCIAL GAINS (EXPENSES)	
15) Gains on equity investments	
- dividends and other income from other entity	215
16) Other financial gains	
d) gains other than preceding	
- interests on current accounts and other deposits	234
17) Interests and other financial expenses	
- others	180
17-bis) Gains and expenses on foreign exchange rates (±)	(3)
TOTAL FINANCIAL GAINS (EXPENSES) (C)	**266**
D) WRITEDOWNS ON FINANCIAL ASSETS	
18) Writebacks:	
a) on investments	3,155
19) Writedowns:	
a) on investments	—
TOTAL WRITEDOWNS (D)	**3,155**
GAIN (LOSS) BEFORE TAXES (A - B +/- C +/- D +/- E)	**9,685**
22) Taxes for the period (current, deferred and advance)	
- Current taxes	1,318
GAIN (LOSS) FOR THE PERIOD	**8,367**

Table D

FEES PAID FOR AUDITING AND SUNDRY OTHER SERVICES
(pursuant to Article 149-duodecies of Consob resolution 11971/99)

(€/000)

Type of service	**Mediobanca**		**Group companies (*)**	
	Pricewaterhouse Coopers S.p.A.	**Pricewaterhouse Coopers S.p.A. network**	**Pricewaterhouse Coopers S.p.A.**	**Pricewaterhouse Coopers S.p.A. networks**
Auditing	585	—	610	465
Statements	203	—	43	129
Other services	—	—	—	—
Observation and analysis of the administrative/accounting internal control system	—	—	—	—
– Other	—	—	—	
Total	788	—	653	594

(*) Group companies and other companies consolidated line-by-line.

Figures shown above do not include VAT, expenses and the supervisory contribution paid to Consob.

Ordinary business

Board of Directors' report on item no. 2 on the agenda

Appointment of Board of Directors for 2021-23 three-year period:
a. Establishment of number of Board members
b. Appointment of Directors
c. Establishment of their annual remuneration

Dear shareholders,

The mandate of the Board of Directors currently in office expires with this Annual General Meeting: accordingly, you are invited to appoint the new Board of Directors in accordance with the provisions of the company's Articles of Association and the applicable regulations. In this connection, it should be noted that the appointments will be made in accordance with the provisions of the new Articles of Association that will be submitted to the approval of shareholders at the extraordinary general meeting to be held on the same date. For the proposed changes to the Articles, see the relevant Board of Directors' Report, which has been published on the Bank's website at www.mediobanca.com (in the section entitled Governance/General Meetings/General Meeting 2020).[1]

In particular shareholders in Annual General Meeting are called to:

a) Establish the number of members for the governing body;

b) Proceed to appoint the Directors according to the list voting mechanism instituted pursuant to law and the provisions of the new Articles of Association;

c) Establish the annual remuneration payable to the Board.

The duration of the term of office is three years and said term will therefore expire on the date of the Annual General Meeting held to approve the Group's financial statements for the twelve months ending 30 June 2023.

[1] It should be noted that the Report on Proposed Changes to the Articles of Association is being published at the same time as this report.

According to the new art. 15 (9) of the Articles of Association, lists containing a number of candidates equal to or above two-thirds of the Directors to be appointed shall contain three candidates, or two if the number of Directors to be appointed is equal to or less than thirteen, numbered consecutively starting from the first in possession of the requisites stipulated under Article 15(4) (employees with at least three years' experience of working for Mediobanca Banking Group companies at management level).

No director aged seventy-five or over may be elected.

Lists containing a number of candidates equal to or above three must ensure that the balance between male and female candidates complies with at least the minimum requirement stipulated by the regulations in force, which at present is two-fifths (the number of candidates is round up, except for lists containing three candidates, which are rounded down), and must contain a majority of candidates qualifying as independent according to the definition provided in the new Article 19.

In view of the significant responsibilities which the Directors will be called to assume, in submitting their lists shareholders are invited to take due consideration of the recommendations made in the Report on the qualitative and quantitative composition of the Board of Directors approved by the Board of Directors and published on 3 September 2020, which defines the individual qualifications and the qualitative and quantitative profile that the Board should collectively reflect. The Report is available on the company's website at www.mediobanca.com (in the section entitled Governance/General Meetings/ General Meeting 2020). Without prejudice to the need to read the whole of the above document with due care, as already stated, in this report we shall confine ourselves to highlighting the need, for each Director, for the following:

i) Professional qualifications in terms of basic knowledge of the banking sector (as shown by the specific experiences described in their respective CVs) in the following areas:
   - Banking and financial markets;
   - Regulatory framework and legal requirements;
   - Strategic planning, and an understanding of a credit institution's direction or business plan and implementation thereof;
   - Risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution), including experience expressly regarding the powers actually held by the candidate;

– Accounting and auditing;
– Assessing the effectiveness of a credit institution's arrangements, ensuring effective governance, oversight and controls;
– Interpreting a bank's financial information, identifying key issues based on this information and appropriate controls and measures;
– Knowledge, including strategic, of the banking businesses in which the Mediobanca Group operates (Corporate and Investment Banking, Wealth Management, Consumer Banking); Risk governance and control systems; compliance and internal audit; banking governance; planning, including in terms of strategic allocation of regulatory and economic capital and risk measurement; managerial capabilities and entrepreneurial experience; bank accounting and reporting; legal and regulatory competences; macroeconomic/ international economics; sustainability; information technology and security;

ii) Need to ensure that the candidates have the appropriate amount of time available to be able to perform the duties required of them properly, taking into consideration the possibility of taking part in Board committees as well as the Board itself. Reference is made to the Report on the Qualitative and Quantitative Composition of the Board of Directors for details of the number of meetings held in 2017-20 three-year period;

iii) The numerous personal characteristics and fundamental qualifications (along with the Fit and Proper Person questionnaire), described separately in the Report;

iv) The need for careful assessment of the potential conflicts of interest which could compromise the Directors' independence. In particular our hope is that no Directors would be appointed who: (i) hold, or have held in the last six months, a position as member of the body with duties of strategic supervision, the body with management duties, the senior management or the advisory board of companies belonging to competitor groups or insurance groups; and (ii) are, whether directly or indirectly via fiduciary companies, subsidiaries or another person, a significant shareholder (i.e. with a stake of above 10%) in such groups.

Appointment to the Board of Directors is made, as already mentioned, on the basis of a list voting mechanism; the means by which lists for appointment to the position of Director should be submitted are illustrated in detail in the Notice of Meeting.

Shareholders are reminded that under Article 15(6) of the Articles of Association, lists may be submitted by the Board of Directors and/or by shareholders representing in the aggregate at least 1% of the Company's share capital or by the Board of Directors itself. The outgoing Board has availed itself of this possibility, identifying, based on the "Report on the Qualitative and Quantitative Composition of the Board of Directors" referred to above, its own list of candidates for appointment. The list is available on the Bank's website at www.mediobanca.com (in the section entitled Governance/General Meetings/General Meeting 2020) and published on 16 September 2020. The number of Directors is again fifteen, a number which allows for broad representation of competences, balanced composition of the Board committees, and effective debate.

Under the terms of Article 15 of the new Articles of Association, the procedure for the appointment of Directors is as follows: all Directors save two are chosen on the basis of the consecutive number in which they are ordered from the list obtaining the highest number of votes; the other two Directors are chosen from the list which ranks second in terms of number of votes cast and which is not submitted or voted for by shareholders who are related, as defined under regulations currently in force, to the shareholders who submitted or voted for the list ranking first in terms of number of votes cast, again on the basis of the consecutive number in which the candidates are ordered. If it is not possible to appoint a sufficient number of Directors using this method, other candidates are added from the lists which received most votes out of those that obtained at least 5% of the votes cast in general meeting, based on the consecutive order in which they were ranked. If the number of candidates appointed in this way included in the lists that have been submitted, minority and majority, is still below the number required to be appointed, the other Directors are elected under a resolution to be adopted by shareholders in general meeting based on the majority set by law, ensuring that the minimum number of Directors qualifying as independent, the requisite number of Directors from the least represented gender, and the qualifications stipulated in Article 15(4), are all met. In the event of an equal number of votes being cast, a ballot shall be held.

If the minimum number of Directors qualifying as independent, the requisite number of Directors from the least represented gender, and with the qualifications stipulated in Article 15(4) above are not appointed, the Directors elected from the list with the most votes and the highest consecutive number but without the necessary qualifications will be replaced by the candidates who come after them but who do have the necessary qualifications taken from the same list. If by this method it is still not possible to appoint Directors with the necessary qualifications, the replacement criterion described above will be applied to the minority lists which received most votes, in order. If by applying the above criteria it is still not possible to identify suitable replacements, the shareholders shall adopt a resolution in general meeting based on the majority set by law. In this case, the candidates will be replaced one by one starting from the lists which received most votes and the candidates with the highest consecutive number.

In the event of just one list being submitted, the Board of Directors is taken from this list in its entirety, providing the quorum established by law for ordinary general meetings has been reached.

Under the new Article 13 of the Articles of Association, shareholders in general meeting are called to determine the fixed remuneration payable to the Board of Directors, to be shared between the individual Board members in accordance with the decisions of the Board of Directors itself. This remuneration does not include the compensation payable to Directors who are Mediobanca Group employees under the terms of their employment contracts (as illustrated in the Remuneration Policies approved by shareholders in general meeting from year to year), or any additional remuneration payable to Directors vested with special duties under Article 2389, paragraph 3 of the Italian Civil Code. Directors who are not members of the Group's senior management are entitled to receive refunds for the expenses incurred by them in the exercise of their duties.

In this connection, it should be noted that for the Board of Directors currently in office, at the Annual General Meeting held on 28 October 2017 the shareholders of Mediobanca set the aggregate gross annual compensation payable to the Board at € 2,500,000, and authorized the Board itself to decide on its allocation. The cost actually incurred in this respect during the last financial year was € 1,845,000, which reflects the one-off decision on the part of the Directors to waive the emoluments due to them as a result of the Covid-19 emergency, enabling the Bank to donate a total of € 540,000 to charitable initiatives.

The outgoing Board of Directors, availing itself of the possibility to submit its own list of fifteen candidates, has decided to propose aggregate gross annual compensation for the new Board in an amount once again of € 2,500,000, which excludes the compensation payable to Directors who are Mediobanca Group employees under the terms of their employment contracts and any additional remuneration payable to Directors vested with special duties pursuant to Article 2389(3) of the Italian Civil Code. The aggregate remuneration will be allocated by the new Board of Directors.

In determining the amount of the above proposal, the Board of Directors based its considerations *inter alia* on the following factors:

- The proposal to appoint a Board consisting again of fifteen Directors;
- The need to guarantee the presence of professionals of high standing in the Board of Directors, given the high commitment required, including in terms of time, in view also of the Board Committee activities, the responsibilities entailed by the role, and the strict limits on taking on other Directorships;
- The positioning of the compensation proposed for Board members is in line with that of banks which are comparable to Mediobanca in terms of complexity.

Accordingly, the Board of Directors invites you to take the relevant decisions regarding the appointment of the new Board.

Resolutions submitted to the approval of shareholders in ordinary general meeting

Dear shareholders,

in view of the foregoing, we invite you to:

a) Confirm the number of members of the Board at fifteen for the financial years ending 30 June 2021, 2022 and 2023;

b) Appoint a new Board of Directors for the financial years ending 30 June 2021, 2022 and 2023 according to the list voting mechanisms provided by law and the Articles of Association;

c) Establish the aggregate gross annual compensation payable to the new Board at € 2,500,000, excluding the compensation payable to Directors who are Mediobanca Group employees under the terms of their employment contracts and any additional remuneration payable to Directors vested with special duties pursuant to Article 2389, paragraph 3 of the Italian Civil Code established by the Board itself.

Milan, 16 September 2020

THE BOARD OF DIRECTORS

Ordinary business

Board of Directors' report on item no. 3 on the agenda

Appointment of Statutory Audit Committee for 2021-23 three-year period:
a. Appointment of Committee Chairman and members
b. Establishment of their annual remuneration

Dear shareholders,

The mandate of the Statutory Audit Committee currently in office expires with the imminent Annual General Meeting: accordingly, you are invited to appoint the new Statutory Audit Committee and establish their remuneration.

The Articles of Association provide that the Statutory Audit Committee shall consist of three standing and three alternate auditors, who must be in possession of the requisite qualifications for holding such office expressly stipulated by the regulations in force and the statutory provisions, including those relating to the number of posts held, failing which they shall become ineligible. Of particular importance in this respect are the requirements in terms of professional qualifications, assessment as fit and proper person to hold such office, and independence,[1] and the contents of the "Report on the qualitative and quantitative composition of the Statutory Audit Committee" (cf. below). The duration of the term of office is three years and said term will therefore expire on the date of the Annual General Meeting held to approve the Group's financial statements for the twelve months ending 30 June 2023.

In view of the importance of the responsibilities to be assumed by Statutory Auditors, for purposes of submitting lists shareholders are advised to familiarize themselves with due attention with the contents of the "Report on the qualitative and quantitative composition of the Statutory Audit Committee", which illustrates the individual and collective qualities that Statutory Auditors are required to demonstrate

[1] Pursuant to Article 26 of Italian Legislative Decree 385/93 (the "Italian Banking Act"), as replaced by Article 1, paragraph 13 of Italian Legislative Decree 72/2015. The regulatory provision stipulates that a decree should be issued by the Italian ministry for the economy and finance, following consultation with the Bank of Italy, laying down the rules to be implemented inter alia in respect of the qualifications of company representatives. In the absence of such a decree, reference is made to the Report on the qualitative and quantitative composition of the Statutory Audit Committee available on the Bank's website at www.mediobanca.com, in the section entitled Governance/General Meetings/ General Meeting 2020.As far as regards professional qualifications, activities closely related to those of the company are defined as those listed in Article 1 of Italian legislative decree 385/93 (the "Italian Banking Act"), along with the provision of investment and collective asset management services, both of which as defined by Italian legislative decree 58/98 (the "Italian Finance Act").

under the regulations in force. The report is available on the Bank's website at www.mediobanca.com, in the section entitled Governance/General Meetings/General Meeting 2020). In particular the following recommendations were made:

– Size: the Statutory Audit Committee considers its size to be adequate; accordingly, ahead of the reappointment process the Committee did not feel any recommendations regarding changes in size from the guidance provided in the Articles of Association were necessary;

– Composition: the Committee recommends that future statutory auditors should possess at least three of the following competences:

  – Knowledge of the banking and financial businesses in which the Mediobanca Group operates;

  – Risk governance and control systems; compliance and internal audit;

  – Accounting, reporting and auditing;

  – Banking governance and organizational structures;

  – Legal, economic, statutory and regulatory competences.

It is also considered to be appropriate that at least one of the three standing auditors should possess specific competence in the area of information systems, security and the new technologies relevant to the banking and financial sectors;

– Diversity: the diversity expressed by the existing Committee is considered to be adequate with reference to the following aspects: gender, age, experience/seniority, education, culture and International dimension.

Appointments to the Statutory Audit Committee are made on the basis of lists.

Lists containing a number of candidates equal to or above three must ensure that the balance between male and female candidates complies with at least the minimum requirement stipulated by the regulations in force, which at present is two-fifths.[2] It is also recommended that the lists' composition include at least one alternate auditor form the less-represented gender, to ensure the balance required by the regulations is maintained even in cases where a standing auditor has to be replaced.

[2] Cf. Consob resolution no. 21359 of 13 March 2020, which provides that, if the committee consists of five members, at least two-fifths should be of the least-represented gender; in cases where the committee consists of three members, the figure is rounded down to the nearest unit.

The following procedure is adopted for the appointment of statutory auditors: two statutory auditors and two alternate auditors are chosen based on the consecutive order in which they are numbered from the list obtaining the highest number of votes; one standing auditor and one alternate auditor are chosen based on the consecutive order in which they are numbered in the respective list sections, from the list ranking second in terms of number of votes in general meeting and which under regulations in force is not linked even indirectly with the shareholders who submitted or voted for the list which ranked first.

In the event of the same number of votes being cast for more than one list, a new vote is held in the form of a ballot between the lists, with the candidates from the list which obtains a simple majority in this case being elected.

The candidate ranking first in the section for election of standing auditors in the list ranking second in terms of the number of votes cast is appointed Chairperson of the Statutory Audit Committee.

If only one list is submitted, shareholders in general meeting vote on it; if the list obtains the majority required by law for the ordinary general meeting, the three candidates numbered consecutively in the relevant section are appointed standing auditors, and the three candidates numbered consecutively in the relevant section are appointed alternate auditors; the candidate listed first in the section for candidates to the post of standing auditor in the list submitted is appointed as Chairperson of the Statutory Audit Committee. If no lists are submitted, or if the list voting mechanism returns a lower number of candidates appointed than the number required by these Articles, the Statutory Audit Committee is appointed or completed by shareholders in general meeting according to the majorities stipulated by law.

You are also called to determine the remuneration payable to the new Committee. Based on the indications provided by the outgoing Committee, we would remind you that a total of 28 Committee meetings were held during FY 2019-20, twelve of which in conjunction with the Risks Committee, and had an average duration of almost three hours per meeting. The Statutory Auditors also took part in meetings of the Board of Directors, the Executive Committee, the Remunerations Committee and the Related Parties Committee. The Statutory Audit Committee has also been assigned by the Board of Directors with the duties of the supervisory body instituted pursuant to Article 6 of Italian legislative decree 231/01 (as provided by paragraph 4-*bis* of the same Article, as amended by Italian law 183/11), in line with the Bank of Italy's Supervisory Instructions on internal controls. For the Statutory Audit Committee currently in office, at the Annual General Meeting held on 28 October 2017, the shareholders of Mediobanca, in view of the commitment required by Committee members, set a gross annual compensation payable to the Committee Chairperson of € 180,000 and to each Standing Auditor of € 140,000.

The means by which lists for appointment to the Statutory Audit Committee should be submitted are illustrated in detail in the Notice of Meeting.

Accordingly, the Board of Directors invites you to take the relevant decisions regarding the appointment of the new Committee.

Resolutions submitted to the approval of shareholders in ordinary general meetin

Dear shareholders,

In view of the foregoing, we invite you to:

a) appoint members of the Statutory Audit Committee and its Chairperson for the financial years ending 30 June 2021, 2022 and 2023 in accordance with the list voting mechanism instituted pursuant to the law and the company's Articles of Association;

b) establish the remuneration payable to them.

Milan, 16 September 2020

THE BOARD OF DIRECTORS

GROUP REMUNERATION POLICY AND REPORT

Section 1. Mediobanca Group staff remuneration and incentivization policy FY 2020-21
Section 2. Report on compensation FY 2019-20

CONTENTS

Dear Shareholders,

We have called you together in general meeting to:

A) Submit the Mediobanca Group's new remuneration and incentivization policies for FY 2020-21, approved by the Board of Directors on 16 September 2020, to your approval; and;

B) Report to you on the remuneration policies applied and compensation paid during the twelve months ended 30 June 2020.

During the twelve months under review, the governing bodies of Mediobanca have continued to pay close attention to its staff remuneration and incentivization policies, taking into account inter alia the new documents published by the supervisory authorities on this issue. The following documents in particular are of importance in this area:

– The new Regulatory Technical Standards to identify risk takers based on qualitative and quantitative criteria published by the European Banking Authority (EBA) on 18 June 2020 in application of the new Capital Requirements Directive ("CRD V"). The standards, which are directly applicable to all EU member states, will come into force from January 2021;

– Implementing Technical Standards on public disclosures by institutions, including relating to remuneration policies, and supervisory reporting implementing changes introduced in the revised Capital Requirements Regulation ("CRR II") published by the EBA on 24 June 2020, applicable as from 30 June 2021;

– Consultation document on the consultation ended on 1 December 2019, regarding changes to the Regulations for Issuers on transparency in remuneration, issued by Consob to complete the process of implementing Directive (EU) 2017/828 ("Shareholders' Rights Directive II");;

– The new version of the Code of Conduct for Listed Companies published in January 2020.

This report – which is published on Mediobanca's website – incorporates all the changes to the regulations and meets the disclosure requirements set forth in the Consob Regulations and the Bank of Italy's Supervisory Instructions. It is split into two sections: the first regards the remuneration and incentivization policies adopted by the Group with reference to corporate strategy, pursuit of long-term interests, and the sustainability of Mediobanca's operations. The second section, including tables with quantitative information (analytical and aggregated), provides details on the policy's application, including compensation paid, in the financial year ended 30 June 2020.

SECTION 1

Mediobanca Group staff remuneration and incentivization policy FY 2020-21

1. Introduction

In line with previous versions of this document, the new policies:

- Comply with the applicable regulations;
- Enable the areas of the Bank and Group which create value to be suitably incentivized, on the basis of objective measurement criteria;
- Allow the Group to attract and retain professionals with skills and capabilities appropriate to its needs;
- Are aligned with the policies adopted by other leading Italian and international players.

A cap on variable remuneration continues to be adopted, set at 200% of fixed remuneration, with the exception of recipients who work in asset management, for whom different limits are set.

2. Transparency and sustainability

Growth and sustainability are distinctive features of the Mediobanca Group, and play an integral and fundamental role in the defining of its strategies. The Group's remuneration and incentivization policies also seek to generate sustainable value over the long term: responsible, fair and transparent remuneration mechanisms increase and protect reputation, credibility and consensus over time, forming the basis for developing business with the objective of creating and protecting value for all stakeholders. In practical terms, the sustainability of the remuneration mechanisms takes the following forms:

- Pre-established governance mechanisms involving various different bodies, organizational units and parties, to guarantee that the processes followed are structured, controlled, and verifiable ex post;
- An overall remuneration package which reflects a balanced pay mix between fixed and variable components according to company role, which does not encourage or promote risky behaviour or conduct that is unduly geared to achieving short-term results, and completed by a series of corporate welfare solutions intended to meet the needs and improve the well-being of staff members and their families;
- An ongoing commitment to offering a fair level of remuneration reflecting the competences, abilities and professional experience of each staff member, ensuring that the principle of equal opportunities is applied, with the objective of pursuing fair salaries without discrimination in terms of age, gender, sexual orientation, married status, religion, language, ethnic or national origins, physical or mental disabilities, pregnancy or parenthood (including parents of adopted children), personal convictions, political opinions, or trade union affiliation or activities;
- A short- and long-term incentive structure based on risk-adjusted indicators with a view to achieving business continuity and sustainable results over the long term that combines balanced growth with the conviction that ethics and profit do not necessarily have to be in opposition to one another;
- Correlation of the incentivization system to the principles set out in the Group Sustainability Policy; ESG criteria being integrated into the models used for lending, investing and advisory services, and the inclusion of sustainability issues in the Group's short- and long-term business and financial strategies;
- Limits or cap on variable remuneration;
- Individual performances are evaluated clearly and transparently, based on merit and in accordance with the principle of equal opportunities, seeking to valorize talent and to promote the professional and personal growth of all Group collaborators;
- Variable remuneration is deferred and paid over a time horizon of several years, including in the form of equity instruments, in order to link incentives to the creation of value over the long term;
- Reputational issues have a central role in this system, ex ante and ex post, in the form of malus and clawback mechanisms which have been introduced in the knowledge that conduct which is fair, transparent and responsible increases

reputation, credibility and consent and protects them over time, all of these being fundamental prerequisites to achieving sustainable business development with the objective of creating and protecting value for all stakeholders;

- Pre-established, transparent means of treatment for staff in the event of their employment with the Mediobanca Group ceasing;
- Transparency in reporting.

3. Governance

The governance process for the Group remuneration and incentivization policy is structured across two levels.

a) Governing bodies

- Shareholders in general meeting set the annual fixed fee payable to members of the Board of Directors when they are appointed, and for the entire duration of their term of office, to be allocated among the individual members based on the Board's own decision. Directors who are not members of the Group's senior management are entitled to receive refunds for expenses incurred by them in the performance of their duties.
- Shareholders in general meeting, within the terms set by the regulations in force at the time, approve the remuneration and incentivization policies and compensation schemes based on financial instruments for Group directors, staff and collaborators, and set the criteria for establishing compensation to be agreed in the event of a beneficiary leaving the company or office, including the limits on annual fixed salary and the maximum amounts payable as a result of the policies' application.
- At the Board of Directors' proposal, shareholders in general meeting may, if the requisite quorum is achieved, establish the variable remuneration of Group staff and collaborators up to a maximum of 200% of their fixed salaries or any other limit set by the regulations in force at the time.
- The Board of Directors compiles the staff remuneration and incentivization policy, submits it to the approval of shareholders in general meeting, reviews it at least once a year, and is responsible for ensuring it is applied correctly in practice. The Board also: approves the results of the Material Risk-Takers identification process, including any exclusions; defines the

remuneration and incentivization systems for senior figures; ensures that these systems are consistent with the Bank's overall choices in terms of risk-taking, strategies, long-term objectives, corporate governance structure and internal controls system; and ensures, among other things, that the remuneration and incentivization systems are able to guarantee compliance with the legal, regulatory and statutory provisions and any codes of ethics or conduct in force, encouraging recipients to adopt conduct in accordance with such provisions or codes.

– The Remunerations Committee consists of between three and five non-executive members, the majority of whom qualify as independent, including the Chairperson. The Committee's duties include proposing compensation for staff whose remuneration is decided by the Board of Directors. It serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff; and monitors application of the rules governing the remuneration of the heads of the company's control units, working closely with the Statutory Audit Committee in this connection. It works together with the other internal committees, in particular the Risks Committee; and ensures that all relevant company units are involved in compiling and checking the remuneration and incentivization policies and practices. It gives its opinion on the results of the Material Risk-Takers identification process, including any exclusions, and on whether the performance objectives to which the incentivization schemes are linked have been reached. It establishes whether the other conditions precedent to payment of compensation have been met, on the basis inter alia of information received from the other company units; and provides feedback on the activities performed to the governing bodies. To be able to perform its activities effectively and responsibly, the Remunerations Committee is endowed with sufficient funds to guarantee it is independent in operational terms, and may call on the services of experts, including from outside the company, on matters that fall within its remit. The Committee is regularly constituted at meetings where a majority of the directors in office are in attendance, and adopts resolutions on the basis of the majority of those present voting in favour. Minutes of Committee meetings are taken and kept in separate registers.

– The Risks Committee ascertains whether the incentives provided by the remuneration system take due account of the Group's risks and comply with the minimum capital and liquidity requisites at consolidated level, liaising with the Remunerations Committee in this connection.

- The Chief Executive Officer presents the proposed Group staff remuneration and incentivization policies to the governing bodies, is responsible for staff management, and after consulting with the Group General Manager, determines the variable remuneration based on the criteria established by the Board of Directors and then distributes it.

b) Organizational units

- Group HR directs and governs the entire remuneration and incentivization process, involving the governing bodies, control units and other teams responsible for verifying the Group's earnings and financial data.
- The Planning, Accounting and Financial Reporting area provides the data for ascertaining that the gateways have been met and for determining the business areas' and divisions' annual and long-term performances based on the results achieved.
- The Group Risk Management unit helps in defining the metrics used in order to calculate the risk-adjusted company performance, validating the results and the gateways, and checking that these are consistent with the provisions of the Risk Appetite Framework.
- The Compliance unit carries out an annual assessment of the remuneration policies' compliance with the sector regulatory framework, the Bank's Articles of Association, and any applicable codes of ethics or standards of conduct. It is also responsible, after consulting with the other control units, for checking whether any compliance breaches have been committed that might be relevant for purposes of assessing the performance and award of the variable remuneration component. The Compliance unit is involved in the processes of revising, adapting and managing the remuneration systems to ensure these are in line with the regulations in force at the time, including in terms of establishing the identified staff, analysing the metrics adopted, and the practice in cases where the beneficiary has left the company.
- The Group Audit unit checks that the staff remuneration and incentivization practices correspond to this policy and controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

It also carries out annual controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

c) Application to Banking Group

Mediobanca, as part of its activities of direction and co-ordination of its own Group companies, ensures that the remuneration and incentivization systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation, organizational structures, regulations applicable according to type of business and geographical location. In particular, the parent company manages the process of defining Identified Staff, issues guidance to be adopted, and takes part in drafting documents relating to the remunerations policies to be compiled by the subsidiaries.

Mediobanca approves the amount of the variable remuneration, including that for identified staff in the individual companies. It sets the objectives for the CEOs and/or General Managers of the Group companies, ascertaining whether they have been met; and defines the basic principles of the guidelines of the incentives mechanism for the other staff at the companies, leaving the specific decisions up to their respective Boards of Directors.

4. Policy for identification of Material Risk-Takers

Material Risk-Takers, i.e. staff members whose professional activity may impact substantially on the Mediobanca Group's risk profile, are identified annually at the end of a formalized process involving Mediobanca S.p.A. and the other Group companies.

a) Criteria adopted

In order to identify Material Risk-Takers, the Mediobanca Group adopts the new regulatory technical standards issued by the EBA in June 2020, even though they are only applicable starting from January 2021. The criteria are:

– Qualitative: linked to role (including for non-executive directors) and to decision-making powers assigned and responsibilities taken within the

Group structure, consistent with the nature, range and complexity of the activities performed. Factors considered include organizational position within the Group, materiality of the business unit (not just in terms of the capital allocated to them, but also of volumes and complexity[1]), risk profile, including with reference to reputation, participation in internal Group committees, independence in terms of decision-making and operations, geographical location of the office at which they work (in view of the pay differences between different countries), and specific characteristics of the sectors concerned (e.g. asset management).

– Quantitative: based on the total overall remuneration received in the previous financial year.[2]

The definition of Material Risk-Taker also includes financial and insurance brokers and financial advisors authorized to offer products door-to-door.[3]

b) Process

– Group HR is responsible for the process, and ensures that a unified approach is adopted at Group level;
– Compliance validates the process, ascertaining that the applicable regulations have been properly applied;
– Planning, Accounting and Financial Reporting collects the earnings data to be analysed and the criteria to be applied;
– Group Risk Management takes part in the analysis, to identify the impact of the same resources on the risk profile of material and non-material business units;

[1] The regulatory criterion for inclusion as a material business unit is that the capital allocated to it must represent at least 2% of the Banking Group's overall capital. Additional criteria include: whether or not the individual entities/business units form part of higher-level divisions in accordance with management reporting and the strategic plan; business volumes; organizational complexity and size; type of activity performed if the primary risk profile involved is not credit, market or liquidity risk. For the asset management area, in addition to the above, the main criteria considered is the amount of AUM above the limit that would qualify it as a material company under the regulations normally applicable in the respective national legislations on UCITS/AIFM.

[2] Mediobanca may also decide that individual staff members, including Financial Advisors, do not impact on the Group's risk profile despite receiving total remuneration in excess of the quantitative limits set by the regulations in force.

[3] With reference to the CheBanca! Financial Advisors, all Network Managers and Area Managers with a percentage of AUM managed by the FAs under their responsibility above 10% of the total AUM managed by the network are included in the definition of Group identified staff by qualitative criteria. All the Group's FAs who individually manage more than 10% of their network's AUM are also included in the definition of Group identified staff by qualitative criteria. Among the Group's identified staff, those employed by Mediobanca Private Banking, the business units of Compass and CheBanca! and the FAs (for a total of 23 persons as at 30 June 2020) also qualify as relevant persons according to the definition contained in the Bank of Italy's Instructions on transparency of banking and financial operations and services. Under the same regulations, the following qualified as relevant persons: for the WM division – Mediobanca Private Banking, 83 staff members – twelve of whom with managerial roles – plus two Financial Advisors; for the WM division – Affluent/Premier (CB!) 796 staff members – seventeen of whom with managerial roles – plus 414 Financial Advisors, 69 of whom with managerial roles; for the Consumer Banking division, 896 persons associated with the network - 37 of whom with managerial roles – plus 25 associated with the external networks.

- Group Audit checks that the criteria have been correctly applied and the assessment made has been properly formalized. The unit participates in the process, providing support to Group HR in checking that the regulations have been properly applied.

All the Group companies take part in the annual definition of Identified Staff. The mapping is carried out on an individual basis by all the banks in the Group (CheBanca!, Compagnie Monégasque de Banque CMB, Compass and MB International) and the asset management companies, based in Italy (MB SGR) and elsewhere (Cairn Capital, RAM and MB Management Company), subject to the sector regulations. The information collected is then sent to Mediobanca S.p.A. to be consolidated, whereas for the other, non-banking subsidiaries, the parent company carries out its own assessment.

Group HR monitors organizational changes which could lead to differences in the scope of definition on an ongoing basis.

A record of the whole process is kept in the form of minutes of the meetings held by the parent company units involved. When the process is complete, a list with the names of the Identified Staff for the financial year concerned is drawn up, specifying those who have been included for the first time and any others who have been excluded, with an indication of their roles, responsibilities and the divisions of which they form part, and a comparison with the previous financial year. Any exclusions are highlighted and duly justified. A primary external consultancy company certifies the entire process.

The results are approved by the Board of Directors, at the Remuneration Committee's proposal.

Once the process is complete, individual notice is provided in writing to staff included in the scope of Material Risk-Takers.

If, at the end of the identification process, there are staff identified by quantitative criteria for whom the notification and/or exclusion procedure must be launched, Group HR does so in accordance with the Bank of Italy Supervisory Instructions.

c) Identified staff as at 30 June 2020

As at 30 June 2020 the Group's "identified staff" (including the non-executive directors), identified based on Regulation (EU) 604/2014 still in force, which also sets out the criteria for exclusion from the definition,[4] broke down as follows:

Cluster	Definition	EBA regulations	PPR # 2020	PPR # 2019
1) Non-executive directors	Non-executive members of BoD, including Chairman	Article 3. 2	1 (+12)	1 (+12)
2) Directors with executive duties	Management who are members of Executive Committee	Article 3. 1	2	2
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	• Co Head of CIB • Co Head of CIB/Head Inv. Banking Division • CEO, Compass/CB! • Head of Principal Investing • Head of MB Private Banking • Head of CIB Markets Division • Head of CIB Debt Division • Head of London branch office • Head of Governance & Treasury • Head of Finance Division • CEO, CMB	Article 3.3 Article 3.5 Article 3.6	10	11
4) Heads and senior staff of internal control units	• Compliance & Group AML • Group Risk Management • Group Audit	Article 3. 4 Article 3.7 Article 3.15	21	20
5) Staff with managerial responsibilities in relevant business units	• Heads of trading desks, liquidity, origination, trading, and brokerage/sales • Staff with significant responsibility in business and product areas • General and commercial managers of Compass and CB!, CEOs of SelmaBipiemme, MB SGR, MBFACTA and MB Lux • Financial Advisors with managerial responsibilities and/or 10% of the network's AUM	Article 3.8 Article 3.15	36	32
6) Heads and senior staff in Staff and support units	• Head of Company Financial Reporting • Planning, Control and Budgeting • Chief Operating Officer • Chief Information Officer • Group Head of HR • Group Head of Reward • Legal Counsel • Macroeconomic Strategist	Article 3. 9 Article 3.15	8	8
7) Quantitative criteria	Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above	Article 4	38	34
	TOTAL as at 30/6/2020[5]		116 (128)	108 (120)
	As % of total Mediobanca Group staff		2.35%	2.24%

Management with strategic responsibilities (as defined in Article 3 of Regulation (EU) 596/2014) other than directors (i.e. the three heads of the control units, the Head of Company Financial Reporting, the Head of Group HR & Organization, the Head of the Consumer Banking division and Wealth Management/Affluent-Premier business line, and the two Co-Heads of the Corporate and Investment Banking division) are all included in the definition of Identified Staff.

[4] For the twelve months ended 2020, a total of seven such staff members (employed in asset management in the United Kingdom and Switzerland – Cairn Capital and RAM and in advisory business in France - Messier Maris et Ass.) with overall remuneration in the previous year in excess of €500,000 excluded from the definition of MRTs under the regulations currently in force, without prejudice to the application of the new EBA Regulatory Technical Standard published in June 2020.

[5] The Mediobanca Group headcount as at 30 June 2020 consists of 4,920 staff, split as follows: 630 Corporate & Investment Banking (43 Identified Staff), 2,021 Wealth Management (18 Identified Staff, two of whom in the control units of the companies that form part of the division), 1,441 Consumer Banking (5 Identified Staff, two of whom in the control units of the companies comprising the division), 817 Holding Functions (35 Identified Staff employed by Mediobanca S.p.A., 17 of whom in the control units and 18 in other units), 11 Principal Investing (1 Identified Staff). The definition of Identified Staff also includes 14 Financial Advisors, six of whom qualify by the qualitative criterion and eight by the quantitative criterion (out of a total of 416 FAs linked to the Mediobanca Group).

5. Remuneration structure

a) General principles and objectives

The Mediobanca Group Remuneration and incentivization policy is intended to attract and retain highly qualified professional and ethical staff members, who are suited to the complexity, increasing internationalization and specialization of its businesses, based on a rationale of prudent management and sustainability of costs and results over time.

b) Pay mix constituents

The structure of the Group's staff remuneration is based on various components, with the objective of: balancing the fixed and variable parts over time (pay mix), implementing a flexible approach to remuneration, and ensuring that compensation remains geared towards performance in view of the significance of role within the company without encouraging risky and/or short-term behaviour.

To ensure that the remuneration package on offer is competitive and retain the best talent in terms of performance and potential, Mediobanca carries out annual benchmarking activity to assess the Group staff's positioning in terms of compensation relative to the market. The benchmarking is performed with the support of leading specialists in this area, and takes account of the divisions and geographical locations in which staff are employed.[6]

I. Fixed salary

This reflects technical, professional and managerial capabilities, and the related responsibilities, in accordance with the principle of equal opportunities and fair

[6] The benchmarking activity is based on a significant and coherent sample of peers diversified according to the Group's individual divisions: for the Consumer (Compass) and WM Affluent/Premier (CheBanca!) divisions, the sample is based on the leading commercial players operating on the Italian market; for the Corporate and Investment Banking division, it is based on the bulge-bracket investment banks, independent advisory boutiques and the CIB divisions of the leading European commercial banks; for the WM HNWI division (MB Private Banking), the sample is based on the market of Italian operators and non-Italian players operating in Italy; for the Group's asset managers, the sample is constructed from independent companies and others forming part of banking groups or insurers operating in the relevant geographical areas. For the Chief Executive Officer and General Manager, the sample comprises a mixture of midcap firms which are comparable to Mediobanca in terms of either business model taken as a whole or individual segment of activity represented within the Group (i.e. advisory, asset management, innovative retail, etc.): these include Close Brothers, Lazard, Julius Baer Group, Macquarie, Vontobel, Bankinter, Schroders, Fineco Bank and Banca Generali.

salaries. Mediobanca devotes continuous attention to the value of the fixed salaries it pays, which are adapted to changes in the market scenario on a regular basis, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.

II. Variable remuneration

This is the incentivizing component that functions as recognition and reward for the results achieved and objectives met, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking and Wealth Management divisions in particular) forms a significant portion of their annual pay, in line with reference market practice, without prejudice to the cap and to the other conditions established by the regulations in force.

Variable remuneration (see Section 6 "Incentivization system" below) is paid on the basis of pre-set performance indicators. The time horizon for evaluation may be short-term (i.e. linked to the annual budget, as is typical of short-term incentive systems) or long-term (as in cases where long-term incentive schemes are run).

The variable remuneration is paid in cash and equity instruments, in part upfront and in part deferred to subsequent years, subject to additional performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes.

III. Limits on variable remuneration

Subject to approval by shareholders in annual general meeting, in accordance with the national and international regulations in force on this subject, the upper limit on variable remuneration for all staff belonging to the Mediobanca Group[7] and hence the entire scope of Identified Staff has been set, as in the previous Remuneration Policies, at 200% of fixed remuneration (without prejudice to the provisions in force for staff employed in the control units).

[7] With the exception of Financial Advisors linked to the Group under agency contracts, and for staff employed at the Group's non-Italian companies which are not banks which perform pure advisory services, despite not being included in the definition of Group Identified Staff.

The reasons justifying this proposed limit are primarily:

- The need to attract and retain the most talented staff, in investment banking especially, by aligning the Bank's practice with that of its competitors;
- The need to maintain the appropriate operating flexibility, minimizing the risks that would be associated with increasing the fixed labour cost component excessively;
- To ensure that the remuneration policy is consistent with incentives which seek to promote virtuous conduct in the pursuit of business objectives and value creation;
- To align the Bank with the policies adopted by the leading Italian and international banks;
- The increasing presence of competitors in sectors (financial institutions which are not banks, private equity, hedge funds) or geographies (United States, Far East) with a less restrictive regulatory framework;
- The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

The sustainability of this limit is guaranteed by the provisions of the remunerations policies regarding the determination of the variable component, the correlation between risk and performance, and the performance conditions, malus conditions and clawback provisions.

As permitted by the Bank of Italy's Supervisory Instructions currently in force, Mediobanca has taken up the option to make an exception to the 2:1 cap on variable remuneration relative to fixed salary for all staff, including those qualifying as Identified Staff at Group level, belonging to the Mediobanca Group companies which operate in asset management in Italy (MB SGR) and elsewhere (Cairn, RAM, MB Management Company, CMG).[8] They adopt a specific cap on variable remuneration of up to five times fixed remuneration (5:1). This exception, which is in line with those adopted by the majority of the Bank's leading Italian and non-Italian competitors, is based on the following points:

- These companies are individually subject to UCITS/AIFM sector regulations which do not set limits on variable remuneration;

[8] As at 30 June 2020, the Group's Identified Staff employed by the asset management companies consist of one employee of MB SGR identified on the basis of qualitative criteria (cluster 5), three by RAM and one by Cairn identified by quantitative criteria.

- The need to safeguard the attractiveness and competitiveness of the remuneration packages paid to staff working in asset management, a market which includes players that do not set caps, because they are a) independent; b) part of international banking groups that can apply exceptions to the salary cap under the regulations in force in the countries where they are headquartered; and c) owned by insurance companies;
- Strengthening in the Wealth Management sector is one of the Group's main pillars of growth;
- The asset management companies have a different risk profile to the dominant one in the Banking Group's activity, and are not subject to direct financial risks (market, credit or liquidity) for investment products where the assets at risk belong to the client subscribing to them. For asset management products, the risk profile for the client is an integral part of the mandate regulations, and as such is governed and expressly represented in the documentation which the customer receives when they subscribe to the product;
- The incentivization system designed for the fund manager is based on the same mechanisms provided for clients, meaning their interests are aligned within the system of controls that can be implemented for the asset management sector;
- With reference to operational and reputational risks linked to the product investment process and potential related complaints from customers, including complaints related to conduct issues by staff, no incentive for staff is permitted that would increase the company's exposure to financial risks in order for them to reach their remuneration targets.

Applying this exemption does not impact on the earnings/financial sustainability of the companies involved, as: a cap is applied in any case to the variable remuneration; and their staff remuneration and incentivization mechanisms guarantee close correlation to results, consistent with the companies' characteristics and size, internal organization, nature, and the range and complexity of their activities. The mechanisms are implemented over a period of time which is appropriate to the life and/or investment cycle of the UCITS or AIFs managed, or to the holding period for the instruments recommended to the investors, to ensure that the valuation process is based on longer-term results and that actual payment of the results-based remuneration components is distributed over a period that takes due account of the investment risks and repayment policy (if any).

IV. Other remuneration components

Buyout, sign-on and entry bonuses may be awarded to staff with particularly important profiles but only at the recruitment stage, and for the first year of their employment by the company, as per the regulations in force. They also include bonuses awarded at recruitment to compensate for any loss in earnings from previous jobs, in accordance with sector practice. Such bonuses are decided and paid in accordance with the policies and regulations in force.

For specific categories of staff and/or on an individual basis, in cases which involve ongoing employment or its termination, contracts may be signed with minimum guaranteed duration clauses (sometimes referred to as stability pacts), non-competition agreements, extended notice arrangements, retention bonuses or other arrangements as permitted under the applicable employment law and other regulations. The internal regulations set out the guidelines for managing such ancillary arrangements, and in particular govern the treatment of sums paid as compensation under such agreements, especially with reference to their inclusion in the variable remuneration components.[9]

Any compensation paid to Group management for positions held on behalf of Mediobanca in Group or investee companies is paid to Mediobanca itself.

V. Benefits and welfare

Based on an awareness that corporate welfare makes a significant contribution to the implementation of CSR, the Group has adopted instruments which produce positive effects outside the company, benefiting not only staff members but also their family and the local community in general. Corporate welfare creates value that is shared with a broad range of stakeholders, and so helping to produce collective benefits that endure over time.

[9] As variable remuneration, such arrangements may fall within the situations regulated by Bank of Italy circular no. 285 on "Limits on distributions and capital conservation plan". Such provisions are the only ones that could justify suspension of the treatment of this contractual component for both Group employees included in the definition of Identified Staff and for other employees as well. The gateways included in the Group Remuneration Policies applicable to Identified Staff and/or those provided by the individual legal entities' policies apply only to payment of the annual or long-term variable incentivization system component. Any suspension of the amount of the ancillary arrangement is valid only temporarily, for the period in which the limit on distribution is manifested.

From this viewpoint and in line with the market, the remuneration package is complemented by a series of benefits that reflect the attention devoted by Mediobanca to the personal needs and welfare of its staff, including those already in retirement. The benefits are for the Group's entire population, and may be distinguished by families of professionals and geographical areas but do not make provision for individual discretionary systems.

– Complementary pension scheme: employees are entitled to participate in complementary corporate pension schemes, with contribution rates distinguished by category and length of time employed by the company.
– Healthcare scheme: this scheme covers healthcare, dental and preventative medicine expenses for staff members and their family. An extensive network of doctors and dentists who are part of the scheme enables beneficiaries to have direct access to services without having to pay in advance and providing significant financial benefits.
– Accident insurance policy, life insurance policy, and long-term care insurance policy: these policies guarantee coverage to staff in the event of their having an accidents either work- or non-work-related; entitle claimants to a guaranteed capital sum in the event of an employee's death; and pay out an annuity in the event of permanent incapacitation
– Company welfare/flexible benefit systems: these have been instituted for all staff or like-for-like categories of staff, as provided by the applicable tax legislation and regulations in force.[10] Such systems involve the provision of non-cash services and instruments (e.g. training activities, study and education courses, welfare services, etc.), which Group companies make available to their staff and families, with the possibility of paying any amounts unused to the complementary pension scheme. Production and/or result bonuses provided for under complementary company contracts may be used to this end, or other amounts earmarked for the welfare of similar categories of employee and according to marginality criteria relative to the capacity to pay principle. The objective is to: expand the range of welfare initiatives offered contractually, in order to provide increased benefit to staff

[10] In Italy the applicable regulations are laid down by Article 51, paragraphs 2 and 3 of the Italian Income Tax Act, as amended by the 2016 budget law as amended. These have introduced certain changes to how income from paid employment is taxed, increasing the range of possibilities and examples of sums and benefits not included in the calculation of income from paid employment, and which for this reason were previously considered to be instances requiring protection from the legislator. The changes have made it easier to introduce corporate welfare schemes, which make available a basket of options to staff members from which they can choose the benefits that are most appropriate to their own needs and family situations.

members and their families by enabling them to access specific products and services which can be tailored to their specific requirements; offer increased protection for public welfare provision; and obtain improved purchasing power for overall remuneration, through relief on tax and social security contributions permitted by law.

– Company cars: these are assigned only to the highest professional figures or those with commercial roles. The range of cars available is notable for the number of hybrid and/or electric vehicles on offer, in accordance with environmental sustainability criteria.

6. Incentivization system

Variable remuneration and the correlation between risks and performance are determined via a process which aims to reward staff based on the Bank's and the Group's risk-adjusted performances, in line with the risk profile defined in the Risk Appetite Framework (RAF), with a view to achieving business continuity and sustainable results over the long term.

a) Gateways and risk-performance correlation

Distribution of the variable remuneration earmarked for the remuneration of the "identified staff" in each Group organizational division only takes place if the following indicators or "gateways" are met:

a) Capital adequacy and liquidity requirements at levels which are higher than those stated in the Risk Appetite Framework[11] approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP. These are: CET 1 ratio, Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio, and Net Stable Funding Ratio.

b) Positive operating profit delivered at Group level.[12]

[11] The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

[12] Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

Group gateways	**KPI**
CET 1 ratio	≥ 9.5%
Leverage ratio	≥ 4%
AFR/ECAP	≥ 115%
Liquidity Coverage Ratio	≥ 110%
Net Stable Funding Ratio	≥ 102.5%
Positive operating profit at Group level	> 0

b) Annual variable remuneration (short-term incentives)

I. Budget phase

The process for defining the annual incentivization system and subsequently determining the divisional variable remuneration provides that the budget approved by the Board of Directors should include the estimated cost of labour for the financial year to come, including the amount of variable component, determined on the basis of the all the Mediobanca Group divisions' expected earnings performance targets, the market scenario and historical pay trends.

II. Determination and allocation of annual divisional variable remuneration

Once the final results have been closed, the annual variable remuneration payable to the Group's divisions and business units, including the share attributable to identified staff, is calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC and/or other risk-adjusted metrics) and on other secondary quantitative and qualitative objectives

– Mediobanca Wholesale Banking: the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit[13] to be used for the variable remuneration. The aggregate amount reflects assessment of other quantitative parameters (Group results, Risk Appetite Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual budget objectives and the long-

[13] Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.

term business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and share, retention of key staff, need to recruit new professional talent). The amount thus determined is compared with those derived from the individual business units' scorecards, and different payout ratios are applied – based on the activity performed – to Economic Profit or to other risk-adjusted metrics, then to other secondary metrics, both quantitative (such as reference to budget objectives and historical results trends) and qualitative. A cap is in place on these amounts, which may be fine-tuned to preserve the overall sustainability of the Group's variable remuneration.

– Mediobanca Private Banking: for the Private Banking division, the Chief Executive Officer of Mediobanca identifies the share of ordinary gross operating profit, net of the cost of risk, to be set aside as variable remuneration. To determine this amount, other secondary quantitative metrics, such as inter-company cross-selling, cash/AUA transformation to AUM, and operational risk assessment) and qualitative metrics (adequate transparency in banking and financial transactions and services provided to clients; management of resources, compliance with regulations) are also used. Variable remuneration is allocated on the basis of an evaluation of the individual's contribution to area results (indicators used include Net New Money, AUM, revenues, cost/income ratio attributable to each individual banker) and their internal organizational unit.

– Principal Investing division: the variable remuneration is determined on the basis of specific qualitative and quantitative performance indicators for the area.

– Holding Functions/control, staff and support units: the aggregate variable remuneration is established by the Chief Executive Officer of Mediobanca on the basis of general earnings sustainability. The variable component, which is usually small, is not related to earnings performance or the Group's results, but to individual qualitative performance (value of staff, quality of performance, retention strategies) and to the role's positioning relative to the reference market.

– Group Treasury, Strategic and Trading Portfolio: aggregate variable remuneration is determined on the basis of scorecards which use quantitative metrics, linked to both risk and earnings indicators according to the nature of the business and activity (e.g. Liquidity Coverage Ratio, Net Stable Funding Ratio, cost of funding, HQLA and P&L thresholds). Secondary qualitative metrics are also provided.

– For the other divisions and business lines (Consumer Banking, Wealth Management Affluent/Premier, CMB and the entities performing asset management activities, Speciality Finance and Advisory), the amounts are determined by the Chief Executive Officers of the relevant related legal entities, who to this end liaise with the General Manager and Group HR based at Mediobanca.

III. Individual performance evaluation

The individual incentivization system and assignment of variable remuneration to individual beneficiaries are established via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed variable remuneration may be ruled out or reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary remaining an employee[14] of the Mediobanca Group throughout the assessment period and still being in the company's employment at the actual date of distribution and/or not serving a period of notice for resignation or dismissal. The remuneration may not be split over fractions of years, hence if the employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the amounts are validated individually by the Chief Executive Officer and General Manager of Mediobanca with the support of Group HR.

Mediobanca valorizes its staff on a meritocratic basis, developing their professional capabilities and career opportunities in accordance with the principle of equal opportunities and in line with the Bank's own strategic, organizational and business choices. Difference of gender and thought is treated as a value to be leveraged, providing a source of enrichment in cultural and professional terms. Professional development is facilitated through the provision of the appropriate training, practical work experience under the leadership of line managers, mobility across different positions, assessment of performance, and ultimately the career advancement and promotion process. The Group also

[14] The other contractual forms provided for by the regulations apart from full employment contracts (e.g. collaboration or employment agency contracts) are considered equivalent.

encourages its staff to get involved in its company volunteering programme, to foster talent, passion and commitment on the part of staff by including them in the various environmental and social initiatives which the Group supports.

All these instruments together provide an opportunity for the Group's staff to feel valued. Our people represent a fundamental part of our capital and are indispensable to making us competitive and so helping the Bank deliver performances that are sustainable over the long term.

At the start of the year the professional, personal and company objectives for each staff member are assigned and discussed with the respective line manager. Such objectives are meant to be achievable, challenging and weighted according to the priority assigned to each staff member. Particular attention is paid to proper individual conduct in accordance with the provisions of the Code of ethics, Organizational model and Business conduct policy, and in general terms with the principles established by the laws, regulations, operational rules and internal procedures, with reference in particular to those considered to be most relevant in terms of reputational risk. Increasing consideration is being devoted as part of the evaluation process to the achievement of environmental, social and governance (ESG) objectives with reference to the individual and business areas of responsibility.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Mid-term feedback throughout the year also allows the line managers and staff to agree on the extent to which the objectives have been met, as part of objective discussion of individual performances. In this way, the organization is able to reach its objectives while respecting its corporate values, and transparency is assured in the area of training opportunities, professional development and evaluation criteria.

For staff belonging to the business units, the evaluation reflects:

– Earnings results achieved, with regard to the budget objectives and risk/return and cost/income ratios;

– Qualitative criteria: development of product offering, professional conduct and reliability, quality in terms of customer relationships, technical and analytical skills in the field of finance, ability to control costs, importance placed on achieving operating efficiency, and co-operation with other areas of the Bank, reputational and compliance issues, and adherence to the Bank's values.

For all the other units, the main aspects of the evaluation are based on qualitative objectives and a broader appraisal regarding compliance with regulations, control of costs and efficient management of resources. In particular, for staff employed in the accounting, planning and control areas the following aspects are considered: all obligatory, supervisory and market disclosure requirements being complied with, all the accounting processes, related electronic procedures and tax requirements being managed efficiently and accurately. For staff employed in the internal control units (i.e. Group Audit, Compliance and Risk Management), assessment is made of the continuous monitoring and control of the Bank's processes and operations carried out by them, independently and autonomously, to prevent risk situations developing and ensure irregular behaviour or events is picked up swiftly. Also evaluated is these units' continuous assessment of compliance with the regulations in the form of appropriate audit plans, updates to internal guidance, training of internal units; correct development of models, methodologies and metrics with which to measure market, credit and operational risks, producing adequate reporting for monitoring processes; and accurate analysis of new products and their risk profiles.

In close relation to the evaluation process, staff may also be promoted to a new contractual level or being assigned a new corporate title, as part of the career advancement process linked to covering new organizational roles based on experience acquired and results achieved. Promotions are proposed by the head of the business unit concerned, agreed with the relevant Human Resources department, and approved by the General Manager and/or the Chief Executive Officer (for middle management). For higher levels (senior management or equivalent), the process involves specific appraisal of the candidate concerned, including by other senior Bank staff from a variety of different professional backgrounds, experience and roles. The process is closely linked to that of succession planning which involves researching, identifying and managing individual candidates for senior positions (specifically executive directors, including in cases where such figures have to be replaced ahead of the scheduled expiry of their term of office). The process also requires a pool of possible high-potential replacements to be identified (the "senior talent pool") for key positions, including the business areas, control units, and staff and support roles, in view of likely future requirements in terms of strategic leadership and/or professional and managerial capabilities based on a global organizational approach, without neglecting to monitor the market on an ongoing basis. Growth and career development pathways are devised for such staff, including involvement in specific strategic projects, exposure to Board/committee meetings, and international and intra-Group rotation. Selection is based on assessment of professional and technical skills, as shown by CV and company record as well as performance over time, possession and development of key leadership capabilities.

The remunerations policies are therefore co-ordinated with the selection, appointment, succession and assessment of the adequacy of company representatives and Key Function Holders and the Staff management policies.

IV. Exceptions (variable remuneration for retention purposes and floors)

The Board of Directors, at the Chief Executive Officer's proposal and with the Remunerations and Related Parties' Committees in favour, may approve payment of variable remuneration in favour of Identified Staff in order to safeguard the most critical professional capabilities, even if the gateways have not been met. The possibility of paying variable remuneration for retention purposes is assessed in the light of the causes for the individual gateways not being met, and the impact of the individual indicator on the Group's capital adequacy, liquidity and profitability, including through assessment of the causal link with the Group's various divisions. The scope of the staff and the amount involved is based mainly on the following criteria: the contribution of the individual beneficiary to the overall results of the division and the Group, the importance of the profile to the sustainability of future results, benchmark analysis of the market and competitive scenario, the need to ensure business continuity, and consistency with the succession planning policy.

Furthermore, if the gateways are met but an Economic Profit or other divisional indicator is delivered which is negative or small, the Chief Executive Officer may also propose a variable remuneration floor pool for identified staff, agreeing the rationale for distributing the proceeds with the governing bodies based on the individual contributions of the business activities to the company's results.

c) Long-term variable remuneration (long-term incentive)

Upon the approval of a long-term Group strategic plan, the Board of Directors may choose to adopt a long-term incentivization scheme conditional upon the objectives set out in the plan itself being reached.

This plan directs the conduct of the beneficiaries towards creating long-term value for shareholders; correlates a part of the variable remuneration to achieving objectives over the medium and long term; is constructed in such a way as to ensure that achieving the plan's results does not encourage taking more risk than the governing bodies have decided is sustainable; and promotes loyalty retention. It is consistent with sustainability objectives that endure over time and is able to create value that is shared with all stakeholders.

The long-term incentive scheme has specific quantitative/financial and qualitative/non-financial objectives linked to the scheme's time horizon, and is subject to gateways. Of these gateways, the capital and liquidity indicators included in the RAF are assessed at the end of each year for the period covered by the Plan, while the earnings indicators are he gateways are assessed against the capital and liquidity indicators stated in the RAF at the end of each financial year through the course of the Plan, and for the earnings indicators, on an aggregated basis at the end of the Plan itself.

Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component in this Policy, unless stipulated otherwise by the Board of Directors after consulting with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes and for payment of the variable remuneration accrued, including any specific resolutions requiring to be adopted in general meetings. In addition to the Chief Executive Officer and Group General Manager, other Group senior representatives may be included in the Plan, with a specific pay mix identified for them between short- and long-term variable components. The 2:1 cap on variable/fixed remuneration approved by the shareholders in general meeting must be complied with for each year.

The Long-Term Incentivization Plan currently in force is linked to the 2019-23 Strategic Plan and involves the CEO of Mediobanca, the Group General Manager and the CEO of Compass/CheBanca! (see Section 7).

d) Payment of variable component

I. Timing and instruments

A substantial proportion of the variable component is deferred in time and distributed in the form of equity instruments, in order to link incentives to the objective of value creation in the long term, and to allow the continuity of the company's positive results to be verified. Payments are made through annual pro rata instalments and depends on the beneficiary's role and the variable remuneration payable to them.

For directors with executive duties and senior management (i.e. groups 2 and 3 in the table of Identified Staff), the deferral period is always five years. The deferred component is:

– 60% (55% in equities and 45% in cash), for variable remuneration equal to or higher than €425,000;

– 50% (56% in equities and 44% in cash) for variable remuneration of less than €425,000.

For other Identified Staff, deferral is over a three-year time horizon, made up as follows:

– 60% (50% in equities and 50% in cash), for variable remuneration equal to or higher than €425,000;

– 40% (50% in equities and 50% in cash), for variable remuneration of less than €425,000.

For the Material Risk-Takers, the upfront component is paid half in cash and half in Mediobanca shares.

The €425,000 threshold has been identified in accordance with the regulations, as the lower amount between 10x the average overall compensation within the Group (approx. €84,200) and 25% of the overall remuneration for Italian high earners stated in the EBA 2019 report (i.e. €425,000). This threshold can be reviewed at least once every three years.

For Identified Staff, the deferral mechanism applies starting from a materiality threshold of variable remuneration equal to or higher than €80,000.

After the vesting period, the shares are subject to a further retention holding period of one year.

The time horizon over which the variable remuneration is distributed, in cash and shares, is therefore six years for senior management and four years for the other Identified Staff.

An overview of the timing for the various distributions is shown in the table below:

	Year T	**T+1**	**T+2**	**T+3**	**T+4**	**T+5**
Senior management with variable remuneration ≥ €425,000	20% Upfront cash	20% Upfront equity	13% Deferred cash	11% Deferred equity	11% Deferred equity	11% Deferred equity 14% Deferred cash
Senior management with variable remuneration < €425,000	25% Upfront cash	25% Upfront equity	11% Deferred cash	9% Deferred equity	10% Deferred equity	9% Deferred equity 11% Deferred cash
Other Identified Staff with variable remuneration ≥ €425,000	20% Upfront cash	20% Upfront equity 5% Deferred cash	15% Deferred equity 10% Deferred cash	15% Deferred equity 15% Deferred cash		
Other Identified Staff with variable remuneration < €425,000	30% Upfront cash	30% Upfront equity	10% Deferred equity 10% Deferred cash	10% Deferred equity 10% Deferred cash		

Mediobanca also applies a 30% deferral over a three-year time horizon, all in cash and subject to malus conditions, to all staff not included in the definition of identified staff who receive variable remuneration equal to or higher than €100,000.[15]

[15] For personnel not included among the definition of Identified Staff, the Group companies are free to adopt or not adopt their own internal deferral mechanisms and respective thresholds, including on the basis of specific sector regulations (e.g. in asset management). The deferral structure adopted to this end by Mediobanca applies to those Group companies which do not have a policy or other specific remuneration and incentivization of their own, and which therefore adopt the Group policy directly without further specification. The foregoing is also without prejudice to application of deferral mechanisms other than those described in this section, if set by the local regulations in force, in particular for companies based in non-EU member states, but in any case consistent with the regulations applicable to the Mediobanca Group and consistent also with the provisions of this Policy

II. Performance share scheme

In order to have ordinary shares for use as components of staff remuneration, Mediobanca has adopted an incentivization system based on performance shares submitted to the approval of shareholders at the Annual General Meeting to be held on 28 October 2020 (the "2021-25 Performance Share Scheme"). Reference is made to the relevant report for further details.

The scheme involves the award of Mediobanca shares to staff members (employees, collaborators, staff on agency contracts) as the equity component of the variable remuneration granted to them as a result of the performance evaluation process, both short-term in relation to the annual budget (short-term incentive plan) and long-term (long-term incentive plan) usually assigned in conjunction with approval of the strategic plan.

The performance shares allocated as upfront equity component are subject to a holding period of no less than one year before they are actually awarded, subject to the beneficiary continuing to work with the Mediobanca Group.[16]

The performance shares awarded as deferred equity component are:

- Assigned within an overall vesting period for all deferred components over a time horizon of at least three years, provided that the beneficiaries are still employed by the Group[17] and that the additional performance conditions stipulated in the remuneration policies in force at the time regarding the sustainability of the results achieved have been met, with the conditions regarding the company's capital solidity and liquidity and/or proper individual conduct in particular respected;
- Subject to a further holding period of at least one year prior to the their actual assignation, which remains conditional upon the beneficiary continuing to work with Mediobanca.[18]

Awards which are spread over time are an incentive to staff, depending on their role and business activities, to adopt conduct that ensures the Mediobanca

[16] I.e. the existence of a co-operation agreement between the beneficiary and the company, whether an employment contract or some other arrangement, not during a period of advance notice for resignation/withdrawal/termination, whether voluntary or due to dismissal/withdrawal on the part of the company. For Directors of Group companies who are not tied to the Group by employment contracts, when their terms of office come to an end as a result of expiring naturally or failing to be renewed, the rights are maintained subject to the provisions of the specific individual agreements and provided that the person concerned has not left office due to compliance breaches or other deeds attributable to them.

[17] See previous note.

[18] See note 16.

Group's results are sustainable over the long-term, encouraging them to maintain performances over time that guarantee the Bank maintains a solid capital base, ample liquidity, control of all risks and profitable results.

The Chief Executive Officer of Mediobanca may also use ordinary shares as an instrument outside the annual award cycle, to define remuneration packages upon the occasion of recruiting new key staff or for retention purposes, including outside the annual and/or long-term award cycle and with specific deferral mechanisms. The governing bodies may also award quantities of performance shares as part of compensation agreed in respect of early termination of the working relationship, to link it to the performance delivered and the risks taken by the individual and the Bank, as required by the regulations and consistent with the provisions of the remunerations policies in force at the time.

The shares received are personal, without prejudice to inheritance rights. The right to receive shares is retained in the event of retirement or the beneficiary being permanently disabled and/or suffering from an illness which makes them unable to continue working. Conversely, the right to receive shares is forfeited in cases where the working relationship ends, whether governed by an employment contract or some other arrangement, due to resignation, dismissal and/or withdrawal. Exceptions to the foregoing are handled by the governing bodies within their respective areas of authority, namely the Board of Directors, Remunerations Committee and the Chief Executive Officer of Mediobanca, based on the powers vested in them, particularly in cases which involve departures by mutual consent within the limits defined by the remunerations policies in force at the time. The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies, and without prejudice to any regulations providing for more favourable treatment instituted by the applicable local legislations.[19]

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for this purpose, to be approved at the Annual General Meeting held on 28 October 2020, for award to Mediobanca staff members by 28 October 2025 pursuant to Article 2349 of

[19] The provisions of this paragraph also apply to the deferred cash component.

the Italian Civil Code. Alternatively, the treasury shares currently held by the Bank not reserved for other purposes may also be used to this end.[20] At present a total of 6,619,406 performance shares have been assigned under the previous limit set by shareholders in annual general meeting (the "2015 Performance Share Scheme"), but not yet awarded as they are still subject to vesting/holding periods. The fully-diluted percentage of the share capital accounted for by the equity instruments already assigned to Group staff amounts to approx. 0.74%. The impact on the stock's value and the possible dilution of the share capital is negligible, given that there are several schemes in operation over different years and with different vesting and holding periods over a medium-/long-term time horizon.[21]

III. Additional performance conditions for the deferred components

The deferred variable remuneration component is paid, after the performance evaluation process has been completed over the relevant timeframe, i.e. annual (short-term incentive) or long-term (long-term incentive), provided that:

- The beneficiary is still a Group employee[22] and not serving a period of notice for resignation or dismissal;
- In each of the financial years, the performance conditions equating to the gateways described in the section entitled "Gateways and risk-performance correlation" are met;
- The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as validated by the Risk Management unit.

This method is consistent with the requirement for staff, in accordance with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital and liquidity base, control of all risks as well as positive earnings results, thus guaranteeing that the remuneration systems remain sustainable over the long term.

[20] In accordance with the provisions of the resolution adopted by shareholders in the annual general meeting held on 27 October 2018.

[21] At the extraordinary annual general meeting held on 27 June 2007, the shareholders of Mediobanca adopted a stock option, which was then revised by the Board of Directors at a meeting held on 24 June 2011 to become a performance stock option scheme. No options remain to be taken up from that scheme. The 24,464,000 shares remaining from the capital increase (to be implemented by 1 July 2022) can no longer be used.

[22] Equivalent provisions have also been provided for working arrangements other than employment itself (e.g. co-operation or agency contracts). For Directors of Group companies who are not tied to the Group by employment contracts, when their terms of office come to an end as a result of expiring naturally or failing to be renewed, the rights are maintained subject to the provisions of the specific individual agreements and provided that the person concerned has not left office due to compliance breaches or other deeds attributable to them.

For staff employed at other Group companies, the Chief Executive Officer may choose to identify one or more specific economic indicators in place of those referred to above.

The Board of Directors, with the favourable opinion of the Remunerations Committee, may, at the Chief Executive Officer's proposal, authorize payment of the deferred component, including in part, even if the gateways are not achieved, either to business divisions or individuals who during the year have delivered particularly outstanding performances or who are expected to be decisive with regard to the sustainability of results over time, for retention purposes.

e) Malus and clawback conditions

The remuneration and incentivization system must not only discourage improper behaviour, but must also contribute to promoting virtuous conduct. Conduct is therefore an important component of the remuneration policies, which must take account of individual and collective responsibilities in cases of misconduct and must define their impact on remuneration.

Variable remuneration components may only be assigned, when awarded and when deferred payment takes place, if the beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary proceedings based inter alia on the provisions of the Code of Ethics, Organizational Model instituted pursuant to Italian Legislative Decree 231/01, or violations of the Business Conduct policy and/or the other internal guidelines issued by Mediobanca), and if no losses are attributable to their actions.

Mediobanca has prepared a Group Directive to this end, defining the rules to identify and evaluate compliance breaches and to assess their impact on the variable remuneration component, both those already assigned and those still to be assigned. In particular, malus mechanisms may be activated in the event of compliance breaches, that reduce or cancel the value of: (i) variable remuneration, to be assigned for each financial year during the annual performance evaluation process, both individual or for a specific unit; and/or (ii) the deferred component for previous years not yet paid; and clawback mechanisms which require the beneficiary to pay back the amount of variable remuneration that has already been paid.

In order to identify a compliance breach, the instances of violations detected by the control units (Compliance & Group AML, Group Audit and Group Risk Management) and the authorities (e.g. Bank of Italy and Consob) are the primary sources taken into consideration. To ensure greater effectiveness, and in accordance with the principle of proportionality, under the terms of the Directive only material violations constitute compliance breaches, i.e. those which have exposed the Bank to a significant non-compliance risk. In general this means breaches of the regulations that entail criminal or administrative liability (e.g. pursuant to Italian Legislative Decree 231/01) or of regulations specific to the banking and finance sector (e.g. market abuse, provision of banking and investment services, anti-money-laundering and business conduct). Any more minor breaches detected by a control unit, and/or behavioural infringements noted by Group HR, which do not constitute compliance breaches may nonetheless be taken into consideration in the assignment of variable remuneration, as part of the performance evaluation process which includes general compliance with the conduct requirements among its criteria, along with individual management objectives.

The significance of a breach is assessed on the basis of the following aspects: seriousness of the breach, size of the breach, external detection. Each compliance breach is evaluated based on the above criteria, being assessed as nil, low, medium or high, resulting in an overall score being assigned. A reduction in the variable remuneration component is associated with each score, which may affect the amount of variable remuneration paid for the year in progress (known as an "in-year adjustment") and/or the reduction of the deferred component assigned in previous years and not yet paid. If enquiries or disciplinary proceedings by the authorities are still in progress and which have not yet established clear breaches of the procedures in force, the Group may decide to suspend payment of the variable upfront and/or deferred component as yet unpaid until the results of the enquiry process are known. The outcome of the enquiries and the impact on variable remuneration, both individual or in terms of the unit's scorecard, are formalized and filed by the Compliance unit. Regular reporting to the governing bodies on this issue has been instituted.

Mediobanca reserves the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being established. In particular, provision for such measures is made in cases involving breach of the obligations imposed under Article 26 of the Italian banking act (company representatives – personal and professional qualifications and independence) or, where relevant to the party involved, Article 53, paragraphs 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Clawback clauses can be applied to Identified Staff up to the fifth year following payment of variable remuneration, upfront or deferred, and up to one year for other staff.

f) Ban on hedging strategies

Staff members are not allowed to use hedging or insurance strategies on their remuneration or other aspects which could alter or otherwise distort the risk alignment effects inherent in the compensation mechanisms, especially if they refer to the variable component paid in the form of financial instruments.

As governed by the applicable internal regulations,[23] Identified Staff must give notice of transactions executed by them directly or indirectly in financial instruments issued by Mediobanca and those with Mediobanca instruments as underlying, transactions identified as potentially able to affect the risk alignment mechanisms, and more generally, to impact on achieving the objectives of the regulations in force in the area of remuneration.[24] Identified Staff are required to give notice of contracts executed with counterparties that generate the same effect (e.g. OTC derivatives). They are also obliged to disclose, from the moment they are included in the definition of Identified Staff and once a year if their inclusion is confirmed:

– All custody and administration accounts – opened with the Group or with other intermediaries – of which they are holders and/or joint account holders at the disclosure date. Also relevant in this connection are any accounts attributable to them indirectly (e.g. made out to companies 100% owned by them);
– The list of the financial instruments listed above with an indication of their respective quantities;

[23] "Disclosure of accounts and trades by Group Identified Staff", "Regulations on internal dealing" and "Regulations governing personal transactions involving financial instruments made by relevant persons".

[24] Specific provisions are adopted for the companies operating in asset management, as the variable remuneration in such cases may be assigned in the form of fund stock units and/or fund-linked products.

– The fact that no contracts have been entered into with third parties for hedging and/or insurance purposes.

Failure to disclose the above information constitutes a compliance breach.

The foregoing is without prejudice to the obligations and restrictions in force under any additional internal regulations governing trading in financial instruments on a personal basis.

Based on the information contained in the above disclosures, the control units carry out checks on the accounts and make further enquiries which may include asking to see the statements of account as appropriate.

7. Retribution structure for particular categories of staff

a) Non-executive directors

The emolument payable to non-executive directors of Mediobanca and the Group companies is set by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors of Mediobanca and all the Group companies are covered by a D&O insurance policy.

The Chairman is entitled to receive fixed remuneration only. The Board of Directors may, after consulting with the Remunerations Committee and the Related Parties Committee, and within the limits set by the regulations in force, assess whether or not it is appropriate to pay him a variable component, on an exceptional basis, to be paid in accordance of the rules of this policy.

b) Statutory Audit Committee

The annual compensation payable to the Statutory Audit Committee is set in a fixed amount by the Bank's shareholders gathered in general meeting.

c) Mediobanca CEO and Group General Manager

The remuneration of the CEO and the Group General Manager is regulated by individual agreements approved by the Board of Directors, and comprises:

1) A fixed salary;
2) A variable annual component (short-term incentive) which only accrues if the gateways stipulated in these policies are met (see the section entitled "Gateways and risk-performance correlation"), commensurate with the quantitative/financial and qualitative/non-financial performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being met.

   The scorecards provide for performance objectives for their respective areas of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to it by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the quantitative/financial objectives are met, this triggers the payment of a variable bonus ranging from 50% (or 40% if the minimum target is only partially met, i.e. at least 85%) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 150% in the event of particularly good performances. Regarding the qualitative objectives, the variable component deriving from the quantitative objectives may be adjusted by the Board of Directors based on the degree to which the non-financial objectives have been reached, in a range from -10% to +15%. The qualitative objectives are considered as having equal weighting, and are to be assessed individually. The cap on the variable remuneration in the short-term component remains set at 160% of the fixed salary for purposes relating to the Long-Term Incentive Plan described in the next section.

   Of the variable component, 60% is deferred over a five-year time horizon, in cash and in Mediobanca shares, in accordance with the provisions of these Policies in the section entitled "Timing and instruments". All deferred components are subject to the performance and malus conditions stipulated in these Policies (see the section entitled "Performance conditions, malus conditions and clawback").

For the financial year ending 30 June 2021, the Chief Executive Officer has been assigned the following quantitative objectives:

Objective	Weighting	KPI
Profit before Taxes (PBT) from Group banking activities/capital absorbed *(Optimization of return on capital allocated to core activities)*	30%	Vs Budget
Cost of risk *(Focus on the Group's principal income source and asset quality)*	30%	Vs Budget
Total fees/banking revenues *(Focus on share of capital-light revenues as % of total income)*	20%	Vs Budget
RWA density for banking activities: RWAs/Finrep assets *(Focus on loan quality)*	20%	Vs Budget

The Group General Manager has been assigned the following objectives:

Objective	Weighting	KPI
Profit before Taxes (PBT) from Group banking activities/capital absorbed *(Optimization of return on capital allocated to core activities)*	25%	Vs Budget
Cost of risk *(Focus on the Group's principal income source and asset quality)*	25%	Vs Budget
Cost/income ratio in banking activities *(Balanced growth in revenues and costs)*	20%	Vs Budget
ROAC Wealth Management *(Optimization of return on capital absorbed by the WM division)*	30%	Vs Budget

The following non-financial objectives have been assigned for the year ending 30 June 2021: to the Chief Executive Officer: a specific CSR objective, with focus on diversity, inclusion and employee engagement, and ongoing strengthening of the distribution platforms for the Wealth Management and Consumer Banking divisions; for the Group General Manager, maximization of synergies between the distribution network and product factors, and developing a project for all Group companies to adopt an "agile and smart working platform" consistent with the ESG objectives.

3) A long-term variable component (the Long-Term Incentive Plan): in conjunction with the approval of the 2019-23 Strategic Plan, based on the provisions of the Remuneration Policies, the Board of Directors approved the inclusion of the Chief Executive Officer and Group General Manager in the Long-Term Incentive plan linked to the Strategic Plan's objectives.[25]

Individual scorecards are used to show when the quantitative/financial and qualitative/non-financial objectives have been reached, whereupon the amount of the bonus awarded to the CEO and Group General Manager ranges from 20% to 40% of the value of their annual fixed remuneration for each

[25] The CEO of Compass and CheBanca! is also included in the Plan

year of the strategic plan. The variable LTI component deriving from the financial/quantitative objectives may be adjusted by the Board of Directors according to whether or not the non-financial/qualitative objectives have been reached, in a range between -10% and +15%. The non-financial/qualitative objectives are considered as having equal weighting, to be assessed individually. The adjustment to these objectives applies without prejudice to the annual cap of 40% deriving from achievement of the financial objectives.

The final amount payable at the end of the plan, pro rata to the overall performance delivered, is determined by evaluating each of the objectives contained in the scorecard based on the weighting assigned to them. The main features of the Plan are as follows:

Components	**Description**
Time horizon over which performance is assessed	Four financial years, from FY 2019-20 to FY 2022-23, consistent with the Strategic Plan
STI/LTI pay mix	• On an annual basis, pay mix maximum of 80% STI -20% LTI • To comply with the 2:1 cap approved by shareholders in annual general meeting, maximum of 160% short-term incentive/40% long-term incentive on an annual basis
Gateways	Same as provided in the Remuneration Policies, assessed over the course of the plan, as follows: • RAF capital and liquidity indicators subject to annual assessment as at the balance-sheet date; • Earnings indicators on an aggregated basis at the end of the Plan.
KPIs	• Financial/quantitative KPIs have been selected from among the Plan objectives linked to value creation. • Non-financial/qualitative objectives have also been set.
Means of payment	As per the deferral scheme provided in the Remunerations Policies currently in force (i.e. 60% deferred over a five-year time horizon, 47% cash/ 53% equity). The value of the MB share is established on the basis of the average stock market price in the 30 days before the LTI plan is approved by the BoD.

	KPI	Weighting	Target KPIs 2019-23 Strategic Plan	Assessment criteria	
				KPIs threshold	**% fixed on an annual basis – Strategic Plan time horison (1)**
Growth	EPS Growth	33%	4%	> 5%	40%
				4% - 5%	30% - 40%
				4%	30%
				3% - 4%	20%
				< 3%	0
Profitability	Group ROTE	34%	11%	> 12.1%	40%
				11% - 12.1%	30% - 40%
				11%	30%
				10% - 11%	20%
				< 10%	0
Capitalization	CET 1 (2)	33%	13.5%	>13.5%	40%
				13% -13.5%	20% - 40%
				< 13%	0

(1) Where a range is indicated, quantification is by linear interpolation

(2) Conditional upon shareholder remuneration of up to € 2.5bn over four years (€ 1.9bn in cash dividends and € 0-3-€ 0.6bn in share buybacks with shares cancelled) and the regulatory requisites being met.

Non-financial qualitative objectives	KPIs	Assessment criteria
Corporate Social Responsibility Targets (Global Goals SDG UN)	• Average hours' training +25% • AM: 100% of new investments selected using ESG as well as financial criteria • €700m to be invested in outstanding Italian SMEs • 30% more ESG products in clients' portfolios • € 4m per annum in projects with positive social/environmental impact • Customer satisfaction: CheBanca! CSI in core segments @73, NPS @25 - Compass: CSI @85, NPS @55 • Energy: 92% from renewable resources, CO_2 emissions reduced by 15%; hybrid vehicles @90% of MB fleet • CheBanca! green mortgages up 50%	-5% / +7.5 % quantitative financial results
Relative performance Total Shareholder Return	Mediobanca stock market performance vs Total Shareholder Return index (TSR: based on assumption of dividends being reinvested) of 26 leading European banks (Euro Stoxx Banks – code SX7GT-STX), which includes Mediobanca	-5% / +7.5 % quantitative financial results

The variable component will be paid by the terms, conditions and methods set out in these policies based on the following scheme:

	Long Term Incentive							
	Performance evaluation	**Payment**						**Total**
Strumento	**FY 19/20 - FY 22/23**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	
Cash		20%		13%			14%	**47%**
Equity			20%		11%	11%	11%	**53%**

4 years

5 years

9 years

upfront

deferred

The share-based component has been calculated based on the Mediobanca stock market price at the date on which the LTI Plan was approved (i.e. the average price in the thirty days prior to the Board meeting held on 19 December 2019, namely €10.1356). The actual number of shares to be assigned, subject to the additional performance/malus conditions and/or holding periods provided for in the Remuneration Policies will be finalized and rebalanced when the Plan is completed and the variable component has effectively accrued. The total number of shares that can be awarded is 276,093, 150,597 of which to Alberto Nagel and 125,496 to Francesco Saverio Vinci.

In the event of substantial changes to the Strategic Plan or exceptional events, the Board of Directors, if the Remunerations Committee is in favour, may choose to cancel or revise the Plan, or amend its characteristics and/or manage its respective impact on the individual beneficiaries.

4 The Chief Executive Officer and General Manager also receive their emoluments as directors, but not those due in respect of participation in committees. An insurance policy is available to cover them for third-party liability, and they also benefit from participation in the complementary pension scheme, other benefits and welfare schemes operated for Mediobanca Group management staff.

5) The Chief Executive Officer is required to hold a number of Mediobanca shares equal in value to twice the amount of his fixed remuneration, and the Group General Manager one time, even after the shares deriving from the award of the variable component have actually been assigned, until the respective vesting/holding periods expire (known as the "stock ownership requirement"). The equivalent amount of shares, to be delivered in a timespan of five years from the date of their first award, must be held throughout the duration of their terms of office, to ensure their interests are aligned with those of the shareholders.[26]

d) Identified Staff employed in control units

The remuneration package for the Group's Identified Staff in the control units (Group Audit, Compliance and Risk Management) is structured so that the

[26] At 30 June 2020, the Chief Executive Officer held 2,857,550 Mediobanca shares and the Group General Manager 1,117,000 Mediobanca shares, equal to approx. 10x and 4.7x their fixed remuneration respectively based on the Mediobanca stock market price at the same date.

fixed component represents the majority, with a variable component assigned annually based on qualitative criteria in relation to the effectiveness and quality of control action. The variable component has a maximum limit of 33% of the fixed component, while that of the heads of unit is set annually by the Board of Directors, at the Remuneration Committee's proposal.

e) Staff working for Group companies

In Group companies, the incentivization system is reserved specifically to senior staff who, on account of their professional specialization, organizational role and importance to the business, have an impact on their companies' performance and value creation. The beneficiaries are identified by the Chief Executive Officer and/or General Managers of the companies themselves, after consulting with the General Manager of Mediobanca and with Group HR. Each beneficiary is notified of their inclusion in the incentives scheme, with a defined annual bonus target and calculation method. The bonus is determined annually on an individual basis in view of the risk-adjusted earnings performance delivered by the company (the indicator used for the Group companies is usually the Economic Profit and/or ROAC delivered by the business division in which they work or by other specific risk-adjusted metrics based on the type of activity, as is the case with asset management) and other secondary, quantitative objectives. Specific long-term incentivization plans may also be implemented, with performances evaluated over a time horizon of several years.

For the commercial branch and credit management network, the variable component is determined on the basis on specific quantitative indicators that can be applied individually or collectively by organizational unit. Valuation indicators are also adopted to incentivize proper relations with clients, including (but not limited to): customer satisfaction analysis, commodity checks, lack of complaints attributable to specific responsibilities due to improper conduct versus clients, transparency in banking and financial transactions and services offered to clients, evaluation of other quality indicators (e.g. correct MiFID profiling, absence of contractual irregularities, observance of internal processes in the area of powers, proxies and guidelines). Due consideration is also taken of the results of checks made by the control units. The evaluation is completed by consideration of whether or not individual and project objectives have been achieved. For the staff, support and control units, allocation is based primarily on qualitative criteria.

Below given limits, the bonus is paid entirely in cash in the year in which it accrues. Above such limits provision is made for forms of deferral, on a three-year basis. In the event of losses related (including, but not limited to) to provisions which prove to be insufficient, contingent liabilities or other items which might prejudice the integrity of the accounts (such instances not to be construed restrictively; the "malus conditions"), all or part of the deferred share may not be paid.

In line with the provisions in place for Mediobanca, the incentivization schemes in operation at the Group companies too place particular emphasis on the issue of proper individual conduct (i.e. compliance with regulations and internal procedures, and transparency versus clients) by adopting the concept of compliance breaches, both at the stage of award of the variable component, and in assessment of whether or not to pay any deferred components.

f) Persons working for asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, Switzerland, Luxembourg, Principality of Monaco). They are subject to the sector regulations instituted by the local regulators (for the European companies this means the national regulations transposing the UCITS V and AIFMD directives[27]) based inter alia on the criteria of proportionality and within the broader framework of the consolidated banking regulations on subjects including:

- Role of shareholders in general meeting, governing bodies, Remunerations Committee, and governance processes in general where applicable;
- Definition of identified staff at individual and consolidated levels;
- Remuneration and incentivization system structures correlated to performance indicators for the manager and the UCITS and AIFs managed and measured net of the risk concerning their operations, and which take account of the level of the capital and liquidity resources necessary to cover the activities and investments made;
- Application of specific means of deferral between different categories of risk-takers, including variable remuneration assigned in the form of financial instruments linked to shares in funds or equivalent non-cash instruments,

[27] In Italy this refers to the joint Bank of Italy/Consob regulations issued on 28 April 2017 which transposes and combines the UCITS V and AIFMD guidelines, and which, since December 2019, have been included in the Bank of Italy's Regulations in pursuance of Article 4-undecies and Article 6, paragraph 1, letters b) and c) bis of the Italian Finance Act.

and including specific rules for the non-Italian companies to manage such components during the holding period;

– Caps on variable remuneration, if any, as a result of forming part of the banking group and the regulations applicable to it from time to time and/or the relevant jurisdiction (see section above on "Limits on variable remuneration" and exceptions to the 2:1 cap on variable to fixed remuneration);
– Specific malus clauses and clawback mechanisms;
– Dismissal or resignation;
– Disclosure requirements.

g) External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group also uses financial advisors retained on the basis of agency contracts in the Wealth Management division, and wealth managers in the Consumer Banking division. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components.

The recurring component chiefly consists of direct commissions (on various products, such as asset management, individual asset management, insurance, asset administration, direct funding, bank services, bank products offered by the Mediobanca Group), and indirect commissions ("oven" fees if a management mandate is issued, calculated based on the business promoted by the advisors co-ordinated and concluded by the Bank). These are credited back on various grounds (e.g. sales, maintenance, management, negotiation and distribution fees) based on the commission table in force from time to time and attached as an annex to the agency contract. They constitute the more stable, ordinary component of their remuneration and in themselves do not serve for incentivization purposes (comparable to the fixed remuneration component for employees).

The non-recurring component does serve for incentivization purposes (and is therefore comparable to the variable remuneration component for employees) and is linked, for example, to beating certain targets in terms of funding (bonus for developing portfolios or growing the Bank's customers), launch of new products, long-term incentivization schemes operative over several years, etc.

As required by the regulations in force, the Group includes staff members belonging to this category in its definition of Identified Staff based on the qualitative (i.e. responsibility for the relevant organizational units or for the earnings, financial or reputational risk to which they could expose the Group) and quantitative criteria set by the regulations.

As for staff employed by the Group, for Financial Advisors too assessment of individual conduct is taken into account, along with control of operational and reputational risks (such as compliance with the regulations and internal procedures, and transparency versus clients) through adoption of the mechanism known as compliance breach. Specific events or behaviours are monitored ex post, including (without limitation): sanctions or precautionary measures taken by the supervisory authorities against the financial advisor, complaints made by clients for actions attributable to the financial advisor, fraudulent behaviour or wilful misconduct by the financial advisor, failure to comply with the sector regulations, internal procedures and conduct obligations versus clients, with reference in particular to the duty to act in accordance with the principles of professionalism and proper conduct in relations with clients. Appropriate organizational procedures to prevent such situations from occurring are put in place ex ante.

The same rules apply to non-recurring remuneration received by financial advisors included in the definition of Group Identified Staff as apply to the payment of variable remuneration for the other Identified Staff (i.e. gateways, cap, deferral, malus clause and clawback).

8. Policies in the event of the beneficiary leaving office or the employment arrangement being terminated

As provided by the regulations and the Articles of Association, the shareholders in ordinary general meeting are responsible for determining the compensation to be awarded in cases where beneficiaries leave office or the employment arrangement is terminated early, including the limits set on such compensation in terms of the annual fixed salary and the maximum amount deriving from applying them.

a) Treatment for directors leaving office early

Mediobanca does not make payments other than the ordinary component to directors who leave office for any reason.

b) Treatment for employees

Treatment for individuals linked to Mediobanca Group companies under the terms of employment contracts (i.e. including directors who are members of the Group's senior management and all Identified Staff, including the aggregate of management with strategic responsibilities) involves payment of:

- The amount established and due in accordance with the provisions of law and the locally applicable contractual regulations in respect of the cost of failure to give notice[28] and other entitlements payable upon termination (severance provision, holiday leave etc.);
- An additional amount by way of severance if appropriate: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment arrangement is terminated by mutual consent, in order to minimize the earnings and reputational risks, present and future, which the Bank might face as a result of possible disputes;
- Other types of arrangement, e.g. to cover non-competition agreements or settlements paid in respect of potential moral or material damages.

c) Severance

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual), as well as the practice adopted on the respective reference markets. Although it is difficult to

[28] In Italy the period of notice required is established on the basis of the national collective labour contracts in force at the time. Usually the notice period will be from six to twelve months, depending on the employees' number of years' service.

provide an exhaustive definition of the concrete situation ex ante, given the variety of individual cases, the following factors in particular are taken into account: number of years' service within the Group, age and personal and social conditions, role and organizational position held, the historical performance in qualitative/quantitative terms delivered by the individual, the reasons for employment arrangement being terminated (which in some cases may be organizational and strategic rather than related to individual performance), the performance of activities that have caused problems for the risk profile decided by the Group, personal conduct that does not conform to company values, and the existence of risks for the Bank linked to possible disputes. The approach adopted reflects the effective and long-term results of the individual and company performance.

The basis for calculating the additional monthly salaries to be paid by way of severance is usually the most recent fixed salary, the average variable remuneration paid over a given time horizon (generally the last three years), and in some cases the value of fringe benefits.

Mediobanca defines the total maximum amount payable by way of severance as 24 monthly salaries, as previously defined and in any case no more than €5m, unless provided otherwise by shareholders in general meeting.

It does not include any amounts paid as indemnity for failure to give notice and the other amounts due in connection with termination of the employment relationship (severance provision, holiday leave etc.).[29] It does, however, include any non-competition agreements. Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

For Identified Staff, amounts paid as severance are included in calculating the limit on variable remuneration as a percentage of fixed remuneration represented by the cap, where instituted, with reference to the last year of employment. Any amounts agreed and/or paid under the terms of a non-competition agreement are included for purposes of calculating the cap only up to the amount which exceeds the share of the last year's annual fixed salary, for each year of the non-competition agreement's duration.

[29] To express this in terms of number of years' annual fixed salary, for staff members who have received variable remuneration equal to 2x their fixed salaries (given the 2:1 cap) on an ongoing basis over the whole time horizon taken into consideration, a total of six annual fixed salaries would be payable. This estimate, which is purely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies

As provided by the regulations in force, in calculating whether or not the cap has been reached, no account is taken of any amounts agreed and/or paid under the terms of an agreement between the Bank and staff to settle a dispute that has already arisen (or at least is feared with good reason), at any stage of the settlement process, calculated as illustrated below. In order to quantify the risk objectively, the Bank takes advice from external lawyers specializing in employment law whose opinions are substantiated by objective legal references.

Amounts agreed and/or paid as severance under the terms of an agreement between the Bank and staff in order to settle a dispute which has already arisen (or at least is feared with good reason), without reference to the cap, are therefore determined[30] on the basis of the following formula:

Severance = monthly salary (MTC) x indicator representing number of years' service (Y) ± correction factor (CF)

or

Severance = (TCM x Y) ± FC

where:

TCM	Calculation basis: average monthly total gross compensation, or fraction thereof, usually derived from the most recent annual fixed salary, the average variable remuneration paid over a given time horizon (last three years where applicable), and the value of any fringe benefits.
Y	Indicator representing the number of years' service in the Mediobanca Group: these are considered as not less than 7 and not more than 12
FC	Correction factor: determined and justified, on the basis of objective and suitably documented parameters, to be calculated according to the criteria set forth below: • Age; • Personal and social conditions provided for under the internal regulations; • Role and position within organization; • Historical individual qualitative and quantitative performance delivered; • Reason for end of employment arrangement (in some cases may be organizational and strategic and not strictly related to individual performance); • Activities performed that have caused problems with respect to the risk profile adopted by the Group; • Personal behaviour not aligned with company values; • Existence of risks for the Bank as a result of disputes that have already arisen or are feared with good reason, based on opinions obtained from leading lawyers; and • Specific refinements which take into account the employment law provisions in force in the specific countries other than Italy where the Group operates. The Bank determines analytically in its internal regulations the weightings used to define the overall correction factor applicable in practice, which in general terms may vary between -100% and + 100%.

Severance may not be paid in cases where the conduct of individual staff members has damaged the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

[30] Net of the cost of any amounts paid by way of indemnity in lieu of notice and amounts due in connection with severance mentioned in point b) above, and with the provisions specified in the foregoing note 28.

d) Timing and instruments

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Policies for identification of Material Risk-Takers", the methods and timescales provided for in making severance payments and any compensation for non-competition agreements (except in the latter case for the share of any such amounts that does not exceed the last year's payment in terms of fixed salary) entered into upon terminating an employment relationship include payment based on the timescales and deferral mechanisms instituted for payment of variable remuneration, use of shares or instruments related to them, payment being made subject to malus conditions in the event of liability being established in cases of fraud and/or wilful misconduct and/or attributed in a court of law to the individual staff member's own responsibility during the period in which they worked for the company which emerge after the employment relationship has been terminated. For other identified staff, forms of deferral and risk adjustment may be applied, with the appropriate methods to be identified based on the amount to be paid by way of severance, in addition to the considerations described under point c) above. The Bank also reserves the right to use the claw back mechanism in the cases provided for in the applicable employment law regulations.

e) Treatment of deferred component and fringe benefits

Entitlement to receive deferred variable remuneration components, in cash and/or equity, awarded in previous years but not yet paid, is forfeited in cases where staff members tender their resignations or are dismissed, as does the entitlement to any company benefits.

For treatment in cases of "good leavers",[31] exceptions providing for more favourable treatment in individual cases and the possibility of applying more favourable local legislations, are handled by the governing bodies within their respective areas of responsibility, namely the Board of Directors, Remunerations Committee and Chief Executive Officer, based on the powers vested in them.

[31] "Good leavers" are defined as those staff members whose employment arrangement ends by mutual consent (including in cases of retirement or early retirement), death or permanent incapacity, duly certified, if it remembers the staff member concerned unable to perform their duties. In all other cases where the employment arrangement is ended, including resignations, the staff members concerned are considered "bad leavers", even though the Bank may decide to treat them as "good leavers" in any case, in view of the specific features of the case concerned, to be evaluated on the basis of suitably justified and documented objective criteria.

f) Decisions by third parties

The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies.

g) Involvement of governing bodies

Regular reporting is made to the Remunerations Committee on any decisions taken vis-à-vis employees qualifying as Identified Staff, and the Committee itself is involved promptly in deciding on the treatment of the most significant individual cases.

h) Arrangements for the Chairman, CEO of Mediobanca and Group General Manager

In cases where the Chairman (if a member of the Group's management), Chief Executive Officer and/or General Manager leave the Bank's employment for any reason, the provisions of the Group's remuneration policies for Identified Staff and the sector regulations in force from time to time shall apply. Any amounts paid in cash, in addition to notice, shall be subject to contributions to the company's complementary pension scheme, and save in cases of dismissal for just cause, the said persons will be allowed to retain any financial instruments assigned to them up to the time when the employment arrangement is terminated.

SECTION 2

Report on compensation FY 2019-20

a) Introduction

The twelve months under review were marked by the unprecedented shock triggered by the Covid-19 pandemic, which brought the world's leading economies to a standstill, bringing them swiftly to the point of recession. Prompt monetary action by the main central banks and extraordinary fiscal policy measures taken by the individual countries' governments and by the European Union contributed strongly to the recovery of financial indicators after April 2020, and to limit the impact of the crisis on households and businesses.

The Mediobanca Group has continued in its progress to implement the 2019-23 Strategic Plan, leveraging on the distinctive features of its business model which has proved effective even in the Covid-19 crisis, helped by its focus on the more resilient customer segments (households and medium-sized/large corporates) and by the increasing contribution of low capital absorption activities (advisory services and WM).

Following the Covid-19 emergency, the Mediobanca Group took numerous initiatives right from the outset to show its support for businesses and households and to protect the health and safety of the Group's staff and its clients.

Despite the emergency, the Mediobanca Group delivered a solid set of results for the twelve months ended 30 June 2020:

– Revenues stable at € 2.5bn, with net interest income and fees both up 3% YoY
– Cost/income ratio 47% (up 1pp); cost of risk 82 bps (up 30 bps YoY)
– Net profit € 600m, with earnings per share down 27% YoY (EPS € 0.68 vs € 0.93)
– DPS 2020 reduced to zero, in accordance with ECB recommendations
– Ongoing implementation of sustainability strategy, providing consistent support to staff, clients and community amid the Covid-19 crisis.

With reference to the 2019-23 Strategic Plan, the guidelines, objectives, capital optimization policy and shareholder remuneration have all been confirmed.

Decisions on staff remuneration have therefore been taken:

– In view of the business environment that requires key resources to be retained and outstanding professionals operating in the business areas who have impressed by their contribution to the Group's results to be rewarded;
– In compliance with the regulatory guidelines issued, which have not imposed stringent limits on variable remuneration (save in cases where capital ratios have been affected), but have recommended conservative policies, reminding financial institutions to observe the principles of prudence, long-sightedness and sustainability, particularly with reference to identified staff.

b) Governance

The corporate bodies and company units have governed the entire process of applying the remunerations policies.

In particular, as described inter alia in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions, and the meetings on average lasted around 1 hour and 30 minutes. The Committee is made up of four non-executive members, a majority of whom qualify as independent. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in one case) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer and the head of Group HR also took part, along with other members of the Group's staff.

The main items discussed in Committee meetings, in addition to this report, are as follows:

– Formulation of proposals to the Board of Directors regarding the recalculation of Directors' compensation following the Covid-19 emergency;
– The proposals regarding the variable remuneration of the Chief Executive

Officer and General Manager (defining and marking their annual scorecards);

- Definition of the long-term incentive scheme for Group senior management in connection with approval of the 2019-23 Strategic Plan;
- Decisions made by the Chief Executive Officer regarding the variable remuneration for staff, including definition of the aggregate bonus pools and the amount set aside for Identified Staff;
- Revision of scope of Identified Staff;
- Update of regulations based on documents issued by national and supranational regulators on the subject of remuneration;
- Analysis of market benchmark compensation and guidance from institutional investors and proxy advisors;
- Application of the severance policy.

Group HR has provided full support for all activities, co-ordinating the process of formulating the proposals and resolutions, and executing them. The services of leading external consultants have also been used in the course of various activities, in particular market benchmark analysis and finalizing the new remunerations policies.

The Compliance unit has issued a report stating that the remunerations policies conform to the Bank of Italy and internal regulations, and the Group Audit Unit checked that they were implemented correctly. The Risk Management unit, too, has been involved in ascertaining that the gateways have been met. The Planning, Accounting and Financial Reporting areas also provided the data for determining the business areas' performances and gateways.

c) Incentivization system: determination of variable remuneration and allocation using risk-adjusted metrics based on sustainable results over time

I. Assessment of gateways

All the Group's gateways for the year ended 30 June 2020 were met:

Group Gateways	KPIs - 30/6/20
CET 1 ratio	16.1%
Leverage ratio	9.7%
AFR/ECAP	169%
Liquidity Coverage Ratio	165%
Net Stable Funding Ratio	109%
Group GOP	€ 949mln

For the Group companies which adopt their own RAF on an individual basis (Compass, CB! and Mediobanca International), in the course of the twelve months their risk profile remained consistent with the objectives and limits set, with no breaches of the thresholds recorded.

The other quantitative and qualitative metrics were also met, in the sense that the Group's results reflected the required risk/return balance, in compliance with all the objectives set in the Risk Appetite Framework. From a qualitative perspective, Mediobanca confirmed its positioning and market share in a difficult market scenario.

II. Results of main business units

The Group's closing results as at 30 June 2020, helped by an excellent performance in the first eight months, reflect:

– An extremely robust capital base (CET1 16.1%, phase-in);

– Growth in both net interest income and fees (of 3%).

Obviously the last four months of the year were affected by the Covid-19 emergency, which slowed new business (provision of mortgages and consumer finance products, sale of investment products) and/or caused the postponement of corporate deals, and also reduced the value of the assets held on its balance sheet, impacting mainly on the following areas:

- Trading and the contribution from the Assicurazioni Generali investment, both of which were affected by market volatility;
- Cost of risk, which rose to 82bps (up 30bps in the twelve months), with 4Q at 141 bps (three times the lows recorded at end-2019), due to a conservative risk management policy which sees maintaining asset quality at excellent levels and increasing coverage ratios as a priority.

The Group's gross operating profit of €949m was 17% lower than the previous year.

The CIB division (Wholesale Banking and Specialty Finance) reported a net profit of €181m (ROAC 10%), after strengthening its leadership position in its core segments and markets during the twelve months, participating in some of the most important M&A transactions. Covid-19 brought about a slowdown in investment banking deals, but the pipeline is normalizing, and advisory, ECM and DCM activities are all recovering healthily.

The performance in Wholesale Banking (which forms part of the CIB division) matches the situation already described: the first six months reflecting growth, the second strongly affected by the Covid-19 crisis (reduction in proprietary trading, slowdown in investment banking activities, and significant increase in the cost of risk), which caused gross profit to drop from €337m to €242m. The main items performed as follows:

- Net interest income up 1.3%, a healthy performance in fee income (up 7.1% YoY), with fees from advisory business up 29%, including due to the consolidation of Messier Maris et Associés;
- Reduction in net trading income due primarily to losses made on the proprietary portfolio; CMS activity slowed after March 2020 (down 53% HoH);
- Loan loss adjustments which include the effect of the IFRS 9 point-in-time scenario, which fully reflects the 2Q 2020 slump in GDP.

Lower revenues were in part mitigated by cost optimization activities, which rose slightly (by 1.5%) and are below budget, despite the Group's increased scope of operations.

The Economic Profit delivered by the Mediobanca Wholesale Banking division (not included in the gateways, but used as a risk-adjusted indicator to appraise the sustainability of the bonus pool) was € 127m.

Client-driven Corporate and Investment Banking activity shows:

- Economic Profit down from € 263m to € 141m, due to the performance in the second half-year (at end-December 2019 the profit earned was € 131m);
- Decreasing revenues due chiefly to the Covid-related slowdown (total income down 20% HoH), in client trading activity in particular;
- Market leadership in advisory business.

The Wealth Management division (ROAC 19%, net profit up 13% YoY, to € 80m) confirmed its position as leading contributor to Group fee income (47% of the total), on 7% growth in revenues (to € 584m). Asset gathering capability in WM continues to be high, with no outflows in the Affluent/Private segment even during the lockdown period. The distribution networks brought in NNM of € 4.9bn in the twelve months, € 2.1bn of which in 4Q, on TFAs rising to € 64bn (up 4% YoY).

For Mediobanca Private Banking, the results reflect a threefold increase in GOP with revenues up 29%, as follows:

- AUM/AUA of €10.9bn vs € 10bn at end-June 2019: with a high of € 11.2bn recorded in February 2020 (i.e. pre-Covid 19);
- NNM of approx. € 1.6bn, € 1.3bn of which AUM/AUA;
- Revenues of € 82m, with fees of over € 69m (up 29% YoY), with management fees growing and a positive contribution from the upfront component; performance fees also added 8% of the total, while the growth in costs was modest, at 3%;
- ROA (fee income/average AUM) was up 7%, ahead of budget due to the repricing effect.

With regard to the Wealth Management – Affluent / Premier division (CheBanca!), the top-line performance was positive, up 7% YoY, with fees ahead of budget and gross profit up slightly (by 2%), despite the impact of Covid-19 on the cost of risk, as follows:

- AUM/AUA €12.5bn (30/6/19: €10.3bn), including a recovery in 4Q (up €1.3bn); TFAs €27.8bn;
- NNM of €2.6bn in 12M, €0.9bn of which in 4Q;
- Impressive growth in fees (up 19% YoY), with the share provided by the banking component down from 39% to 36%); this, with net interest income resilient, offset the rise in development costs (GOP up 11% YoY). Fee income was resilient in 4Q as well;
- Cost of risk rose in 4Q (up € 3.9m), due to Covid-19, with gross profit holding up well nonetheless;
- CB! ROAC 13%, compared with 11% in 2019;
- Cost/income and compensation/income ratios stable YoY.

For Mediobanca SGR, gross operating profit stood at €11m, with the SGR's role as product factory developing:

- AUM/AUA €12bn, vs €12.7bn at end-June 2019, with a high of €13.5bn recorded in January;
- Reduction in AUM from institutional clients (from €4.8bn to €3.6bn), offset by growth in asset management for the Group, with €7.5bn for the MBPB network (€7.3bn at end-June 2019, with a high of €8bn in January), and €1bn for the CB! Network (€0.6bn at end-June 2019);
- Revenues of €25.6m (up 24% YoY, including management fees up 10%, from €19.5m to €21.4m and performance fees four times higher, up from €1m to €4.1m) and costs stable;
- ROA (fee income/average AUM) 17bps, ahead of budget (16bps).

Consumer Banking (ROAC 27% and net profit €297m, down 12% YoY) was once again the Group's leading contributor to net interest income (up 6% YoY to €948m), but penalized by the increased cost of risk (247 bps, vs 185bps end-June 2019). The twelve months under review saw record levels of activity until February, after which lockdown significantly reduced new loans, although by end-June 2020 they had nonetheless returned to their pre-Covid levels. The main income items performed as follows:

- Net interest income was up 5.5% and ahead of budget; fee income was down due to the reduced contribution from insurance activities, plus the slowdown in new business during lockdown;
- The cost of risk rose slightly in 1H, to 190bps (from 183bps), in line with budget; but increased since March (247bps for the year) due to the difficulties encountered in credit recovery activities during lockdown and the deterioration in the scenario;
- Gross operating profit €438m (down 12%YoY);
- Consumer Banking division ROAC down from 31% in 2019 to 27%;
- Cost/income and compensation/income ratios stable YoY.

Principal Investing made a positive contribution to Group profit, despite falling 6% to €295m despite the effects of the difficult market scenario.

III. Determination of variable component and bonus pool for Identified Staff at the main business units

Having therefore ascertained that all the conditions precedent to the distribution of the variable component had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer of Mediobanca, after consulting with the Group General Manager, and the relevant internal and control units, therefore set the overall amount for Mediobanca S.p.A. at approx. €52m, some €18m of which for Material Risk Takers (MRT), compared with €74m in 2019 (€29m of which for MRTs, representing reductions of 30% and 38% respectively).

The variable component for Mediobanca Wholesale Banking has been set at approx. €30.5m, some €11m of which for the MRTs (vs €48m in 2019, €19.2m for the MRTs, down 37% and 42% respectively), €28.2m of which for CIB Client (vs €46m in 2019, down 43%), representing payouts respectively of 24% (19% in 2019) and 20% (17%) of Economic Profit. The fixed/variable ratio for staff employed in Mediobanca WB is therefore 58%, compared to 98% in 2019, while for MRTs it is 69% (vs 116% in 2019).

The variable component in Mediobanca Private Banking was equal to some €7.7m, € 1.4m of which for MRTs (versus €7.2m in 2019, some €1.1m of which for MRTs), with a payout of 22% (vs 29% in 2019). The fixed/variable ratio for MB Private Banking staff is 45%, compared with 38% in 2019, while for MRTs it is 120% (vs 128% in 2019).

A total of €13.5m has been earmarked for staff in the PI division, MAAM and the Holding Functions units, €5.5m of which for MRTs (vs €18.6m in 2019, down 27%, of which approx. €8.2m for MRTs – down 33%), which includes the variable component assigned to the Chief Executive Officer and the Group General Manager, as well as the heads of the control units.

Considering all staff employed by the parent company Mediobanca S.p.A., the variable/fixed ratio is 43%, compared with 65% in 2019.

One of the main objectives in making individual awards of variable remuneration was to maintain a competitive compensation package for younger and business staff from a talent retention perspective. Group HR and the Compliance unit reviewed potentially relevant instances in connection with application of the compliance breach mechanism.

In CheBanca! the variable remuneration component amounted to approx. €11.2m, €0.6m of which to MRTs, slightly higher than the €11m in 2019 (of which approx. €0.7m to MRTs), due to the expanded scope of operations for the commercial network. The variable/fixed ratio for CheBanca! staff was around 43%, compared to 56% in 2019; considering all staff employed by the company, the ratio was stable at 13%, as in 2019.

The 2020 variable component for MB SGR was approx. € 2m, stable versus last year (with the share paid to MRTs approx. € 0.5m, the same as in 2019). The amount of the variable remuneration for the Consumer Banking division is approx. €6.4m, €1.3m of which to MRTs, lower than last year (when €7.3m was paid, approx. €1.8m of which to MRTs), consistent with the results delivered for the year. The variable/fixed ratio for identified staff in the Consumer division was around 65%, compared with 102% in 2019; considering all staff employed by the division, the ratio was stable at approx. 9% (the same as in 2019).

The variable component assigned to the Group's Identified staff accounts for some 3bps of CET 1 (approx. €20.5m, vs €31.7m in 2019, a decrease of 35%), with a minimal impact on the Group's solidity requisites.[32]

As at 30 June 2020, management with strategic responsibilities as defined in Article 3 of Regulation (EU) 596/2014 (i.e. other than Directors) consisted of eight persons: the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and the Wealth Management/Affluent-Premier business line, plus the two co-heads of the Corporate and Investment Banking division. Their remuneration package reflects the provisions of the remuneration policies, based on the individual category of Identified Staff to which they belong.

d) Decisions taken in response to the Covid-19 emergency

As part of the attention that the Group focuses on the community and its institutions, the following decisions were taken:

- The following reductions in emoluments were approved: 20% of the emoluments payable to Directors, and 100% of those payable to the Chairman Renato Pagliaro, the Chief Executive Officer Alberto Nagel and the Group General Manager Francesco Saverio Vinci. The overall saving of € 540,000 was donated by Mediobanca to entities and non-profit organizations identified by the Corporate Social Responsibility Committee;
- The Chairman, CEO and Group General Manager have all committed to donating 30% of their fixed salaries for the period from May to December 2020 to initiatives related to the Covid-19 emergency;
- The Statutory Audit Committee of Mediobanca also decided to support the initiatives promoted by the Bank, electing to waive 20% of the emoluments due to them for the year.

The goal of protecting the health and safety of the Group's staff and clients was pursued by setting up a Crisis Unit to manage the medical emergency, headed up by the Group General Manager, with the objective of guaranteeing the Group's operation. Staff were encouraged to work from home, the opening hours of the retail office branches were amended, a specific healthcare policy was activated, and a series of support services were activated remotely (psychological, healthcare, educational, etc.).

[32] The aggregate bonus pool for Mediobanca Group companies whose financial year ended on 31 December 2019 (CMB, RAM, CAIRN and MMA) amounted to approx. €17m, approx. €2.2m of which to Group MRTs.

e) Annual variable remuneration of Mediobanca CEO and Group General Manager (Short-term incentive scheme)

The annual variable remuneration reflects the achievement of the quantitative and qualitative targets assigned in the annual individual scorecards approved by the Board of Directors. If the quantitative objectives are met, the amount of the annual variable remuneration payable to the CEO and the Group General Manager may be between 50% and 150% of their gross fixed annual salary. This amount may be adjusted by the BoD according to whether or not qualitative objectives have also been met up to 160% of the fixed salary (without prejudice to the 2:1 cap on an annual basis in connection with the long-term incentive scheme described below).

The quantitative performance indicators assigned for the financial year ended 30 June 2020 for the CEO were as follows:

Objective	**Weighting**	**Status**	**Score**
Profit before Taxes (PBT) from Group banking activities/capital absorbed *Optimization of return on capital allocated to core activities*	35%	Achieved in part	17.95%
RWA density: RWAs/ Finrep assets *Focus on loan quality*	25%	Achieved	60.8%
Total fees *Focus on capital-light revenues*	20%	Achieved in part	630
AUM-AUA-AUC as % of TFAs *Growth in indirect funding and reduction in percentage of liquidity*	20%	Achieved in part	63.6%

For the Group General Manager the targets assigned were as follows:

Objective	**Weighting**	**Status**	**Score**
Profit before Taxes (PBT) from Group banking activities/capital absorbed *Optimization of return on capital allocated to core activities*	35%	Achieved in part	17.95%
RWA density: RWAs/Finrep assets *Focus on loan quality*	20%	Achieved	60.8%
Banking cost/income ratio *Balanced growth between revenues and costs*	20%	Achieved in part	53.8%
ROAC Wealth Management *Optimization of return on capital absorbed by WM division*	25%	Achieved in part	18.86%

For the CEO the qualitative objectives involved managing the Corporate Social Responsibility initiatives and strengthening the distribution platform for the Wealth Management, Consumer Banking and CIB divisions; and for the Group General Manager, maximizing the synergies between the distribution network and the product factories, plus the “IT Growth to the business” & “Data Quality” projects. In both cases the objectives were found to have been achieved.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of €964,000 (€2,650,000 in 2019, a reduction of 64%), and of €1,175,000 to the Group General Manager (€1,900,000 in 2019, a cut of 38%), equal to 53.6% (147% in 2019) and 78.3% (127% in 2019) of their fixed salaries. Contributions to the complementary pension scheme are also paid on the upfront cash component only. Of the variable remuneration awarded, 47% in cash and 53% in shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a one-year holding period.

The ratio in 2020 between the CEO's gross total compensation and the average gross total compensation for Group staff members was approx. 33x.

f) Means of distributing the variable component

The means of distribution are as provided in the remuneration policies

The equity component ("performance shares") to be paid to Identified Staff is equal to approx. €9m which in part will be booked to the accounts over the next five financial years under the accounting standards currently in force. Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,363,953 performance shares[33] (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €6.89) including those awarded to Identified Staff employed at Group companies. For Identified Staff employed in the asset management area (Mediobanca SGR), the financial instruments component was awarded in cash, linked to an index representative of the SGR funds' stock units, as permitted by the sector regulations in force.

g) Long Term Incentive Plan 2019-23

The component linked to the 2019-23 LTI Plan approved on 19 December 2019 for the Chief Executive Officer of Mediobanca, the Group General Manager, and the CEO of Compass and CheBanca! will be finalized when the Plan itself ends (between July and September 2023). Via an individual scorecard, when the

[33] Of these, 74,071 were awarded to the CEO and 90,284 to the Group General Manager.

quantitative/financial and qualitative/non-financial objectives have been met, the amount of the bonus awarded may be comprised within a range of between 20% and 40% of the amount of the annual gross fixed salary for each year of the Plan (for details, see Section I(7), paragraph c, point 3).

Implementation of the strategy to strengthen and grow in all segments in which the Group operates, launched in the first half of FY 2019-20, slowed as from March 2020 due to the outbreak of the Covid-19 pandemic. How the pandemic will develop in the future, and the consequences it will have in economic and social terms, obviously remain uncertain. However, it seems likely that the first years of the Plan will reflect lower growth rates and profitability, and at the same time, higher capitalization rates given the regulator's recommendation not to pay dividends or implement share buybacks. At present the targets for 2023 remain unchanged, as does the strategy underpinning them and the actions planned to implement it.

As for the qualitative and quantitative targets in the Corporate Social Responsibility area, the state of progress made thus far is consistent with the time horizon contemplated in the 2019-23 Strategic Plan:

- Responsible investing: procedures have been launched to introduce ESG screening for new investments/loans by the Group;
- Equal opportunities: procedures have been implemented (including specifications for the personnel selection companies used) to ensure equal representation in the staff selection and promotion processes;
- Responsible consumption and production: a framework agreement has been approved against which the Group's first green bond has been issued;
- Support for energy transition: RAM has issued its first carbon neutral fund;
- Reduction of direct environmental impact: CO_2 emissions down 6%, 93% of energy acquired from renewable sources, increase in the number of hybrid vehicles to 13% of the total company car fleet;
- Contribution to economic growth: €100m invested in small and medium-sized Italian firms;
- Support to the local community: €5.4m invested in projects with positive social and environmental impact.

Dear shareholders,

In view of the foregoing, we invite you to adopt the following proposed resolution, with the proviso that approval of section 2 of this Report containing the disclosure on compensation paid in FY 2019-20 has purely consultative status:

"At an ordinary general meeting, the shareholders of Mediobanca,

in view of the Board of Directors' report on the Policy on remuneration and compensation paid,

HEREBY RESOLVE

a) To approve the new staff remuneration policies for the Mediobanca Group for FY 2020-21, as illustrated in Section 1 of the Board of Directors' report, including the provisions contained in the section entitled "Limits on variable remuneration";

b) To approve, under a vote which has purely consultative status, the disclosure on compensation paid in FY 2019-20 as illustrated in Section 2 of the Board of Directors' report;

c) To adopt the provision instituted in the section entitled "Policies in the event of the beneficiary leaving office or the employment arrangement being terminated" establishing the criteria for determining the compensation to be agreed in cases where directors or staff leave office or cease working for Mediobanca early, including the limits on such compensation in terms of the number of annual fixed salary payments to be made and the maximum amount deriving from their application;

d) To confer on the Board of Directors and the Chief Executive Officer and/or the General Manager on its behalf, the broadest powers to execute all deeds and perform all measures and formalities necessary in order to implement each of the three foregoing resolutions including the power to make all amendments to the new staff remunerations policies that prove necessary to bring them into line with the law and regulations in force from time to time".

Milan, 16 September 2020

The Board of Directors

Tables with quantitative data

Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities (as per "Delibera Consob 18049" – 23rd December 2011)

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/19	30/06/20	30/06/20		1,800,000	1,800,000				355,475		2,155,475		
	Member of Appointments committee										of which complementary pension scheme				
											351,569				
	(I) Compensation in company preparing the accounts				**–**	**1,800,000**	**1,800,000**				**355,475**		**2,155,475**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**–**	**1,800,000**	**1,800,000**	**–**	**–**	**–**	**355,475**	**–**	**2,155,475**	**–**	**–**
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/19	30/06/20	30/06/20	115,000		115,000						115,000		
	Member of Executive Committee	01/07/19	30/06/20	30/06/20	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**205,000**		**205,000**						**205,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020														
	(III) Total				**205,000**		**205,000**	**–**	**–**	**–**	**–**	**–**	**205,000**	**–**	**–**
Alberto Pecci	Deputy Chairman of Board of Directors	01/07/19	30/06/20	30/06/20	115,000		115,000						115,000		
	Member of Remunerations committee	01/07/19	30/06/20	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**145,000**		**145,000**	**–**			**–**		**145,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**145,000**		**145,000**	**–**	**–**	**–**	**–**	**–**	**145,000**	**–**	**–**

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Alberto Nagel	CEO	01/07/19	30/06/20	30/06/20		1,800,000	1,800,000		828,380		389,154		3,017,534	989,860	
											of which complementary pension scheme				
											384,205				
	(I) Compensation in company preparing the accounts				**–**	**1,800,000**	**1,800,000**	**–**	**828,380**	**–**	**389,154**	**–**	**3,017,534**	**989,860**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**–**	**1,800,000**	**1,800,000**	**–**	**828,380**	**–**	**389,154**	**–**	**3,017,534**	**989,860**	**–**
Francesco Saverio Vinci	General Manager	01/07/19	30/06/20	30/06/20		1,500,000	1,500,000		763,900		341,637		2,605,537	866,060	
											of which complementary pension scheme				
											334,383				
	(I) Compensation in company preparing the accounts				**–**	**1,500,000**	**1,500,000**	**–**	**763,900**		**341,637**		**2,605,537**	**866,060**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**	**–**					**–**		
	(III) Total				**–**	**1,500,000**	**1,500,000**	**–**	**763,900**	**–**	**341,637**	**–**	**2,605,537**	**866,060**	**–**
Marie Bolloré	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Appointments committee	01/07/19	30/06/20	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**100,000**	**–**	**100,000**	**–**			**–**		**100,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**100,000**	**–**	**100,000**	**–**	**–**	**–**	**–**	**–**	**100,000**	**–**	**–**
Maurizio Carfagna	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Risks committee and Related parties committee	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Chairman of Remunerations committee	01/07/19	30/06/20	30/06/20	40,000		40,000						40,000		
	(I) Compensation in company preparing the accounts				**200,000**	**–**	**200,000**	**–**			**–**		**200,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020 (1)				**35,000**		**35,000**	**–**					**35,000**		
	(III) Total				**235,000**	**–**	**235,000**	**–**	**–**	**–**	**–**	**–**	**235,000**	**–**	**–**

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Maurizio Costa	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Chairman of Appointments committee	01/07/19	30/06/20	30/06/20	25,000		25,000						25,000		
	(I) Compensation in company preparing the accounts				**105,000**	**–**	**105,000**	**–**			**–**		**105,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020														
	(III) Total				**105,000**	**–**	**105,000**	**–**	**–**	**–**	**–**	**–**	**105,000**	**–**	**–**
Angela Gamba	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Risks committee and Related parties committee	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**160,000**	**–**	**160,000**		**–**		**–**		**160,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020														
	(III) Total				**160,000**	**–**	**160,000**	**–**	**–**	**–**	**–**	**–**	**160,000**	**–**	**–**
Valérie Hortefeux	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Remunerations committee	01/07/19	30/06/20	30/06/20	30,000		30,000						30,000		
	Member of Risks committee and Related parties committee				80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts		**–**		**190,000**	**–**	**190,000**	**–**			**–**		**190,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2020														
	(III) Total		**–**		**190,000**	**–**	**190,000**	**–**	**–**	**–**	**–**	**–**	**190,000**	**–**	**–**
Maximo Ibarra	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**80,000**	**–**	**80,000**		**–**		**–**		**80,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020														
	(III) Total				**80,000**	**–**	**80,000**	**–**	**–**	**–**	**–**	**–**	**80,000**	**–**	**–**
Alberto Lupoi	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Remunerations committee	01/07/19	30/06/20	30/06/20	30,000		30,000						30,000		
	Member of Appointments committee	01/07/19	30/06/20	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**130,000**	**–**	**130,000**		**–**		**–**		**130,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020 [2]				**13,233**		**13,233**						**13,233**		
	(III) Total				**143,233**	**–**	**143,233**	**–**	**–**	**–**	**–**	**–**	**143,233**	**–**	**–**

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Elisabetta Magistretti	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Chairman of Risks committee and Related parties committee	01/07/19	30/06/20	30/06/20	100,000		100,000						100,000		
	Member of Appointments committee	01/07/19	30/06/20	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**200,000**	**–**	**200,000**						**200,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**200,000**	**–**	**200,000**	**–**	**–**	**–**	**–**	**–**	**200,000**	**–**	**–**
Vittorio Pignatti-Morano	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Risks committee and Related parties committee	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**160,000**	**–**	**160,000**						**160,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**160,000**	**–**	**160,000**	**–**	**–**	**–**	**–**	**–**	**160,000**	**–**	**–**
Gabriele Villa	Director	01/07/19	30/06/20	30/06/20	80,000		80,000						80,000		
	Member of Executive Committee	01/07/19	30/06/20	30/06/20	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**170,000**	**–**	**170,000**		**–**		**–**		**170,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020 [3]				**50,000**		**50,000**						**50,000**		
	(III) Total				**220,000**	**–**	**220,000**	**–**	**–**	**–**	**–**	**–**	**220,000**	**–**	**–**

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Management with strategic responsibilities (8)						4,085,772	4,085,772		1,238,205		346,284		5,670,261	2,026,898	
											of which complementarypension scheme				
											304,647				
	(I) Compensation in company preparing the accounts					**4,085,772**	**4,085,772**		**1,238,205**		**346,284**	**–**	**5,670,261**	**2,026,898**	
	(II) Compensation from subsidiaries/associates at 30/06/2020					**762,363**	**762,363**		**246,000**		**6,422**		**1,014,785**		
	(III) Total				**–**	**4,848,135**	**4,848,135**	**–**	**1,484,205**	**–**	**352,706**	**–**	**6,685,046**	**2,026,898**	**–**
Natale Freddi	Chairman of Statutory Audit Committee	01/07/19	30/06/20	30/06/20	144,000		144,000						144,000		
	(I) Compensation in company preparing the accounts				**144,000**	**–**	**144,000**		**–**		**–**		**144,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**144,000**	**–**	**144,000**	**–**	**–**	**–**	**–**	**–**	**144,000**	**–**	**–**
Laura Gualtieri	Member of Statutory Audit Committee	01/07/19	30/06/20	30/06/20	112,000		112,000						112,000		
	(I) Compensation in company preparing the accounts				**112,000**	**–**	**112,000**		**–**		**–**		**112,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**112,000**	**–**	**112,000**	**–**	**–**	**–**	**–**	**–**	**112,000**	**–**	**–**
Francesco Di Carlo	Member of Statutory Audit Committee	01/07/19	30/06/20	30/06/20	112,000		112,000						112,000		
	(I) Compensation in company preparing the accounts				**112,000**	**–**	**112,000**		**–**		**–**		**112,000**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2020						**–**						**–**		
	(III) Total				**112,000**	**–**	**112,000**	**–**	**–**	**–**	**–**	**–**	**112,000**	**–**	**–**

[1] Fees due in respect of position held in Mediobanca SGR

[2] Fees due in respect of position held in Spafid Trust

[3] Fees due in respect of position held in Spafid

Table 3A: Incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and allocated		Financial instruments attributable to the year
A	B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name and surname	Post	Scheme	No. and type of instrument	Vesting period	No. and type of financial instrument	Fair value at award date	Vesting period	Award date	Market price at award	No. and type	No. and type	Value upon vesting	Fair value
Alberto Nagel	CEO	Scheme 28 october 2010									36,782	386,579	
		Scheme 28 october 2015	66,224 Performance shares	Nov. 2020 – Nov. 2021							44,149	464,006	
		Scheme 28 october 2015	91,432 Performance shares	Nov. 2020 – Nov. 2022							60,955	640,637	150,914
		Scheme 28 october 2015	150,981 Performance shares	Nov. 2020 – Nov. 2023									266,328
		Scheme 28 october 2015	142,358 Performance shares	Nov. 2021 – Nov. 2024									281,992
		Scheme 28 october 2015			150,597 Performance shares	950,835	Nov. 2024 - Nov. 2028	19 December 2019	10,033				150,789
		Scheme 28 october 2015			74,071 Performance shares	413,695	Nov. 2021 - Nov. 2025	25 September 2020	6,687				139,837
Francesco Saverio Vinci	GM	Scheme 28 october 2010									30,570	321,291	
		Scheme 28 october 2015	32,986 Performance shares	Nov. 2020 – Nov. 2021							21,991	231,125	30,135
		Scheme 28 october 2015	70,098 Performance shares	Nov. 2020 – Nov. 2022							46,732	491,153	115,701
		Scheme 28 october 2015	125,818 Performance shares	Nov. 2020 – Nov. 2023									221,941
		Scheme 28 october 2015	102,067 Performance shares	Nov. 2021 – Nov. 2024									202,181
		Scheme 28 october 2015			125,496 Performance shares	792,355	Nov. 2024 - Nov. 2028	19 December 2019	10,033				125,657
		Scheme 28 october 2015			90,284 Performance shares	504,246	Nov. 2021 - Nov. 2025	25 September 2020	6,687				170,445

			Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and allocated		Financial instruments attributable to the year
A	B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name and surname	Post	Scheme	No. and type of instrument	Vesting period	No. and type of financial instrument	Fair value at award date	Vesting period	Award date	Market price at award	No. and type	No. and type	Value upon vesting	Fair value
Managerial staff with strategic responsibilities (8)		Scheme 28 october 2010									37,498	394,104	
		Scheme 28 october 2015	110,618 Performance shares	Nov. 2020 – Nov. 2021							78,240	822,302	101,292
		Scheme 28 october 2015	150,297 Performance shares	Nov. 2020 – Nov. 2022							106,505	1,119,368	249,316
		Scheme 28 october 2015	254,309 Performance shares	Nov. 2020 – Nov. 2023									454,414
		Scheme 28 october 2015	282,782 Performance shares	Nov. 2021 – Nov. 2024									566,098
		Scheme 28 october 2015			62,748 Performance shares	396,177	Nov. 2024 - Nov. 2028	19 December 2019	10,033				62,828
		Scheme 28 october 2015			304,382 Performance shares	1,716,237	Nov. 2021 - Nov. 2025	25 September 2020	6,687				592,950
Total			**1,579,970**		**807,578**	**4,773,545**					**463,422**	**4,870,565**	**3,882,818**

Managerial staff with strategic responsibilities at 30 June 2020

Maximum number of shares that can be awarded if the performance objectives set in the Remunerations policy in force at the time are met and/or subsequent to the holding period elapsing, in accordance with the Remuneration policies in force at the time. The maximum number of shares that can be awarded was calculated on the basis of the average official stock price for the period from 30 days prior to the date on which the Remunerations Committee and Board of Directors meetings were held to approve the incentivization system or the award date (in cases involving awards made in connection with recruitments or with employment termination arrangements).

For the award made on 19 December 2019 as part of the Long-Term Incentive linked to the 2019-23 Strategic Plan, the actual number of shares will be established as and when the Plan has been completed.

Table 3B: Cash incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

A	B	(1)	(2)			(3)			(4)
Name and surname	Post	Scheme	Bonus for the year			Previous years' bonuses			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/ paid	Deferred	Deferral period	No longer payable	Payable/ paid	Still deferred	
Alberto Nagel	CEO	FY 2019/2020	192,800	260,280	Nov.'22-nov.'25				
		FY 2018/2019						795,000	
		FY 2017/2018					298,080	447,120	
		FY 2016/2017						486,000	
		FY 2015/2016						378,000	
		FY 2014/2015					337,500		
Francesco Saverio Vinci	GM	FY 2019/2020	235,000	317,250	Nov.'22-nov.'25				
		FY 2018/2019						570,000	
		FY 2017/2018					248,400	372,600	
		FY 2016/2017						372,600	
		FY 2015/2016						188,280	
		FY 2014/2015					280,500		
Management with strategic responsibilities (8)		FY 2019/2020	943,000	1,051,500	Nov.'22-nov.'25				
		FY 2018/2019						1,540,800	
		FY 2017/2018					505,920	710,880	
		FY 2016/2017						782,150	
		FY 2015/2016					21,560	609,817.50	
		FY 2014/2015					13,725		
Compensation in company preparing the accounts			**1,220,800**	**1,426,530**			**1,609,685**	**6,553,754**	
Compensation from subsidiaries/associates			**150,000**	**202,500**			**96,000**	**699,493.5**	
Total			**1,370,800**	**1,629,030**			**1,705,685**	**7,253,247.5**	

Managerial staff with strategic responsibilities at 30 June 2020.

Investments held by members of the governing and control bodies and by general managers

Name and surname	Post	Investee company	No. of shares held at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
PAGLIARO RENATO	Chairman	MEDIOBANCA	2,100,000	==	100,000	**2,000,000**
NAGEL ALBERTO	CEO	MEDIOBANCA	2,786,050	141,886 ([1])	70,386	**2,857,550**
VINCI FRANCESCO SAVERIO	GM	MEDIOBANCA	1,065,000	99,293 ([1])	47,293	**1,117,000**
CARFAGNA MAURIZIO	Director	MEDIOBANCA	61,000	15,000	==	**76,000** [2]
PECCI ALBERTO	Director	MEDIOBANCA	4,677,500	==	==	**4,677,500** [3]
PIGNATTI-MORANO VITTORIO	Director	MEDIOBANCA	90,000	510,000	==	**600,000** [4]
FREDDI NATALE	Chairman of Statutory Audit Committee	MEDIOBANCA	==	9,580	==	**9,580** [5]

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

[1] Shares awarded in execution of stock option/performance shares scheme

[2] of which n. 75.000 shares owned through subsidiaries and n. 1.000 through marriage

[3] Investment owned through subsidiaries

[4] Investment owned through fiduciary company

[5] Investment owned through marriage

Investments held by other managerial staff with strategic responsibilities

No. of managerial staff with strategic responsibilities	Investee company	No. of shares owned at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
8*	MEDIOBANCA	190,926	222,243	145,867	267,302**

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

* Managerial staff with strategic responsibilities as at 30.6.2020

** Shares awarded in execution of performance share scheme.

Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	FTE	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary
1) Management body Supervisory function - Mediobanca	13	3,730,000	—	—	—
2) Management body Management function (CEO/GM) - Mediobanca	2	3,300,000	2,139,000	200%	64.8%
3) Staff, Support, holding units	1,230	76,548,866	12,956,463	200%	16.9%
4) Control functions (Risk Management, Compliance, Audit)	304	21,167,247	3,334,717	33%	15.8%
5) Investment Banking - business	626	66,857,208	37,573,697	200%	56.2%
6) Retail e Consumer - business	2,639	154,831,528	15,239,930	200%	9.8%
7) Private Banking - business	303	32,578,714	14,401,543	200%	44.2%
8) Asset Management - business	97	16,630,395	7,738,716	500%	46.5%
	5,214	**375,643,958**	**93,384,066**	**—**	**24.9%**

Gross amounts included for Group Directors emoluments payable in respect of their office.

Includes Financial Advisors (recurrent component in Fixed salary and non recurrent component in variable remuneration)

EBA classification (2020 Organizational structure)

Includes Group companies which ended FY on 31 December 2019

Aggregate quantitative information by the various categories of "identified staff" as required by the Bank of Italy instructions

Mediobanca Group - Material Risk Takers		#	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Equity Upfront	Other Instruments Upfront	Deferred Cash	Deferred Equity	Deferred Other Instruments
1)	Non-executive directors (non-executive members of BoD, including Chairman)	1	1,800,000	—	—	—						
2)	Chief Executive Officer	1	1,800,000	964,000	200%	54%	192,800	192,800		260,280	318,120	
3)	General Manager	1	1,500,000	1,175,000	200%	78%	235,000	235,000		317,250	387,750	
4)	Senior management and heads of relevant Bus	10	7,430,000	6,510,000	200%	88%	2,137,000	1,137,000		1,452,700	1,783,300	
5)	Staff with managerial responsibilities in relevant business units	36	12,268,468	5,911,000	200%	48%	1,743,200	1,562,200	94,000	1,255,800	1,114,800	141,000
6)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	21	3,410,616	823,000	33%	24%	749,500	31,500		21,000	21,000	
7)	Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	8	1,956,489	670,000	200%	34%	418,000	108,000		72,000	72,000	
8)	Quantitative criteria	37	17,616,612	5,725,563	200%	33%	1,949,786	1,306,700	82,919	1,193,079	1,137,800	55,279
		115	**47,782,185**	**21,778,563**	**—**	**46%**	**7,425,286**	**4,573,200**	**176,919**	**4,572,109**	**4,834,770**	**196,279**

Gross amounts in €'000 – Performance variable FY ending 30 June 2020

For Group Directors does not include emoluments payable in respect of their office.

Includes relevant staff employed at Group company which financial year ended 31 December 2019, identified at that date.

Includes Financial Advisors (recurrent component in Fixed salary and non recurrent component in variable remuneration)

Mediobanca Group - Material Risk Takers		#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in MB shars[1]	#	*Deferred from previous years in holding period not paid*	#	Deferred from previous years in vesting period not paid[2]
1)	Non-executive directors (non-executive members of BoD, including Chairman)	—	—	—	—	—	—	—	—
2)	Chief Executive Officer	1	635,580	1	1,491,222	1	1,260,395	1	3,715,767
3)	General Manager	1	528,900	1	1,043,569	1	898,467	1	2,711,234
4)	Senior management and heads of relevant Bus	9	988,200	8	3,010,155	9	3,367,169	9	9,910,593
5)	Staff with managerial responsibilities in relevant business units	28	2,082,330	19	4,413,939	28	4,553,112	29	8,083,059
6)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	2	42,430	2	58,341	2	90,506	2	142,750
7)	Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	3	77,825	2	243,885	3	249,658	3	355,935
8)	Quantitative criteria	20	1,637,631	10	2,338,837	17	3,257,903	25	5,423,060
		64	**5,992,896**	**43**	**12,599,947**	**61**	**13,677,210**	**70**	**30,342,397**

[1] Equivalent value in € at the award date

[2] Equivalent value in € at 30 June 2020

Mediobanca Group - Material Risk Takers	**#**	**Treatment at start of relationship**	**#**	**Treatment at end of relationship[1]**
1) Non-executive directors (non-executive members of BoD, including Chairman)	–	–	–	–
2) Chief Executive Officer	–	–	–	–
3) General Manager	–	–	–	–
4) Senior management and heads of relevant Bus	–	–	2	538,765
5) Staff with managerial responsibilities in relevant business units	–	–	–	–
6) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	–	–	–	–
7) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	–	–	–	–
8) Quantitative criteria	2	1,690,291	1	225,886
	2	**1,690,291**	**3**	**764,651***

[1] With reference to the identified staff identified as of 30 June 2019

* Of which € 200,000 by way of incentive, 60% deferred

The highest amount paid to an individual person was € 338,000 included notice and complementary pension scheme contributions.

Total remuneration awarded over € 1 mln.		**#**
€	1 million - 1.5 millions	7
€	1.5 - 2 millions	5
€	2 - 2.5 millions	2
€	2.5 - 3 millions	2
€	3 - 3.5 millions	1
Total		**17**

Ordinary General Meeting

Report of the board of directors item n.4, point D) of the agenda

2021-25 INCENTIVIZATION SYSTEM FOR GROUP STAFF THROUGH USE OF PERFORMANCE SHARES

Dear shareholders,

As in previous years, the Group staff remuneration and incentivization policy submitted to your approval, as required by the applicable regulations, includes assignment of performance shares as part of the variable remuneration component.

The Mediobanca Group's remuneration and incentivization policy is intended to attract and retain highly professional and ethical staff whose abilities and conduct are aligned with the complexity, increasing international dimension and specialization of the businesses in which it operates, based on criteria of sound management and sustainability of costs and results over time. The Group also seeks to create sustainable value over the long term: responsible, fair and transparent compensation mechanisms increase and protect reputation, credibility and consensus over time, all of which are prerequisites to develop business which aims to create and protect value for all stakeholders.

The incentivization component consisting of variable remuneration seeks to recognize and rewards results and objectives achieved, and is determined over an annual and/or longer term basis according to risk-adjusted metrics. It is an important motivational tool, and for some business figures represents a material percentage of their overall compensation, in line with market practice, up to the cap set and in accordance with the other terms and conditions established by the regulations in force.

Performance shares:

– Are instruments aligned with the provisions of the applicable regulations on the subject of remuneration, in particular the Bank of Italy's Supervisory

Instructions on remuneration and incentivization policies and practices, issued on 23 October 2018;

- Meet the conditions set by the regulations which require a share of the variable remuneration to paid in the form of equity instruments over a time horizon of several years and subject to a series of performance conditions being met;
- Allow the remuneration of Group staff to be linked to delivering positive results over time, consistent with an approach which aims to achieve overall sustainability of the compensation mechanisms.

The previous scheme, which was approved by shareholders at the annual general meeting held on 28 October 2015 and revised at the AGM held at the meeting on 28 October 2019 last year to incorporate certain changes to the regulations, expires today. Accordingly, we are submitting the new Group staff incentivization system based on performance shares to your approval. The instruments consist of ordinary Mediobanca shares ("The 2021-25 Performance Share Scheme"), up to a maximum of 20 million to be granted over a five-year time horizon. The Scheme is consistent with the Group's staff remuneration and incentivization policy currently in force, which provides an exhaustive description of the mechanisms for determining and paying the variable remuneration component.

In accordance with the provisions of Article 114-bis of the Italian Finance Act and Article 84-bis of the Consob Regulations for Issuers, the characteristics of the scheme are illustrated in the Information Document shown below, which constitutes an integral part of this Report.

The Board of Directors invites you to adopt the resolution accordingly this Report.

Proposal to the Ordinary General Meeting

Dear shareholders,

In view of the foregoing, we invite you:

a) To approve performance share scheme for 2021-25 for selected Mediobanca Group staff as part of the remuneration and incentivization systems, in line with the regulations in force, on the terms and by the means illustrated above;

b) To confer on the Board of Directors, the Chairman and the Chief Executive Officer, jointly and severally, all suitable powers to:

- Enact this resolution and adopt any other measures that should become necessary to implement the resolution approved;
- Make such amendments and/or additions to this resolution the documents that constitute an integral part thereof (which do not alter their substance) that should prove necessary to bring them into line with any legal or regulatory provisions or guidance issued by the regulatory and/or supervisory authorities that come into force in the meantime.

Milan, 16 September 2020

THE BOARD OF DIRECTORS

INFORMATION DOCUMENT
REQUIRED UNDER ARTICLE 84-BIS, PARAGRAPH 1, OF THE REGULATIONS
ADOPTED BY CONSOB UNDER RESOLUTION NO. 11971 OF 14 MAY 1999, AS AMENDED, REGARDING INCENTIVIZATION SYSTEMS BASED ON FINANCIAL INSTRUMENTS
(THE "PERFORMANCE SHARE SCHEME 2021-25")

1. Recipients

The recipients of the performance share scheme are staff who, under the regulations in force and the remunerations policies approved by you, are required to receive a share of their variable remuneration in the form of equity instruments.

These include employees who fall within the definition of the Mediobanca Group's identified staff, defined on a regular basis by the Board of Directors based on the criteria set by the regulations in force at the time and set out in the Remuneration policies. Additional staff members considered relevant in organizational terms to the achievement of the Group's strategic objectives may also be recipients of the performance share scheme.

Recipients of the performance share scheme may include the following members of the Board of Directors: the Chairman Renato Pagliaro;[1] the Chief Executive Officer Alberto Nagel; and the Group General Manager Francesco Saverio Vinci.

The recipients also include persons who have regular access to inside information concerning the issuer directly and indirectly, and who are empowered to take management decisions that can impact on the performance and future prospects of the issuer, i.e. the "Strategic management" referred to in Article 3 of Regulation (EU) 596/2014, identified by the Board of Directors in the resolution in force at the time. At the date of this resolution there are a total of eight such strategic management members: the heads of the three control units (Group Audit, Compliance & Group AML, and Group Risk Management); the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and the Wealth Management/Affluent-Premier business lines, and the two co-heads of the Corporate and Investment Banking division.

[1] For the Chairman only a fixed salary is paid. However, provision is made in the Remuneration policies for the Board of Directors to consider the possibility, after consulting with the Remunerations Committee and up to the limits provided by the regulations in force, of paying the Chairman a variable component, to be awarded in accordance with the rules of the policies themselves, including in the form of performance shares. In practice the Board has never to date adopted a resolution of this kind.

There are no categories of staff for which different treatment is provided in the performance share scheme, which is the same for all recipients.

2. Rationale for adopting the scheme

The scheme enables Mediobanca to:

– Align itself with the banking sector regulations which require that a share of variable remuneration be paid in the form of equity instruments, over a long-term time horizon, subject to performance conditions, i.e. to the sustainability of positive results delivered over time;

– Ensure that the interests of the Bank's management are aligned with those of its shareholders with reference to value creation in the medium/long term.

3. Governance

The Board of Directors approves the proposals of the Remunerations Committee and the Chief Executive Officer regarding:

– The total quantity of shares to be issued for each award cycle, in accordance with the criteria and methods established in the Remunerations policies in force at the time;

– The award of performance shares to directors who are members of the Group's senior management;

– The scheme's regulations, which set down the rules by which it operates in practice.

The Chief Executive Officer is responsible for operating the scheme, with the support of Group HR, and for establishing the quantities to be assigned to each staff member.

4. Means of award

Under the terms of the scheme, Mediobanca shares are granted to people linked to the Group (employees, collaborators, staff employed under agency contracts, etc.) as the equity component of the variable remuneration awarded to them based on the results of the performance evaluation process, both short-term (i.e. in relation to the annual budget – the short-term incentive plan) and long-term (the long-term incentive plan, usually related to approval of the Strategic Plan).

The performance shares assigned as the upfront equity component are subject to a holding period of no less than one year before they are actually awarded, provided the beneficiary remains part of the Group.[2]

The performance shares assigned as the deferred equity component are:

– Assigned as part of the overall vesting period for all deferred components over a time horizon of at least three years, provided the beneficiary is still linked to the Group[3] and that the performance conditions identified by the remuneration policies in force at the time have been regarding the sustainability of the results achieved, the company's capital solidity and liquidity conditions continuing to be met, and the proper conduct of the individual beneficiary;
– Subject to a subsequent holding period of no less than one year prior to their actual award, provided the beneficiary still works for Mediobanca.[4]

Distributing the awards over time in this way acts as an incentive to recipients, consistent with their role and business activity, to conduct themselves at all times in such a way as to ensure that the Mediobanca Group delivers sustainable results over the long term, encouraging them to deliver performances that guarantee the Bank has a solid capital base, substantial liquidity, suitable control of all risks as well as profitable results.

The remuneration policies in force at the time set out in detail the performance evaluation period and the specific vesting and holding periods applicable to the performance shares with reference to the provisions of this resolution. The Board of Directors may also identify additional performance indications on the occasion of each individual award cycle. For Group company staff members the Chief Executive Officer of Mediobanca, after consulting with the CEOs of the Group companies themselves, may identify one or more specific economic indicators.

[2] By "remaining part of the Group" what is meant here is that the co-operation arrangement between the recipient and the company is ongoing, whether such arrangement takes the form of permanent employment or some other contractual agreement, not in a period of notice being served for resignation/withdrawal/termination from the contract, whether voluntary or due to dismissal/withdrawal on the part of the company. For Directors of Group companies not linked to the Group by means of an employment contract, when their term of office comes to an end or is not renewed, their rights continue to apply without prejudice to the provisions of any individual specific agreements and provided their term of office has not come to an end due to compliance breaches attributable to them.

[3] See previous note.

[4] See footnote 2.

As provided by the remuneration policies, Mediobanca reserves the right to take measures to claw back variable remuneration already paid in the event of damage emerging to the integrity of its capital, profitability and earnings/financial or reputational situation which is attributable to the conduct of individual staff members, regardless of whether such behaviour constitutes instances of wilful misconduct or fraud. Such measures are also provided for cases which involve breach of the obligations set under Article 26 of the Italian Banking Act (Company representatives – Professional qualifications, fit and proper person requisites, and independence of company representatives), or, when the person concerned is an interested party, Article 53, paragraphs 4ff (Regulatory supervision), or the obligations in respect of remuneration and incentivization.

The Chief Executive Officer of Mediobanca may also use performance shares in defining remuneration packages in connection with the recruitment of key staff and/or for retention purposes, including outside of the annual and/or long-term award cycle and with specific deferral mechanisms as provided under the terms of this resolution. The governing bodies may also award shares in relation to compensation agreements entered into in connection with early termination of the working relationship, to ensure these are correlated to the performance achieved and the risks taken by the individual concerned and the Bank, in accordance with the regulatory requirements and the aims set by the Remuneration policies in force at the time.

The entitlement to receive shares is retained if the beneficiary retires or in the event of permanent disability and/or illness making them unable to continue working. Such entitlement is lost, however, in cases where the working arrangement, whether based on an employment contract or other form of agreement, ends due to resignation, dismissal and/or withdrawal. The governing bodies (Board of Directors – after consulting with the Remunerations Committee –, the CEO of Mediobanca) are responsible for handling any exceptions, under the powers attributed to them respectively, in particular in cases where the working relationship is ended by mutual consent as defined in the remuneration policies in force at the time. The foregoing is without prejudice to decisions taken, if any, by a third party authorized to do so (such as the judicial and/or arbitration and/or conciliation authorities) and to regulations, if any, providing more favourable treatment issued by the applicable local legislations.

As provided by the remuneration policies currently in force, staff members are not allowed to use hedging or insurance strategies for their remuneration, or other aspects that could alter or otherwise distort the effects of the risk alignment inherent in the compensation mechanisms, especially in relation to the variable component paid in financial instruments.

5. Characteristics of instruments awarded

The scheme provides for the award of ordinary Mediobanca shares. The shares are delivered after the dividend, if any, has been paid and in compliance with the Group regulations in force at the time on internal dealing and personal trading in financial instruments by management with strategic duties. The shares are awarded personally, without prejudice to succession rights. The shares, once received, subject to the performance conditions and after the holding period has ended, may be traded immediately up to the limits set by the law and regulations in force (in particular, the internal regulations include provision for specific mechanisms – insider and "sell to cover" lists – in order to limit the risks of the market abuse regulations being breached). The performance share scheme makes no provision for restrictions on voting rights or property rights in relation to the ordinary Mediobanca shares awarded.

6. Funding

The maximum number of shares that may be awarded under the terms of this scheme is 20 million, from the capital increase reserved for the assignment of shares to Mediobanca Group staff by and no later than 28 October 2025, pursuant to Article 2349 of the Italian Civil Code, submitted to the approval of shareholders at today's extraordinary annual general meeting. Alternatively, treasury shares held by the Bank which are freely available and not earmarked for some other purpose may also be used for the performance share scheme.

The maximum number of shares that can be used in connection with the performance share scheme deriving from the bonus rights issue is equal to 2.2% share capital fully diluted. The impact on the stock market value and possible dilutive effects on the Bank's share capital do not appear to be material, given that the awards take place over the course of several years.

7. Changes and amendments to the scheme

Any amendments to and/or cancellation of the performance shares scheme will be made in compliance with the regulations in force. No specific procedures are envisaged.

If extraordinary events with significant impact on the Group's earnings/financial performance take place, the performance share scheme may be revised and/or abolished at Board of Directors' discretion after consulting with the Remunerations Committee. In the event of extraordinary transactions taking place which involve the Bank's share capital, the allocation of performance shares not yet available will be amended accordingly.

8. Accounting and tax issues

Under the accounting policies adopted, the performance shares awarded are booked to the profit and loss account based on a notional cost split over several financial years in view of the benefit received and the vesting period. The notional cost is equal to the value of the shares at the time of the award, adjusted to reflect the probabilistic elements connected with the scheme (e.g. possibility of beneficiaries resigning, actuarial parameters, etc.). The total expense for Mediobanca in the event of 20 million shares being awarded could be approximately €110m, to be spread across the entire vesting period, based on the current stock market price. It is not possible to state the actual total cost, as the number of shares to be awarded is up to the governing bodies based on the regular award cycles. The performance shares shall be subject to taxation and possibly social security contributions in accordance with the regulations in force in the country of residence for tax purposes of each individual beneficiary at the time.

9. Other information

The performance share scheme:

- Contemplates the award exclusively of ordinary Mediobanca shares traded on regulated markets;
- Does not contemplate specific accounting and/or tax arrangements, and considers only those aspects provided for by the tax and social security contribution regime in force at the time in each of the beneficiaries' countries of residence.

No provision is made under the terms of the performance share scheme for shares awarded to be bought back.

No provision is made for support from the Special Fund to incentivize investment by employees in the companies for which they work instituted under Article 4, paragraph 112, of Italian law 350/03.

The Board of Directors, having received the favourable opinion of the Remunerations Committee on 10 September 2020, approved the plan on 16 September 2020 for submission to the approval of shareholders in Annual General Meeting. The stock market price of ordinary Mediobanca shares on the two dates referred to above was € 7.02 and €7.27 respectively.

The awards made from the performance share scheme, along with further details on the terms and conditions of award and/or issue, will be disclosed to the market annually pursuant to and within the meaning of the regulatory provisions in force.

Compensation schemes based on financial instruments

Table 1 of scheme 7 of Annex 3A to Regulations for Issuers dated 11971/99

Date: 16 September 2020

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Alberto Nagel	Chief Executive Officer Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	66,224	27 September 2016	N/A	5.960	The shares will be made available in tranches in November 2020 (up to 44,149) and November 2021 (up to 22,075).
Francesco Saverio Vinci	Group General Manager Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	32,986	27 September 2016	N/A	5,960	The shares will be made available in tranches in November 2020 (up to 21,991) and November 2021 (up to 10,995).
Mediobanca strategic management		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	110,618	27 September 2016	N/A	5,960	The shares will be made available in tranches in November 2020 (up to 75,004) and November 2021 (up to 35,614).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	335,422	27 September 2016	N/A	5,960	The shares will be made available in tranches in November 2020 (up to 282,024) and November 2021 (up to 53,398).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	7,521	27 January 2017	N/A	8.689	The shares will be made available in tranches in February 2021 (up to 5,014) and February 2022 (up to 2,507).
Alberto Nagel	Chief Executive Officer Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	91,432	27 September 2017	N/A	9.061	The shares will be made available in tranches in November 2020 (up to 36,573), November 2021 (up to 36,573), and November 2022 (up to 18,286).
Francesco Saverio Vinci	Group General Manager Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	70,098	27 September 2017	N/A	9.061	The shares will be made available in tranches in November 2020 (up to 28,039), November 2021 (up to 28,039), and November 2022 (up to 14,020).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca strategic management		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	150,297	27 September 2017	N/A	9.061	The shares will be made available in tranches in November 2020 (up to 62,010), November 2021 (up to 59,740), and November 2022 (up to 28,547).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	547,263	27 September 2017	N/A	9.061	The shares will be made available in tranches in November 2020 (up to 313,255), November 2021 (up to 197,742), and November 2022 (up to 36,266).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	14,261	12 October 2017	N/A	9.111	The shares will be made available in tranches in November 2020 (up to 9,270) and November 2021 (up to 4,991).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/ or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	33,276	15 December 2017	N/A	9.377	The shares will be made available in tranches in November 2020 (up to 13,310), November 2021 (up to 13,310), and November 2022 (up to 6,656).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	12,844	27 February 2018	N/A	9.946	The shares will be made available in tranches in February 2021 (up to 5,138), February 2022 (up to 5,138), and February 2023 (up to 2,568).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	13,895	13 April 2018	N/A	9.883	The shares will be made available in tranches in November 2020 (up to 8,337), November 2021 (up to 3,613), and November 2022 (up to 1,945).
Alberto Nagel	Chief Executive Officer Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	150,981	27 September 2018	N/A	9.122	The shares will be made available in tranches in November 2020 (up to 60,392), November 2021 (up to 36,235), November 2022 (up to 36,235), and November 2023 (up to 18,119).
Francesco Saverio Vinci	Group General Manager Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	125,818	27 September 2018	N/A	9,122	The shares will be made available in tranches in November 2020 (up to 50,327), November 2021 (up to 30,196), November 2022 (up to 30,196), and November 2023 (up to 15,099).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca strategic management		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	254,309	27 September 2018	N/A	9.122	The shares will be made available in tranches in November 2020 (up to 106,392), November 2021 (up to 61,500), November 2022 (up to 58,700), and November 2023 (up to 27,717).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	1,183,170	27 September 2018	N/A	9.122	The shares will be made available in tranches in November 2020 (up to 581,962), November 2021 (up to 342,046), November 2022 (up to 217,807), and November 2023 (up to 41,355).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	10,875	22 February 2019	N/A	8.258	The shares will be made available in tranches in February 2021 (up to 4,350), February 2022 (up to 2,610), February 2023 (up to 2,610), and February 2024 (up to 1,305).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	80,159	15 May 2019	N/A	8.931	The shares will be made available in tranches in February 2021 (up to 32,064), February 2022 (up to 19,238), February 2023 (up to 19,238), and February 2024 (up to 9,619).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	50,635	2 September 2019	N/A	9.019	The shares will be made available in tranches in February 2021 (up to 30,381), February 2022 (up to 13,165), and February 2023 (up to 7,089).
Alberto Nagel	Chief Executive Officer Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	142,358	27 September 2019	N/A	10.069	The shares will be made available in tranches in November 2021 (up to 56,943), November 2022 (up to 34,166), November 2023 (up to 34,166), and November 2024 (up to 17,083).
Francesco Saverio Vinci	Group General Manager Mediobanca	28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	102,067	27 September 2019	N/A	10.069	The shares will be made available in tranches in November 2021 (up to 40,827), November 2022 (up to 24,496), November 2023 (up to 24,496), and November 2024 (up to 12,248).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Mediobanca strategic management		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	282,782	27 September 2019	N/A	10.069	The shares will be made available in tranches in November 2021 (up to 117,240), November 2022 (up to 68,279), November 2023 (up to 65,804), and November 2024 (up to 31,459).
Mediobanca Group key staff		28 October 2015	Bonus award of Mediobanca shares with two year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period	1,047,321	27 September 2019	N/A	10.069	The shares will be made available in tranches in November 2021 (up to 541,981), November 2022 (up to 302,754), November 2023 (up to 180,056), and November 2024 (up to 22,530).
Alberto Nagel	Chief Executive Officer Mediobanca	28 October 2015	Bonus award of Mediobanca shares with one-year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period (LTI scheme)	150,597	19 December 2019	N/A	10.033	The shares will be made available in tranches in November 2024 (up to 56,829), November 2026 (up to 31,256), November 2027 (up to 31,256), and November 2028 (up to 31,256).

Name and surname or category (1)	Position (to be indicated only for named awards)	BOX 1						
		Financial instruments other than stock options						
		Section 1 Instruments issued under valid schemes in force approved on the basis of resolutions adopted by shareholders in previous general meetings						
		Date approved by shareholders in AGM (2)	**Type of financial instrument**	**No. of financial instruments (3)**	**Date awarded**	**Strike price, if any**	**Market price as at the award date**	**Vesting period**
Francesco Saverio Vinci	Group General Manager Mediobanca	28 October 2015	Bonus award of Mediobanca shares with one-year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period (LTI scheme)	125,496	19 December 2019	N/A	10.033	The shares will be made available in tranches in November 2024 (up to 47,358), November 2026 (up to 26,046), November 2027 (up to 26,046), and November 2028 (up to 26,046).
Mediobanca strategic management		28 October 2015	Bonus award of Mediobanca shares with one-year holding period and/or conditional upon performance objectives over a three-year/five-year time horizon being met with subsequent annual holding period (LTI scheme)	62,748	19 December 2019	N/A	10.033	The shares will be made available in tranches in November 2024 (up to 23,679), November 2026 (up to 13,023), November 2027 (up to 13,023), and November 2028 (up to 13,023).

(1) The category "strategic management" includes the number of identified staff as at 30 June 2020.

(2) The performance share scheme approved under a resolution adopted by shareholders in a general meeting held on 28 October 2015 and updated on 28 October 2019 is published on the bank's website at www.mediobanca.com.

(3) Maximum number of shares that can be awarded if the performance objectives set in the Remunerations policy in force at the time are met and/or subsequent to the holding period elapsing, in accordance with the Remuneration policies in force at the time. The maximum number of shares that can be awarded was calculated on the basis of the average official stock price for the period from 30 days prior to the date on which the Remunerations Committee and Board of Directors meetings were held to approve the incentivization system or the award date (in cases involving awards made in connection with recruitments or with employment termination arrangements). For the award made on 19 December 2019 as part of the Long-Term Incentive linked to the 2019-23 Strategic Plan, the actual number of shares will be established as and when the Plan has been completed.

Ordinary business

Report by Statutory Audit Committee under Italian Legislative Decree 39/10 on point 5 on the agenda

ENGAGEMENT OF AUDITOR OF FINANCIAL STATEMENTS FOR PERIOD FROM 30 JUNE 2022 – 30 JUNE 2030 AND ESTABLISHMENT OF REMUNERATION

Dear shareholders,

The engagement of PriceWaterhouseCoopers S.p.A. as external auditors of Mediobanca expires with approval of the financial statements for the year ended 30 June 2021.

Under the regulations in force, namely Regulation (EU) 537/2014 (the "Regulation") transposed into Italian legislation as Italian Legislative Decree 135/16, this appointment is no longer renewable, hence a new mandate must be issued by shareholders gathered in general meeting based on a justified proposal made by the Statutory Audit Committee in its capacity as Internal Control and Audit Committee as defined by Article 19 of Italian Legislative Decree 135/16, and following a specific selection procedure to be carried out in accordance with the criteria and by the means stipulated in Article 16 of the Regulation.

Given that the Regulation has introduced, among other things, a prohibition on the audit firm appointed from providing a series of services to the company from as early as the financial year preceding the start of the audit mandate,[1] (the "cooling-in period" rule), it has been provided in the Group's internal regulations that the engagement to audit the company's accounts shall be made under a resolution to be adopted by shareholders at the annual general meeting held to approve the financial statements for the financial year prior to the one in which the mandate expires, thus allowing the timing requirements and restrictions necessary to ensure the audit firm's independence to be managed efficiently.

[1] "[.] designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems [.]".

Accordingly, the Statutory Audit Committee has carried out a formal selection procedure to choose between the leading audit firms, so that the recommendation required under Article 16(3)(c) of the Regulation can be made to shareholders gathered in ordinary general meeting who are invited to adopt a resolution approving the engagement of the firm to audit the company's financial statements for the years ending 30 June 2022-30.

Also in accordance with the provisions of the Regulation, as the appointment involves the engagement of auditors for a public interest entity (PIE), the recommendation made by the Statutory Audit Committee and submitted to your approval includes two alternatives and a preference, with reasons given for it.

Selection procedure

Mediobanca has organized the selection procedure in accordance with the criteria stipulated in Article 16(3) of the Regulation.

The documentation for the competitive procedure (the "Request for Tenders"), drawn up jointly by the Head of Company Financial Reporting and Group Corporate Affairs and submitted to the Statutory Audit Committee, reflects the general criteria set by Consob. To ensure that the proposals submitted by the candidates (the "Proposals") are such as to guarantee the quality and reliability of the audit, they were required to be divided into the following areas:

– "Characteristics of the candidates and information on their independence";

– "Technical and professional information";

– "Financial terms".

The Request for Tenders also governs the criteria identified in accordance with Article 16 of the Regulation to be used in assessing the proposals received.

The Request for Tenders, addressed to the four market leader audit firms (BDO, Deloitte, EY and KPMG), regards the following services:[2]

Audit services

I. Audit to confirm that the accounts are kept regularly

[2] Plus other services (e.g. release of comfort letters which do not require the approval of shareholders in general meeting).

II. Audit of statutory financial statements of Mediobanca S.p.A. including the non-Italian branch offices

III. Audit of the Mediobanca Group's consolidated financial statements

IV. Limited audit of consolidated interim accounts

V. Limited audit of financial statements at 31 December and 31 March to establish the profit for the period for purposes of calculating regulatory capital

VI. Expression of opinion regarding the consistency of the Annual Statement on Corporate Governance and the Review of Operations

Non-Audit Services

II. Checks related to signing off tax returns

II. Checks on calculation of payment to be made to national guarantee scheme

III. Limited assurance for the Group's annual consolidated non-financial statement (CNFS).

The procedure was launched in May 2020 and was co-ordinated by the Head of Company Financial Reporting, with whom the Statutory Audit Committee has liaised on an ongoing basis in order to monitor the process throughout all the main phases. Since receiving the Proposals, the Statutory Audit Committee, the Head of Company Financial Reporting and the head of Group Governance and Treasury have met separately with representatives of the candidates.

Assessment criteria

The analysis and assessment of the Proposals received was based in the information provided by the candidates and the criteria set in the competition documents.

The Statutory Audit Committee ascertained in particular that the companies submitting the Proposals met certain key requisites, as follows:

– Direct geographical coverage of all countries where the Mediobanca Group has operations;

– Specific professional experience in the sectors in which the Group operates, as demonstrated by other audit engagements performed for comparable institutions;

– An adequate level of independence in earnings terms relative to the income which they would earn if Mediobanca and its Group companies were to engage them.

Information on possible situations of incompatibility with the engagement being granted have also been assessed, with reference in particular to consultancy engagements considered to be incompatible or considered as such by the Statutory Audit Committee under the external and internal regulations in force on the subject (services prohibited under Article 5(1) of the Regulation).[3]

The Committee then reviewed the Proposals, assessing the following areas, grouping them by macro-categories, and then assigning a score up to a maximum of:

– "Characteristics of the candidate and information on their independence": 40 points;

  (the companies were invited to submit information with regard in particular to: international footprint, main engagements performed in the last three years for companies operating in the banking and financial sector in Italy and Europe, collaborations with supervisory bodies, presence of representatives in institutional organizations, staff training policies, IT tools used to support activities, internal quality control procedures, any fines or court and/or administrative penalties handed down, means of organizing work in their own networks, description of policies adopted to protect independence, list of mandates for the Mediobanca Group, plus a commitment to withdraw from any contracts that could compromise their independence and in particular the degree of economic independence relative to the Proposal)

– "Technical and professional information": 40 points;

  (with regard in particular to information on the team that would be deployed, degree of knowledge of the Mediobanca Group and audit strategies, with reference also to the technical instruments to be used)

– "Financial terms": 20 points

[3] The ban on providing prohibited services includes the period of time from the start of the financial year covered by the audit and the date on which the audit report is issued. With regard to the financial year prior to the start of the engagement, the audit firm (including its network) is not allowed to provide the company, its EU-based parent companies or subsidiaries, under the terms of the "cooling-in" period rule (cf. Article 5(1) of the Regulation), with "designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems".

Only the Proposals submitted by companies that were assessed to be adequate with reference to the "Characteristics of the candidates and information on their independence" were admitted to assessment on the other two points

Assessment of the Proposals

After analysis of the Proposals received, and taking into account the criteria described in the previous section, the Statutory Audit Committee and the Head of Company Financial Reporting jointly carried out the assessments described below, consulting also with the heads of the Group Corporate Affairs and Group Audit Units.

Despite considering the quality level of the Proposals submitted by all the companies to be high, the Statutory Audit Committee decided nonetheless to admit only two of them to subsequent analysis of the "Characteristics of the candidates and information on their independence" as presented by each of the two companies concerned in their Proposals.

First of all, it was decided to limit review of the Proposals submitted by the audit firms which demonstrated the most extensive experience with clients of the size and characteristics comparable to those of the Mediobanca Group and the ones with the most extensive international networks, thus ruling out BDO.

Next, it was decided to exclude KPMG, despite the high level of professionalism demonstrated by its team, the characteristics of the company itself, and its experience with comparable players, on the grounds that the numerous engagements it already has with Mediobanca are such that, if they were to cease suddenly, could generate operational risk for the Group.

The Proposals received from Deloitte and EY were then subjected to qualitative and quantitative review at the Committee meetings held on 11, 23 and 29 June 2020.

As stated in the Request of Tenders, the characteristics of the candidate and their independence were considered to be decisive, along with the professional and technical contents of the Proposals, including in terms of hours worked and staff deployed to the audit activities, in particular as follows:

– The estimated number of hours required to complete the work covered by the Proposal, and the grounds on which the number has been calculated, considering the fact that the hours worked must be related to the size of the Group and the audit risk, assessed on the basis of the composition and quality of the main earnings and balance-sheet items;
– The structure of the professional team, which must not only perform the audits in practice but must also ensure an appropriate level of supervision and leadership.

With reference to the number of hours estimated to perform the engagement and the proposed tariffs, the two Proposals were as follows:

– EY S.p.A.: 8,290[4] hours for a fee of €565,250, split as follows
– Deloitte S.p.A.[5]: 10,420 hours for a fee of €887,000.

The fee requested by EY is lower than the one currently received by PriceWaterhouseCoopers S.p.A., the external auditors currently engaged by the Bank, for the same services (€623,000), whereas the fee requested by Deloitte is significantly higher. The difference in the amount is attributable to the differing degrees of knowledge of the Group and the fact that EY S.p.A. has already been engaged to audit certain Mediobanca Group companies of relevance for purposes of drawing up the consolidated accounts

The audit teams described in the two Proposals were also reviewed with the aim of collecting information on the professionals involved, including through meetings; in both cases the level of professionalism shown by the team members was high.

To summarize, then, the Committee found the quality level of both the Proposals submitted to be high, and ascertained that:

– Both the companies are leading audit firms registered as auditors in the list instituted by the Italian ministry for the economy and finance;
– The Proposals submitted contain a specific statement to the effect that the candidates possess the requisites in terms of independence stipulated

[4] Includes 900 hours not counted in the fee calculated on the price per hour, as the work would be performed by separate centres of excellence.

[5] The number of hours and the overall fee have been adjusted from the Proposal to exclude a component relating to an additional service not included in the list of Audit Services and Non-Audit Services referred to above.

by the legal provisions in force, and a commitment to withdraw from all engagements that would threaten such independence as from the start of the period of engagement for Mediobanca;

– The audit methods illustrates, considering the number of hours and professionals anticipated, were in both cases adequate for the breadth and complexity of the engagement;

– Both the audit firms concerned appear to have organizations and technical and professional adequacy that are able to manage the complexity of the engagement.

The Committee then made a quantitative assessment of the Proposals submitted, which was approved at a meeting held on 29 June 2020. The assessment contained the final scores shown below (grouped by macro-categories):

	Maximum score	Assigned score	
		Deloitte	EY
Characteristics of the candidate and information on their indipendence	40	36	37
Technical and professional information	40	38	38
Financial terms	20	14	19
Total	**100**	**88**	**94**

In view of the foregoing, the Statutory Audit Committee hereby submits, pursuant to Article16(2) of the Regulation, the two Proposals for the mandate to audit the financial statements of Mediobanca for the 2022-30 nine-year period made by Deloitte S.p.A. and EY S.p.A. respectively, to the attention of the shareholders of Mediobanca in annual general meeting, the financial components of which Proposals are as described above, and also hereby expresses its unanimous preference for the Proposal made by EY S.p.A., on the grounds that it obtained a higher score in the assessment process.

The key aspects of the Proposal submitted by EY S.p.A. which distinguished it from the other and account for the preference being given to it are as follows:

– Team containing a mixture of professionals of high level, who have acquired significant experience at financial institutions comparable to the Mediobanca Group, and in some cases at the Group itself;

– Knowledge acquired as the Group's former auditors (including in private banking, having audited the former Banca Esperia which has since been merged into Mediobanca) and as the current secondary auditors of Compass, SelmaBipiemme, Mediobanca SGR and Mediobanca Management Company SA (in Luxembourg);

– Given the high degree of knowledge of much of the Group already, a much lower total number of hours' work needed to perform the services covered by the Request for Tenders in a Proposal already adjudged to be adequate, allowing for a saving in terms of the overall fee payable;
– Audit engagements already granted for the coming years by banks most comparable in terms of size and characteristics to those of the Mediobanca Group.

The Statutory Audit Committee hereby declares that the preference expressed above has not been influenced by third parties and that none of the clauses of the kind referred to in Article 16(6) of the Regulation have been applied.

It should also be noted, finally, that any adjustments to the fees specified in the engagement that become necessary as a result of objective changes to circumstances, such as changes to the Group structure or in the scope of the engagement, must be approved by the Board of Directors subject to prior consultation with the Statutory Audit Committee. If the adjustments are not in line with the criteria specified in the engagement granted, the approval of shareholders gathered in general needing will be necessary.

Accordingly, the Statutory Audit Committee invites you to adopt the resolutions regarding engagement of the Group's auditors for the period from 30 June 2022 to 30 June 2030 and to establish their compensation.

Resolutions submitted to the approval of shareholders in ordinary Annual General Meeting

Dear shareholders,

In view of the foregoing, you are invited to approve our proposal to appoint audit firm EY S.p.A. to audit the financial statements of Mediobanca for the 2022-30 period based on the contents, terms – including the criteria for revising the fees – and methods illustrated above, for an annual fee (net of ISTAT increases for inflation, out-of-pocket expenses, VAT and supervisory contributions) of € 565,250 made up as follows:

– € 181,250 to audit Mediobanca's statutory accounts and other activities corresponding 3,000 man hours;
– € 91,000 to audit the Mediobanca Group's consolidated accounts, equivalent to 1,400 man hours;
– € 12,100 to check that the Review of Operations – plus certain specific items of information included in the Statement on Corporate Governance and Ownership Structure – are consistent with the statutory and consolidated accounts and compliant with the legal requirements, equivalent to 160 man hours;
– € 18,600 to check that the company's books have been kept properly and that operations have been correctly recorded in the accounts, equivalent to 260 man hours;
– € 103,400 for the limited audit of the interim consolidated accounts and financial statements in order to determine the profit for the period for purposes of calculating regulatory capital, equivalent to 1,360 man hours;
– € 68,400 for the limited audit of the quarterly financial statements for the period ending 31 March, in order to determine the profit for the period for purposes of calculating regulatory capital, equivalent to 900 man hours;
– €38,800 to audit the accounts of the London, Madrid, Paris and Frankfurt branch office accounts, equivalent to 530 man hours;
– € 36,600 in respect of the consolidated non-financial statement, equivalent to 480 man hours;
– € 15,100 for audits in connection with signing off tax returns and for audits in connection with the national guarantee fund, equivalent to 200 man hours.

If the above proposal does not obtain the majority of votes required for approval, the proposal submitted by Deloitte S.p.A. for the same mandate, involving annual fees of € 887,000 equivalent to 10,420 man hours, will be put to the vote.

Milan, 10 September 2020

Statutory Audit Committee

STATEMENT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE AS AT 16 SEPTEMBER 2020

CONTENTS

Statement on Corporate Governance and Ownership Structure 2020

Introduction

This statement has been prepared in accordance with the provisions of Article 123-*bis* of Italian legislative decree 58/98 and the Code of Conduct for listed companies (available on the Corporate Governance Committee's website at www.borsaitaliana.it/comitato-corporate-governance/homepage/homepage.htm), to which Mediobanca adheres, on the terms set forth below. The Corporate Governance Committee monitors its application in practice, and informs listed companies of possible areas for improvement. The recommendations made by the Chairman of Corporate Governance Committee in a letter dated 19 December 2019 were brought to the attention of the Appointments Committee (on 30 January 2020) and the Board of Directors (on 6 February 2020), and were incorporated at the self-assessment stage.

The statement is also intended to meet the public disclosure requirements for banks instituted by the Bank of Italy's supervisory instructions on the issue of corporate governance.

This statement has also been submitted to the external auditor. The judgement regarding its consistency required under Article *123-bis* of the Italian Finance Act is contained in the reports drawn up in compliance with Article 14 of Italian Legislative Decree 39/2010, included with the individual and consolidated financial statements.

1. Mediobanca Group profile

Mediobanca, set up in 1946, is the parent company of the Mediobanca Banking Group which consists of three business lines: Wealth Management, Corporate & Investment Banking, and Consumer Banking.

Mediobanca has branch offices in London, Paris, Frankfurt and Madrid, and subsidiaries based in New York, Luxembourg, London, Paris and Geneva. It also holds a 12.9% interest in Assicurazioni Generali.

The guidelines of the 2019-23 Strategic Plan unveiled in November 2019 mark the completion of the Mediobanca Group's according to the distinctive and sustainable model as "specialized financial player" that, thanks to the specialization and solidity of the business model, is able to turn challenges into opportunities.

The Group aims to achieve growth in all segments in which it operates – the new Wealth Management division as well as the traditional core activities of Corporate & Investment Banking and Consumer Banking – by leveraging on its distinctive features: focus and positioning in highly-specialized, highly profitable market segments, driven by long-term trends, strong capital resources, and ongoing investment in talent, innovation and distribution.

The Group intends to deliver impressive growth in revenues, earnings and shareholder remuneration, to the satisfaction of all its stakeholders, while at the same time preserving one of the best risk/return profiles in Europe.

The Group's ESG strategy is an integral part of the business plan, so as to combine growth in business and financial solidity with social and environmental sustainability, thereby creating value over the long term for all stakeholders.

Mediobanca qualifies among the largest and most complex banks, and as such is subject to prudential supervision by the ECB.

Mediobanca, in its capacity as parent company of the Mediobanca Group, directs and co-ordinates the companies forming part of the Group (activities which are regulated by the Group Regulations) by governing the process of planning at the Group level, issuing Group-wide Policies, Regulations and Directives, providing centralized risk management, and issuing guidance on how to implement instructions received from the European Central Bank.

Mediobanca adopts a traditional model of corporate governance based on the presence of Board of Directors, an Executive Committee and a Statutory Audit Committee. This corporate governance system combines maximum efficiency in terms of operations with effective control. The Articles of Association also provide for three executives from the Banking Group to be represented on the Board of Directors, as part of a system of corporate governance based on wide-ranging powers being granted to the Executive Committee and the Chief Executive Officer for the management of the Company's day-to-day business.

Mediobanca is proposing certain changes to the company's Articles of Association which have been submitted to the approval of shareholders at the Annual General Meeting called to approve the financial statements for the twelve months ended 30 June 2020. The changes are chiefly related to certain governance issues linked to changes in the ownership structure in order to align the Bank more closely with international best practices in the banking sector. These include making the selection process for the Chief Executive Officer more flexible, and strengthening the independence criteria set for non-executive Directors; criteria are fully aligned with the new Code of Conduct for Listed Companies (in force from 1 January 2021). The Bank is also taking the opportunity to incorporate changes to the share capital, also to allow for the possibility of treasury shares owned by the Bank being cancelled, plus other minor changes. These changes do not alter the traditional model of governance which will continue as in the past. Ten years since it was introduced, the traditional system has shown that it works smoothly and effectively fosters the necessary debate between the Board's executive and strategic supervisory functions, with the control body, despite not being part of the Board, nonetheless participating actively in discussions at meetings of the Board itself, the Executive Committee, Risks Committee and Remunerations Committee, providing it with access to all documentation.

2. Information on ownership structure

2.1 Structure of share capital, powers to increase share capital and authorization to acquire treasury shares

The Bank's share capital at 30 June 2020 totalled €443,616,723.50, made up of 887,233,447 ordinary par value €0.50 shares. The shares are registered shares, and entitle shareholders to one vote per share in the general meeting.

The powers vested in the Board of Directors by shareholders at the annual general meeting held on 28 October 2015 are as stated in Article 4 of the Articles of Association and involve in particular:

- authorization, under Articles 2443 and 2420 –ter of the Italian Civil Code, to issue shares or convertible bonds up to a maximum of up 200 million ordinary par value €0.50 shares;
- authorization, under Article 2443 of the Italian Civil Code, to issue up to a maximum of 80 million ordinary shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded, under and pursuant to the provisions of Article 2441 paragraph four, second sentence of the Italian Civil Code;

- authorization, under Article 2349 of the Italian Civil Code, to issue a maximum of up to 20 million ordinary shares to be awarded to Mediobanca Group staff members by way of performance shares. The performance share schemes approved by shareholders at the 2015 general meeting, and the press release regarding the awards made are published on the Bank's website at www.mediobanca.com.

At an annual general meeting held on 27 October 2018, shareholders adopted a resolution to buy back the company's shares up to 3% of the share capital (26,611,288 shares). The buyback was completed on 25 March 2020. As at the date of this statement, the number of treasury shares owned was 26,611,288.

The amendments to the Articles of Association that Mediobanca proposes to submit to the approval of its shareholders at the Annual General Meeting called to approve the financial statements for the twelve months ended 30 June 2020 include changes to the company's share capital: deletion of the reference to the nominal value of the price per share for ordinary Mediobanca shares, in order to simplify any cancellations of treasury shares owned, and renewal of the powers vested in the Board of Directors to increase the company's share capital already provided for in the Articles, for the same amount.

2.2 Ownership structure

Mediobanca has approximately 45,000 shareholders.

As at the date of this statement, Shareholders with interests in excess of 3% are as follows:

Shareholder	% of share capital
Leonardo Del Vecchio *	9.89
Bolloré group **	5.60
Black Rock group ***	3.98
Mediolanum group	3.28

(*) Indirect shareholding.
(**) Bollorè group 2019 Financial Statement and 2020 half-year Financial report
(***) Black Rock Inc. (NY) via fifteen asset management subsidiaries (form 120b, 6 August 2020), 0.69 % of which by way of potential investment as part of securities lending and 0.13% in other long positions with cash settlement.

The shareholder structure of Mediobanca is currently made up as to 60% of institutional investors, as to 10% of retail investors and the remaining part of other investors. Some shareholders[1] (12,6%) are parties to a consultation agreement which

[1] Mediolanum, Schematrentatre (Benetton), Fininvest, FIN.PRIV., Gavio group, Ferrero group, Pecci group, Angelini Partecipazioni Fin., Finprog Italia (Doris), Sinpar (Lucchini), Mais Partecipazioni Stabili (Seragnoli), Vittoria Assicurazioni, Romano Minozzi.

makes no provision for commitments in terms of lock-up or votes in respect of the shares syndicated to it. By signing this agreement, which has been in force since 1 January 2019, the parties confirm their shared interest in the Group's growth, with a view to ensuring unified management in accordance with its traditions of autonomy and independence. The agreement governs the means by which the parties meet to share reflections and considerations regarding the Group's performance, without prejudice to the principle of full parity of information versus the market. The parties also recognize that the preferred practice is for the outgoing Board to submit a list of Directors to be reappointed to the Board, as already provided for in the Articles of Association. The agreement is valid until 31 December 2021 and is automatically renewed for further three-year periods between those parties who have not given notice of their intention to withdraw from it at least three months prior to the original or extended date of expiry. The agreement is filed with the Milan companies' register, and an excerpt from it may be found on the Bank's institutional website at https://www.mediobanca.com/en/corporate-governance/main-shareholders/shareholder-consultation-agreement.html.

2.3 Change of control clauses

Mediobanca is a party to shareholder agreements in unlisted companies which provide, in the event of a change of control, for the other parties to exercise put options over their own interests.

3. General meetings

The general meeting gives expression to the wishes of the body of the company's shareholders, and decisions taken in such meetings, which are adopted in conformity with the provisions of both the law and the company's Articles of Association, are binding on all shareholders.

Issues which fall within the jurisdiction of shareholders in general meeting, which are usually held in a single session on 28 October each year, include the following:

1) approval of financial statements and allocation of profits;
2) appointment and/or dismissal of the Board of Directors and Statutory Audit Committee;
3) engagement of, and termination of agreements with, external legal auditors;

4) remuneration policies and incentivization schemes based on financial instruments adopted for directors, Group employees and collaborators;
5) transactions required by law to be approved by shareholders in extraordinary general meeting.

The right to attend and vote at General Meetings is governed by the Articles of Association (Section III, Articles 5ff), and the notice of meeting for the AGM illustrates the methods and conditions for attendance.

The Bank has not adopted a specific set of regulations for holding general meetings, as its Articles of Association ensure that proceedings are conducted in an orderly manner, providing for the Chairman of the meeting, who under the Articles is the Chairman of the Board of Directors, has the duty of establishing that a quorum has been reached, ascertaining the identity of those in attendance, and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken.

As provided under Article 127-*ter* of the Italian consolidated finance act, shareholders may table questions on items on the agenda even prior to the meeting itself. Questions received prior to the meeting will be answered during the meeting itself at the latest, including by means of a single answer if other questions with substantially the same content have been received. The notice of meeting contains an indication of the deadline by which questions must be submitted.

The Board of Directors reports on the activities performed to shareholders at the general meeting, in its Review of Operations; and prepares reports on the various items of agenda within the timeframe set by the regulations in force.

4. Board of Directors

4.1 Composition and appointment

The Board of Directors consists of between nine and fifteen members, with two places reserved for the list submitted by minority shareholders. Of the Directors thus appointed, three are managers with at least three years' experience working for the Mediobanca Banking Group, at least two qualify as independent as required by Article 148, paragraph 3 of the Italian Legislative Decree 58/98 and at least one-third qualify as independent in accordance with the definition provided in Article 19 of the Articles of Association. At least one-third of the Directors must be of the less-represented gender. No person may be appointed director if they are aged seventy-five or over.

The independence qualifications provided by Article 19 of the Articles of Association are basically aligned with those in the Code of conduct for listed companies. Under the Articles in force, Directors are held not to qualify as independent if they hold an interest of over 2% in the company or are significant representatives of the group to which the company belongs, regardless of whether they are parties to shareholder agreements. Furthermore, given that such requisites are stipulated in the Articles, by their nature no exceptions to them are possible.

The Board of Directors of the parent company of a banking group has overall responsibility for management of the group as a whole and for the rules and mechanisms of governance to ensure such management is prudent and effective. In particular, the Board of a bank which, like Mediobanca, adopts the so-called "traditional" governance model has responsibilities of both management and supervision/control.

In this connection, the Board of Directors must be formed of members:

- who are fully aware of the powers and obligations relating to the functions they are each required to carry out;
- who have a suitable professionalism for the role they are to perform, including for any committees within the board, and calibrated in relation to the operational and dimensional characteristics of the bank;
- with expertise that is spread between all members and suitably diversified, in order to allow each of the members, within the committees they are part of and in collegial decisions, to contribute effectively to ensuring an effective governance of the risks in all areas of the bank;
- who dedicate suitable time and resources to the complexity of their assignment.

The current Board of Directors of Mediobanca was appointed by shareholders in a general meeting held on 28 October 2017 for the 2018-20 three-year period, and following the resignation of two Directors, was restored to its full complement on 20 September 2018 through two new Directors being co-opted, and subsequently confirmed to their posts by shareholders at the Annual General Meeting held on 27 October 2018. The appointments in 2017 were made, as required by the Articles of Association, on the basis of lists of candidates in possession of the requisites stipulated by law, the applicable regulations and the Articles of Association (Article 15). Such lists are submitted by shareholders representing in the aggregate at least 1% of the company's share capital.

In submitting their lists of candidates, the shareholders took account of the guidance issued by the Board of Directors in its "Report on the qualitative-quantitative composition of the Board of Directors" dated 14 June 2017. Together with each list, and along with the other information and statements required by the regulations in force at the time, the CVs of the individual candidates were submitted, containing details of their professional qualifications, plus declarations in which they state, under their own responsibility, that there are no grounds that would render them incompatible with or ineligible for office, that the requisites stipulated by the law in force and the Articles of Association are met, and attaching a list of the management and control positions held by them in other companies.

The Board of Directors consisted of 15 members, eleven of whom qualify as independent under Article 148, paragraph 3 of the Italian Finance Act, eight of which eleven also qualify as independent under Article 19 of the Articles of Association. The Board's composition complies with the legal requirements on gender representation.

The Board of Directors has found that the independence requirements have been met: i) as stated under Article 148, paragraph 3 of the Italian Finance Act, by Maurizia Angelo Comneno, Marie Bolloré, Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Maximo Ibarra, Alberto Lupoi, Elisabetta Magistretti, Vittorio Pignatti Morano and Gabriele Villa; and ii) as stated under Article 19 of the Articles of Association, by Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Maximo Ibarra, Alberto Lupoi, Elisabetta Magistretti and Vittorio Pignatti Morano. The Statutory Audit Committee then checked that the criteria and procedures adopted by the Board of Directors had been applied correctly with respect to the ascertaining of its members' independence.

In accordance with the Supervisory Instructions for banks in the area of corporate governance and with the Articles of Association, Directors who are not members of the Group's management but who are part of the Executive Committee are treated as though there were executive directors and accordingly do not form part of the Remunerations, Appointments and Risks Committees.

Member	Post held	Date of birth	Indep. *	Indep. **	Management	In office since ***
Renato Pagliaro ♦	Chairman	20/2/57			X	02/07/07
Maurizia Angelo Comneno ♦	Deputy Chair	18/6/48		X		28/10/14
Alberto Pecci ♦	Deputy Chair	18/9/43				27/10/12
Alberto Nagel ♦	CEO	7/6/65			X	02/07/07
Francesco Saverio Vinci ♦	Group General Manager	10/11/62			X	02/07/07
Marie Bolloré ♦	Director	8/5/88		X		28/10/14
Maurizio Carfagna ♦	Director	13/11/47	X	X		28/10/14
Maurizio Costa ♦	Director	29/10/48	X	X		28/10/14
Angela Gamba □	Director	15/08/70	X	X		28/10/17
Valérie Hortefeux ♦	Director	14/12/67	X	X		28/10/17
Maximo Ibarra •	Director	13/12/68	X	X		20/09/18
Alberto Lupoi □	Director	29/3/70	X	X		28/10/17
Elisabetta Magistretti ♦	Director	21/7/47	X	X		28/10/11
Vittorio Pignatti Morano •	Director	14/9/57	X	X		20/09/18
Gabriele Villa ♦	Director	18/6/64		X		28/10/17

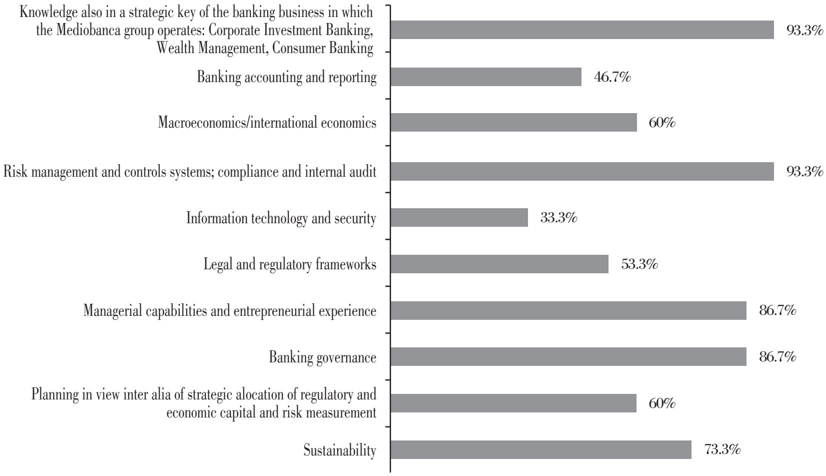
* Independent in accordance with the definition provided in Article 19 of the Articles of Association.
** Independent as required by Article 148, paragraph 3 of Italian Legislative Decree 58/98.
*** Period also comprises post held in governing bodies under dualistic governance system adopted by Mediobanca from 27/6/07 to 28/10/08.
♦ Taken from the list submitted by Unicredit S.p.A., which at the time owned 8.46% of the company's share capital.
□ Taken from the list submitted by a group of investors holding 3.889% of the share capital.
• Co-opted on 20 September 2018.

The amendments to the Articles of Association being submitted to the approval of the Bank's shareholders at the Annual General Meeting called to approve the financial statements for the twelve months ended 30 June 2020 include the following proposals regarding the composition of the Board of Directors:

– that independent Directors make up the majority of the Board, based on criteria for defining independence aligned with the new Code of Conduct for Listed Companies as recently revised;
– adaptation of the number of members of the Group's senior management represented on the Board according to the size of the Board itself, with provision for two such members in cases where the Board consists of thirteen or fewer members.

The Report on the qualitative and quantitative composition of the Board of Directors, which the Board has issued to shareholders ahead of the reappointment of the governing bodies, sets out, based on the regulations in force, the requirements for holding the position of Director. For the new Board of Directors to be appointed, Mediobanca has also stipulated additional requisites: in order to mitigate the risk of conflicts of interest, no Directors who: (i) hold, or have held in the last six months, the position of member of the body with strategic supervisory duties, senior management, or advisory board of companies forming part of competitor groups or insurance groups, or who: (ii) are, directly or indirectly via fiduciary companies, subsidiaries or other persons, significant shareholders in such groups (i.e. with stakes of above 10%).

The composition of the Board of Directors reflects the appropriate combination of capabilities and professional expertise.



The Board of Directors is comprised of 10 men (66.67%) and 5 women (33.33%); a breakdown of the Board members by age bracket is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
1	0	2	3	2	2	0	5

A breakdown of the Board of Directors by years of seniority is shown below.

0-2 years	3-5 years	>6 years
40%	27%	33%

The documentation submitted by the Directors for appointment to the Board of Directors, including their CVs, is available on the Bank's website at in the lists or proposals published in the section entitled "General Meeting 2017" (https://www.mediobanca.com/en/corporate-governance/annual-general-meeting/general-meetings/general-meetings.html).

4.2 Role and functioning

Under the Articles of Association currently in force, the following matters are the sole jurisdiction of the Board of Directors:

1. definition and approval of strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
2. approval of quarterly and interim accounts and of draft individual and consolidated financial statements;
3. decisions concerning the acquisition or disposal of equity investments which are equal to 10% of the investee company's share capital and also involve an amount which is above 5% of the Group's consolidated regulatory capital;
4. appointment and dismissal of the Executive Committee, Chief Executive Officer, Group General Manager, head of company financial reporting and the heads of the Group Audit, Compliance and Risk Management units;
5. definition of the overall governance arrangements and approval of the Bank's organizational structure, ensuring clear distinction of duties and function and preventing conflicts of interest.

Under the regulations currently in force, and the resolution in respect of powers, the following matters are also under the sole jurisdiction of the Board of Directors:

- proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
- proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
- approval of "most significant" transactions involving related parties of relevance to the Bank of Italy's prudential regulations, and, if they do not qualify as ordinary transactions, transactions with related parties for purposes of the transparency regulations;
- approval of the Risk Appetite Framework and the general guidelines for the ICAAP and ILAAP processes;
- approval of the Recovery Plan (required under EU Directive 2014/59);
- approval of annual plans and review of reports by the internal control units.

Twice a year the Board of Directors also assesses the adequacy of the Bank's administrative and accounting structure, with particular attention paid to the internal control system and risk management based on the enquiries made by the Control and risks committee and the report presented by the head of company financial reporting on the adequacy and application of administrative and accounting procedures required by Italian law 262/05.

The delegated bodies report regularly to the Board of Directors on the Bank's general performance, outlook, and the principal transactions in terms of size or characteristics that have been executed either by Mediobanca itself or by Mediobanca Group companies.

The Board normally adopts resolutions on proposals from the Executive Committee or Chief Executive Officer, with a majority of those in attendance voting in favour.

The means by which Board meetings are called are established by Article 17 of the Articles of Association.

The Chairman is responsible for ensuring that the Directors receive adequate information on the various items on the agenda in good time for the meeting (the documentation on the items on the agenda is normally sent at the same time as the notice of meeting, i.e. five days before the meeting itself is held, and after the Board committee responsible for processing the documentation has assessed it), and ensures that sufficient room is given for discussing the individual items, giving priority to issues of strategic relevance and guaranteeing that the debate is effective. The Chairman regularly invites Board members to indicate issues of interest to them which require further analysis or explanation. The secretary to the Board is available to arrange induction sessions or further analysis for the individual directors.

The Secretary to the Board, the Chief Risk Officer and other Group staff and representatives invited on the basis of the items on the agenda also take part in Board meetings.

A total of nine Board meetings took place in the period from 1 July 2019 to 30 June 2020. The average duration of Board meetings was around 4 hours and 30 minutes.

The independent Directors meet regularly without the other Directors present. In the period from 1 July 2019 to 30 June 2020, the independent Directors met on two occasions, discussing the process for the submission of lists of candidates for the position of Director by the Board itself, the ownership structure of banks supervised by the ECB, and the letter received by Mediobanca from Bluebell Capital Partners.

4.3 Role of the Chairman

The Chairman of the Board of Directors calls, chairs and directs proceedings at general meetings and Board meetings, and ensures that the other Directors are provided with adequate information regarding the items on the agenda. No person aged seventy or over may be elected as Chairman.

The Chairman is responsible for ensuring that the corporate governance system runs smoothly in practice, guaranteeing due balance between the powers of the Chief Executive Officer and the other executive Directors; he is the counterparty for dialogue with the internal control bodies and internal committees.

He ensures that the self-assessment process is completed effectively, and that the corrective measures devised in order to meet any shortcomings detected are implemented in practice; he ensures that the directors are able to take part in meetings to analyse strategic issues in greater depth, with a view to providing adequate knowledge of the company itself, principles of proper risk management and the regulatory framework.

The Board of Directors has not vested the Chairman with specific powers save for his role in liaising with the Group Audit Unit, which he performs on the basis of reports on the results of the audits carried out and via monitoring of the remediation measures identified.

In addition to the duties associated with his role, the Chairman of Mediobanca, Renato Pagliaro is a member of the Appointments Committee and is invited to take part in certain committee meetings, including management committees, in order to facilitate effective reporting flows versus the Board of Directors.

4.4 Induction and regular training

The Board promotes induction and training programmes for members of the governing bodies, ensuring that the necessary resources are provided to this end.

The objective of the induction meetings is to provide participants with knowledge to enable them to take an informed part in the Board of Directors' discussions and deliberations.

The training meetings serve to refresh members' knowledge of general issues in the banking world, such as the regulatory scenario, risks, etc. Training meetings are open to participation by the Directors and Statutory Auditors of the Group's other banks as well.

The induction and training programmes spread out meetings over the financial year according to a timetable which is set annually. In setting the agenda, the Chairman takes account of the findings to emerge from the self-assessment process from the governing bodies, any comments from the Directors themselves, and suggestions made by the heads of area and control units.

Each meeting is supported by documentation which is sent to participants in advance.

The following induction and training meetings were arranged during the year outside of the Board meetings themselves, for the benefit of directors and statutory auditors:

- seven induction meetings for the whole Board on the following topics: ICAAP-ILAAP; SREP letter 2019; Liquidity, Funding Policy and FTP model; the RAF as risk management instrument and its relation to budget; analysis of banking regulations on the issues of transparency and anti-money-laundering; Remuneration Policies; and the functioning of the AIRB models used for credit risk;
- one induction meeting addressed to the Risks Committee and subsequent debate by the Board of Directors on the following issue: Group Audit Plan for means of conducting audits remotely;
- two training sessions on more general issues (open also to Board members of other Group banks) on the following issues: cyber security and new technologies in the banking/financial sector: fintech, crypto-currencies, blockchain and artificial intelligence; macroeconomic and geopolitical scenarios.

The average duration of the induction meetings was around two hours and 15 minutes, that of the training meetings approximately 3 hours.

4.5 Self-assessment of the Board of Directors

The process of self-assessment of the size, composition and functioning of the Board of Directors and its committees required by the Supervisory Instructions for banks in the area of corporate governance and by the relevant EU regulations, was conducted in the months between March and July 2020, with the assistance of an external advisor (Egon Zehnder), under the supervision of one of the independent Directors who is also a member of the Appointments Committee (and was mandated by the Committee itself to perform this duty). Apart from the customary assessment of the functioning of the Board of Directors itself and the Board Committees, this year the process has been conducted *inter alia* in view of the Report on the Qualitative and Quantitative Composition of the Board of Directors addressed to shareholders ahead of the Annual General Meeting to be held in October 2020 at which a new Board of Directors will be appointed.

The process was structured in three different phases:

– obtaining each Director's recommendations, on the basis of a standardized questionnaire which was the same for all recipients, structured in three sections: the first on individual suitability, the second on collective suitability, and the third on the Board's functioning. The questionnaire also sought to identify new topics of discussion for next year's induction sessions. Each Director was able to approach the Director appointed to supervise the self-assessment process and the external advisor;
– the Appointments Committee's analysis of the data collected in aggregate form;
– the Board of Directors' approval of the Summary Report, including the principal results, and the Report on the Qualitative and Quantitative Composition of the Board of Directors, containing guidance for shareholders, at the Appointments Committee's proposal.

The self-assessment process, in which all of the directors participated and also, in line with the supervisory instructions for banks, the 3 standing auditors plus 4 members of the Bank's management external to the Board, revealed a thoroughly positive situation which confirms the effectiveness of the work carried out by the Board of Directors.

The following positive aspects emerged in particular from the self-assessment process: i) the individual and collective composition (in terms of size, capabilities, background, diversity – including in terms of gender – and number of independent members; ii) the functioning of the Board itself, which was adjudged to be very positive.

In particular, in the third and last year of the Board's term of office, the vast majority and in some cases all respondents:

- adjudged the number and duration of meetings to be appropriate, and considered both the Board's agenda and the time devoted to the individual items on it to be largely adequate; the records of the discussions regarding the individual items entered in the minutes of the meeting were also considered to be precise and accurate;
- expressed appreciation for the level of debate at Board meetings, considered to be direct and effective, with the key role played by the Chairman in terms of the leadership he displays in directing proceedings once again unanimously acknowledged, as in previous years;
- assessed the current segmentation by business lines as adequate and effective; expressed appreciation for the way in which the RAF, ICAAP and ILAAP are integrated with management of the Group's business, as well as for the documentation on risk management and controls (e.g. quarterly segment reporting, Pillar III, dashboard, and control unit reports);
- considered the quality, contents and timing of the reporting flows to be appropriate in view of the resolutions to be approved by the Board itself and also the activities performed by the Board Committees, including with reference specifically to the recommendations recently made by Corporate Governance Committee in this area;
- expressed complete satisfaction once again at the participation of the heads of the control units and the heads of the Group's main business lines at Board meetings and induction sessions over the three years of the Board's term of office;
- expressed unanimous satisfaction, once again as in previous years, with the induction and training programme organized for the Board by Mediobanca, both in terms of the contents and the supporting information material;
- once again expressed full appreciation for the quality and effectiveness of the work done by the Board as a whole and its Committees;

– unanimously reiterated its positive assessment of the activities performed by the Statutory Audit Committee.

A large majority of the respondents was appreciative of the progress made in the two areas highlighted as requiring further attention in last year's self-assessment (sustainability and the new IT platform).

It is also worth noting that based on the self-assessment exercises held in previous years, it has never seemed necessary for a Lead Independent Director to be appointed, partly because the Chairman and Chief Executive Officer are not the same person, and also because the independent Directors constitute the majority of the Board itself.

Areas for improvement in the coming year involved:

– the need to give more space to business issues in the Board's agenda;
– more indepth analysis of organizational profiles, including with reference to ensuring the appropriate competences are represented, in view of the developing market scenario;
– enriching the RAF, ICAAP/ILAAP and dashboard presentations, complementing the predominantly quantitative approach with more substantial analysis of possible problems in risk management and the related solutions;
– reviewing the powers delegated to the Executive Committee if the new Board chooses to appoint one.

With reference to the Report on the Qualitative and Quantitative Composition of the Board of Directors addressed to shareholders ahead of the appointment of the new governing bodies, the outgoing Board of Directors has made the following recommendations on governance issues:

– the major representatives (Chair, Deputy Chair, Chief Executive Officer) chosen should meet the requirements identified in the Report;
– only one Deputy Chair to be appointed;
– statutory figure of Group General Manager to be confirmed;
– an Executive Committee should again be appointed pursuant to Article 23 of the Articles of Association, with a clear distinction between its powers and responsibilities and those of the Chief Executive Officer;
– continuity in the composition of the Board committees to be confirmed;

– institution of the Board Corporate Social Responsibility Committee also to be confirmed.

As mentioned, the recommendations made in the letter by the Chairman of the Corporate Governance Committee sent on 19 December 2019 have been taken into consideration in the self-assessment process. In particular:

– with reference to corporate social responsibility issues being integrated into the business strategies and remuneration policies, the Group has aligned itself with the recommendation made, having set up a Board Corporate Social Responsibility Committee in September 2019 (the management committee was set up in 2017), and included sustainability objectives in the 2019-23 Strategic Plan and the Long-Term Incentive Scheme for both the Chief Executive Officer and Group General Manager.
– with reference to the quality of the reporting to the Board of Directors, this is covered by the Regulations governing the operations of the Board and its committees which is subject to continuous improvements; the majority of the documentation is sent along with the notice of meeting, and only price-sensitive documents are transmitted shortly before the meetings themselves.
– with reference to assessment of independence and any exceptions, the banking regulations require the adoption of a single statutory definition of independence with no exceptions admitted. Accordingly, one of the amendments to the Articles of Association submitted to the approval of shareholders at the Annual General Meeting called to approve the financial statements for the year ended 30 June 2020 is to fully align the independence criteria provided in the Articles with those of the new Code of Conduct for Listed Companies.
– regarding the adequacy of the remuneration paid to non-executive Directors and to members of the control body, the compensation paid to the Statutory Audit Committee was adjusted, *inter alia* on the basis of comparative analysis, when the body was last reappointed (i.e. at the Annual General Meeting in 2017), following benchmarking with other comparable banks. The remuneration payable to non-executive Directors was also set in 2017 based on the amounts paid by similar banks.

No need for specific action emerged, as the governance organization is already basically aligned with the recommendations.

The Board of Directors has been informed that the Statutory Audit Committee has carried out its own self-assessment, resulting in a positive opinion of the supervisory body's collective suitability, composition in qualitative and quantitative terms, and functioning. The process has been conducted *inter alia* in view of the Statutory Audit Committee's reappointment which is on the agenda at the Annual General Meeting to take place in October. For further information, please refer to the Board's Report on the qualitative and quantitative composition of the Statutory Audit Committee available on the Bank's website at https://www.mediobanca.com/en/corporate-governance/annual-general-meeting/index.html.

4.6 Appointed bodies

4.6.1 Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among the Directors who have been members of the Banking Group's management for at least three years, who must not be more than sixty-five years old. For the purpose of greater flexibility at the Annual General Meeting to take place on 28 October 2020, a proposal will be submitted to shareholders to remove the restriction in the Articles of Association which requires that the Chief Executive Officer must be chosen from among the Directors who are members of the Group's senior management.

The Board of Directors, without prejudice to the provisions of the Articles of Association, establishes the duties and powers of the Chief Executive Officer. In particular, the Chief Executive Officer has executive powers and is responsible for implementing resolutions adopted by the Board of Directors and the Executive Committee, which he chairs, and also:

1) within the limits of his powers, implements the plans and strategic guidelines set by the Board of Directors and Executive Committee;
2) is empowered to make proposals to the Board of Directors and Executive Committee, with reference in particular to management direction, proposed strategic plans and budgets, draft financial statements and interim accounts, and the principal internal regulations;
3) is empowered to make proposals to the Committee instituted pursuant to Article 18, paragraph 4 of the Articles of Association concerning the decisions to be taken regarding appointments to the governing bodies of the investee companies (in which the Bank holds a stake of at least 10% of the share capital and for which the value of such stakes represents more than 5% of the Group's consolidated regulatory capital), if listed;

4) is responsible for staff management, and, having sought the opinions of the Group General Manager, if appointed, appointment of managerial staff;
5) ensures that the organizational, administrative and accounting systems of the Bank are adequate for the operations and size of the company;
6) reports, with the Group General Manager, if appointed, to the Board of Directors and Executive Committee each quarter on the Bank's operating performance and prospects, and on the most significant transactions carried out by the Company and its subsidiaries;
7) is responsible for supervising activities in the area of sustainability, including preparing the Consolidated Non-Financial Statement to be published annually. In performing these duties, the Chief Executive Officer is assisted by the Corporate Social Responsibility management committee.

The Chief Executive Officer is Alberto Nagel.

4.6.2 Group General Manager

The Board of Directors may, if proposed by the Chief Executive Officer's proposal with an indication of powers and duties, appoint a Group General Manager from among the Directors who have been members of the Banking Group's management for at least three years and are not more than sixty-five years old. At the Annual General Meeting to take place on 28 October 2020, a proposal will be submitted to shareholders to remove the restriction in the Articles of Association which requires that the Group General Manager must be chosen from among the Directors who are members of the Group's senior management.

The Board of Directors vests the Group General Manager, who is the head of the internal organization and as such is part of the management function, with powers to carry out the day-to-day business of the company, which specifically involves supervision of the other Group companies, and to implement resolutions passed by the Board of Directors or by the Executive Committee in accordance with the directions issued by, and based on the individual remit of, the Board of Directors, Executive Committee and Chief Executive Officer. The Group General Manager is responsible for approving the guidelines to ensure that the risk mitigation techniques implemented are effective and that suitable training programmes are instituted to embed the requisite risk culture.

The Group General Manager is Francesco Saverio Vinci, who is responsible for supervising the Holding Functions division, which includes Finance and Group Technology and Operations, and also, in conjunction with the Chief Executive Officer, for directing and co-ordinating operations at Group level.

5. Board Committees

In accordance with Article 20 of the Articles of Association, the Board of Directors, at the Appointments Committee's proposal, has instituted the Executive Committee and the three Board Committees (Risks, Remuneration and Appointments) provided by the regulations in force, consisting exclusively of non-executive directors, the majority of whom are independent, from whom the Chairman is selected. As proof of Mediobanca's attention to sustainability, a Corporate Social Responsibility Committee has been set up by the Board, consisting of a majority of non-executive and independent Directors, with responsibilities for processing matters relating to corporate social responsibility. Another Committee has also been set up pursuant to Article 18 of the Articles of Association, regarding appointments to be made to the governing bodies of particular investee companies at their annual general meetings, companies, that is, in which the Bank holds a stake of at least 10% of the share capital and for which the value of such stakes represents more than 5% of the Group's consolidated regulatory capital.

The Board committees reach a quorum when the majority of directors in office participate and resolutions are adopted on the basis of the majority of those participating voting in favour.

Minutes are taken of meetings by each Committee which are kept in specific registers. The Chairman of each Committee reports to the Board of Directors at the first available meeting on its activities and the Committee's proposals to be submitted for examination by the Board.

5.1 Executive Committee

The Executive Committee consists of between three and five directors.

Members	Post held	Executive
Alberto Nagel (P)	Chief Executive Officer and Committee Chairman	X
Maurizia Angelo Comneno *	Deputy Chair	
Francesco Saverio Vinci	Group General Manager	X
Gabriele Villa *	Director	

* Independent as defined under Article 148, paragraph 3 of the Italian Finance Act.

The Executive Committee comprises three men (75%) and one woman (25%). A breakdown of the committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
0	0	0	1	2	0	0	1

Without prejudice to situations of incompatibility and the restrictions set under the regulations in force, the directors who are members of the management of Mediobanca Group companies are members of the Executive Committee *de jure*. Members of the Executive Committee who are part of the Mediobanca Group's management are bound to devote themselves exclusively to the performance of activities relating to their post, and without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for companies or entities other than those owned by Mediobanca. The other Executive Committee members, again without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for other banking or insurance groups. The Executive Committee remains in office for the entire duration of the office of the Board of Directors which appointed it.

The Executive Committee is chaired by the Chief Executive Officer. The Chairman of the Board of Directors is also invited to take part in Executive Committee meetings, to ensure adequate information and reporting flows to the full Board of Directors. The Statutory Audit Committee also participates, as do the Secretary, the Chief Risk Officer and the Head of Company Financial Reporting.

Resolutions are approved by the Executive Committee with the majority of its members in attendance and voting in favour. Meetings are called on the initiative of the Chairman based on the requirements of the business, as a rule meeting once a month.

A total of six meetings were held in the period from 1 July 2019 to 30 June 2020, with an average duration of roughly 1 hour and 30 minutes.

Under the Articles of Association, the Executive Committee is responsible for managing the ordinary activities of the Bank, vested with every power, including the power to disburse credit, without prejudice to those issues for which the Board of Directors has sole jurisdiction or which the Board has otherwise delegated to the Chief Executive Officer. In particular, the Executive Committee:

– approves resolutions, in accordance with the guidelines and general directives adopted by the Board of Directors, to grant loans, including pursuant to Article 136 of the Italian banking act, and trading involving shareholdings considered relevant under the terms of the Articles and for percentage values not to exceed those over which the Board of Directors has decision-making powers;
– establishes operating limits on the taking of various types of risk, in accordance with the Risk Appetite Framework;
– is responsible for the Group's investment process.

The Executive Committee reviews transactions which qualify as "most significant" under the regulations in force that have received a negative opinion from the Risk Management, and, if appropriate, authorizes them; and informs the Board of Directors and the Statutory Audit Committee of such transactions.

The Executive Committee may delegate some of their powers to internal managerial committees or to individual management staff, while giving priority to the principle of collegiality in decision-making. In accordance with the provisions of the Articles of Association, and in order to facilitate the smooth running of the company's operations, the Executive Committee has assigned the following powers to the following committees:

– Group Risk Management, for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers on market risks approval;
– Lending and Underwriting, with powers of approval for credit, issuer and conduct risk;
– Group ALM and Operating ALM, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate;

– Investments, for the equity investments referred to in Article 18 of the Bank's Articles of Association and other equities and banking book investments (excluding those in Banking Group companies);
– New Operations, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models;
– Group Operational Risks, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions;
– Group Wealth Investments, for defining market views at Group level based on analysis of the economic situation for relevant markets and countries and for monitoring their track record;
– Private & Affluent Investments, for defining strategic and tactical asset allocation, selecting investment houses, funds and other financial instruments.

Reports on these committees' activities are presented at each Executive Committee meeting which in turn reports to the Board of Directors.

The Committee regularly assesses the general operating performance, including on the basis of information received from the Chief Executive Officer and the internal management committees.

5.2 Risks and Related Parties Committee

The Committee consisted of five non-executive Directors who qualify as independent as defined in Article 19 of the Articles of Association. The person chairing the Committee is an independent director in possession of the requisite experience in accounting and financial matters, on account of their being a registered auditor.

Members	Independent (Article 19)*	Independent (Finance Act)**
Elisabetta Magistretti (P)◊	X	X
Maurizio Carfagna	X	X
Angela Gamba	X	X
Valérie Hortefeux	X	X
Vittorio Pignatti Morano	X	X

◊ Registered auditor.

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, paragraph 3 of the Italian Finance Act.

The Committee consists of three women (60%) and two men (40%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
0	0	1	1	0	1	0	2

The Secretary and the Statutory Audit Committee (with which the Committee exchange information and coordinate itself) take part in Committee meetings, and the Chief Executive Officer and Group General Manager are also invited to take part. The head of company financial reporting, the heads of the control units and if considered necessary other Group staff also attend.

The Committee:

– performs duties of monitoring, instruction and support to the Board of Directors in respect of:
  - defining the Risk Appetite Framework, monitoring its thoroughness, adequacy, functioning and reliability and those of the risk governance policies;
  - defining the guidelines for the internal control and risk management system, to ensure that the principal risks facing the Bank and its Group companies are properly identified and adequately measured, managed and monitored;
  - dealing with risk resulting from any prejudicial events of which the Board of Directors may become aware;
  - reviewing, at least once a year, the adequacy of the internal control and risk management system vis-à-vis the Bank’s characteristics and the risk profile assumed;

– issues opinions on the appointment of any external advisors which the Board might retain;

– makes recommendations to the Board on any risk strategy adjustments that might prove necessary based on the business model, market developments or which otherwise derive from Risk Management;

– expresses non-binding opinions, with the assistance of the Appointments Committee, on the appointment and dismissal of the heads of the internal control units (Group Audit, Compliance and Risk Management), their salaries and powers, and the means guaranteed for them to exercise their functions;

– examines the regular reports and work plans of the Group Audit, Compliance and Risk Management units, and supervises the internal auditing system;

– reports to the Board, at least once every six months, on the activities performed and the adequacy of the internal control and risk management system;
– reviews plans for calculating the adequacy of the Bank's aggregate capital and liquidity, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP and ILAAP), reporting back to the Board on this issue;
– checks that the Bank's remuneration and incentivization system is consistent with the Risk Appetite Framework.

The Compliance and RIsk Management units also report to the Committee in functional terms; the Committee may ask the heads of both units to carry out specific enquiries, audits and/or assessments on matters that are of interest to it.

With reference to the structure of the Bank's financial reporting organization, the Committee, together with the Head of Company Financial Reporting and after consulting the external auditors and the Statutory Audit Committee, assess the correct application of accounting standards for purposes of drawing up individual and consolidated financial statements, assess the external auditors' recommendations, and generally serves in an advisory capacity to assist the Board of Directors in taking the decisions for which it has responsibility on matters of financial documents.

The Risks Committee currently also acts as the Related Parties Committee instituted pursuant to the Regulations for transactions with related parties approved on 27 June 2012 and most recently revised on 27 July 2020 (https://www.mediobanca.com/en/corporate-governance/governance-reports-and-documents/governance-reports-and-documents.html), with the following duties:

1) expressing opinions in advance on the adoption of, and possible amendments to, the Regulations;
2) participating in negotiating and processing the most significant transactions with related parties, by receiving thorough and prompt reporting on them with the right to request further information and make comments;
3) expressing reasoned opinions (binding only in respect of the largest transactions) on the Bank's interest in executing the transaction with related parties and the convenience and substantial correctness of the financial terms, including with the help of independent experts.

The Committee met on a total of twelve occasions in the period from 1 July 2019 to 30 June 2020 and on ten occasions as the Related Parties Committee.

The average duration of Risk Committee meetings was roughly three hours and 30 minutes, and that of Related Parties Committee meetings around 20 minutes.

The Statutory Audit Committee also takes part in meetings of the Risks Committee based on a joint programme. To ensure that the concept of collegiate control is even more fully embodied, at joint meetings between the two committees the discussions are led by the Chair of the Risks Committee, with the Chair of the Statutory Audit Committee providing specific analysis on control issues.

5.3 Remunerations Committee

The Committee consisted of four non-executive members, the majority of whom qualify as independent under the terms of Article 19 of the Articles of Association, including the Committee Chair.

Members	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Carfagna (P)	X	X
Valérie Hortefeux	X	X
Alberto Lupoi	X	X
Alberto Pecci		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, paragraph 3 of the Italian Finance Act.

The Committee currently consists of three men (75%) and one woman (25%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	1	1	0	0	0	2

The Committee has duties of consultation and enquiry to determine the remuneration of Directors vested with particular duties and the Group General Manager, as well as on the proposals formulated by the Chief Executive Officer regarding the guidelines for the remuneration system for senior management and Group staff remuneration, loyalty retention and incentivization schemes. In particular the Committee:

1) regularly assesses the adequacy, overall consistency and practical application of the remuneration policy for directors and relevant staff;

2) formulates proposals and/or opinions regarding the remuneration of the Chief Executive Officer and the Group General Manager;

3) monitors application of the rules on the remuneration of the heads of the company's control units, liaising closely with the body with responsibility for control;

4) gives its opinion on the Remunerations Policies to be submitted to the approval of the Board of Directors and shareholders in annual general meeting, with reference in particular to the issue of whether or not the performance objectives on which the incentivization schemes are based have been reached, and to ascertaining whether or not the further conditions set to payment of bonuses have been met;
5) proposes the allocation of the aggregate fixed compensation to the Board of Directors established by shareholders in annual general meeting to the Board itself for approval.

The Chairman of the Board of Directors, the Secretary, the Statutory Audit Committee, the Chief Risk Officer and Head of Human Resources take part in Committee meetings, along with (in an advisory capacity) the Chief Executive Officer, the Group General Manager, and any other Group staff considered necessary.

The Committee met six times in the period from 1 July 2019 to 30 June 2020, including one meeting not attended by the executive directors, to formulate proposals to the Board of Directors regarding their remuneration. For further information on the issue of remuneration, please see the Report on Remuneration available on the Bank's website (https://www.mediobanca.com/static/upload_new/rem/remuneration-policy-20191.pdf).

The average duration of Committee meetings was roughly one hour and 30 minutes.

5.4 Appointments Committee

The Appointments Committee consisted of five non-executive directors, the majority of whom qualify as independent under Article 19 of the Articles of Association, including the Chairman.

Members	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Costa (P)	X	X
Marie Bolloré		X
Alberto Lupoi	X	X
Elisabetta Magistretti	X	X
Renato Pagliaro		

* Independent as defined in Article 19 of the Articles of Association

** Independent as defined in Article 148, paragraph 3 of the Italian Finance Act.

The Committee consists of three men (60%) and two women (40%). A breakdown of the Committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
1	0	1	0	0	1	0	2

The Committee has duties of consultation and enquiry with regard to:

– the Board of Directors' annual self-assessment exercise;

– identification of the optimal qualitative/quantitative composition of the Board of Directors, and subsequently checks to ascertain that it corresponds to the actual composition which results from the appointment process;

– proposals of submission of lists for the Board of Directors, co-opting of new directors to replace those who have left their post, and for the appointment of the Executive Committee, Chief Executive Officer and, at the CEO's proposal, the Group General Manager;

– succession planning for directors who are members of the Bank's management and key function holders (heads of the Group's control units and main business areas);

– governance issues.

The Committee also supports the Risks Committee in identifying the heads of the company control units.

The Secretary, Chief Executive Officer and Group General Manager take part in Committee meetings, along with any other Group staff considered necessary.

The Committee met nine times in the period from 1 July 2019 to 30 June 2020. The average duration of committee meetings was roughly 1 hour and 30 minutes.

5.5 Committee instituted pursuant to Article 18 of the Articles of Association

In addition to the Committees provided for in the regulations and codes of conduct, the Board of Directors has also set up a committee pursuant to Article 18, paragraph 4 of the Articles of Association which adopts resolutions in respect of decisions to be taking regarding appointments to be made to the governing bodies of particular investee companies at their annual general meetings, companies, that is, in which the Bank holds a stake of at least 10% of the share capital and for which the value of such stakes represents more than 5% of the Group's consolidated regulatory capital.

The Committee consisted of the Chief Executive Officer, Group General Manager and two Directors, one of whom qualifies as independent.

Members	**Independent (Article 19)***	**Independent (Finance Act)****
Alberto Nagel (P)		
Marie Bolloré		X
Elisabetta Magistretti	X	X
Francesco Saverio Vinci		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, paragraph 3 of the Italian Finance Act.

The Committee consists of two men (50%) and two women (50%). A breakdown of the Committee members by age is provided below:

<40	**41/45**	**46/50**	**51/55**	**56/60**	**61/65**	**66/70**	**71/76**
1	0	0	1	1	0	0	1

The Committee met on one occasion during the last financial year.

5.6 Corporate Social Responsibility Committee

The Committee consisted of four Directors, one executive, and three non-executive qualifying as independent under Article 19 of the Articles of Association.

Members	**Independent (Article 19)***	**Independent (Finance Act)****
Alberto Nagel (P)		
Angela Gamba	X	X
Maximo Ibarra	X	X
Elisabetta Magistretti	X	X

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, paragraph 3 of the Italian Finance Act.

The Committee consists of two men (50%) and two women (50%). A breakdown of the Committee members by age is provided below:

<40	**41/45**	**46/50**	**51/55**	**56/60**	**61/65**	**66/70**	**71/76**
0	0	2	1	0	0	0	1

The Committee has responsibility for processing matters relating to corporate social responsibility and proposals to be submitted to the Board's approval, including the Group Sustainability Policy and the Consolidated Non-Financial Statement prepared by the management committee which is chaired by the Chief Executive Officer.

The Committee also liaises with the Remunerations Committee in evaluating whether the CSR objectives set in the management scorecards have been met.

The Group General Manager, Secretary and head of Corporate Social Responsibility take part in Committee meetings, along with any other Group staff invited by the Committee Chair based on the items on the agenda.

The Committee, which was set up on 19 September 2019, met four times in the period from October 2019 to 30 June 2020. The average duration of committee meetings was roughly 1 hour and 20 minutes.

6. Other information required under Article 123-bis of the Italian Finance Act on severance pay agreements

The aggregate compensation payable to the Board of Directors is set by shareholders in general meeting, in a fixed amount for each year in which the Board is in office,[2] with no provision made for incentives linked to the Bank's performance. This compensation is split by the Board on the basis of the individual members' participation in the Board Committees.

It does not include the remuneration paid to the Chairman and the Executive Directors (Chief Executive Officer and Group General Manager) which, as members of the Group's senior management, is governed by the "Mediobanca Group staff remuneration and incentivization policy", approved annually by the shareholders in general meeting.[3] The policy provides, for the Executive Directors, a fixed salary,[4] a variable short-term component, and a variable long-term component as well, plus other staff benefits such as complementary pension scheme, healthcare policy, corporate welfare, etc. Directors who are members of the Group's senior management receive the emolument due to them for serving on the Board but no further emoluments for serving on the Board Committees.

[2] The remuneration determined by shareholders at the Annual General Meeting held on 28 October 2017 was €2,500,000.

[3] The Remuneration Policy for FY 2019-20 as approved by shareholders in annual general meeting is available at www.mediobanca.com/Corporate Governance.

[4] The annual gross fixed salary of the Chief Executive Officer is €1,800,000, that of the Group General Manager €1,500,000.

The Chairman is entitled to receive fixed remuneration only. The Board of Directors may, after consulting with the Remunerations Committee and within the limits set by the regulations in force, assess whether or not it is appropriate to pay him a variable component, on an exceptional basis.

Among the amendments to the Articles of Association being submitted to the approval of shareholders at the Annual General Meeting to take place on 28 October 2020 is the proposal, permitted by Article 2389 of the Italian Civil Code, to make the Board of Directors responsible, after consulting with the Statutory Audit Committee, for deciding on the remuneration payable to Directors with particular duties separate from the collective emolument payable to the Board as a whole which is approved by shareholders in general meeting.

With reference to the requirements of Article *123-bis* of the Italian Finance act, in the event of the directors employed by Mediobanca ceasing to work for the company for any reason, the provisions of the Group's remuneration policy shall apply.

7. Conflicts of interest and related party transactions

7.1 Conflict of interests policy

Consistent with the requirements of the regulations in this area, Mediobanca has adopted a conflict of interest management policy to identify, monitor and manage conflicts which may arise in the provision of banking, investment or ancillary services, and insurance brokerage. Taking into account the provisions of the ECB Guide to fit and proper assessments for Directors, it also governs the measures to be taken in the event of one of them or a Statutory Auditor becoming involved in a conflict of interest.

The Policy describes the methods by which to identify and manage real and potential conflicts of interest that affect Mediobanca's ability to act independently and could thereby harm the interests of the Bank or of one or more of its clients.

Mediobanca believes prompt, correct identification and management of conflicts of interest is not only necessary in order to comply with the provisions of the laws and regulations but of essential importance for protecting clients' rights and safeguarding Mediobanca's assets and reputation before its clients, the market, other institutions and the authorities.

7.2 Transactions with related parties

Following the unanimous favourable opinion of the Related Parties Committee and the Statutory Audit Committee, the Directors of Mediobanca approved a revised version of the Regulations in respect of transactions with related parties and their associates adopted in pursuance of Consob resolution 17221/10 and the Bank of Italy's 2011 provisions on this subject, which lay down the regulations with which the Bank must comply to ensure that transactions with related parties carried out directly or via Group companies are executed transparently, fairly in terms of both substance and procedure, objectively and impartially, whether directly or via subsidiaries, and also that the prudential limits on risk assets vs related parties are complied with.

The Regulations use a definition of "related party" which combines the areas of application provided under the Consob regulations with Bank of Italy instructions in respect of procedural and approval obligations. The scope of the definition of related parties to which the prudential limits set by the Bank of Italy and the transparency regulations set by Consob apply remains distinct.

The Regulations are activated every time the Bank intends to implement a transaction with a related party (as defined in Annex 1 of the Regulations). They involve an initial classification between "Most significant transactions" and "Transactions of minor significance", which determines the respective responsibilities and approval procedures. The Regulations do not apply to transactions which qualify as "Exemptions" (which include "Transactions involving negligible amounts").

The Regulations also prescribe a specific "transparency regime" which defines the reporting requirements and deadlines versus both the public and the company's governing bodies. These Regulations are published on the Bank's website at https://www.mediobanca.com/en/corporate-governance/governance-reports-and-documents/governance-reports-and-documents.html.

8. Internal controls and risk management system

The internal controls system is a fundamental part of banks' overall governance system. It has a central role in the organization, and allows risks and the inter-relations between them to be governed in an effective manner, to ensure that the business is carried on in line with the company strategy and policies, and is based on sound and prudent management principles.

8.1 Bodies and functions

8.1.1 Board of Directors

The Board of Directors sets the direction for the internal controls and risk management system, in accordance with the strategic guidelines and risk appetite chosen. In this way it ensures that the principal risks are identified correctly, and measured, managed and monitored adequately, *inter alia* according to how they develop.

To this end, it reviews the Group's Risk Appetite Framework annually, in accordance with the budget process and strategic plan definition timing, to ensure that business develops in line with the desired risk profile.

The Board makes its assessments and decisions on the internal controls and risk management system. It appoints the heads of the control units, approves the plans of their activity, and receives regular reporting from them.

The Board of Directors of Mediobanca is responsible for the adequacy of the Bank's internal controls and risk management system. It is the Board which draws up measures to ensure that the internal controls system is effective and efficient and remains so over time, on the back of an understanding of all the risks facing the company and the inter-relations between them with a view to ensuring integrated risk management.

8.1.2 Risks Committee

The Risks Committee performs duties of instruction and consultation for the Board of Directors on matters pertaining to risks and the internal controls system as described in section 5.2.

8.1.3 Group Risk Management unit

The unit co-operates in the definition and execution of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process. It plays an important role in strategy and risk-taking decisions, in the appraisal of extraordinary transactions, and in identifying, measuring, valuing, managing, mitigating, monitoring and adequate representation of risks.

In particular it is responsible for identifying and implementing an efficient risk management process and for ensuring this is embedded across the Group. To this end it presides over the functioning of the Bank's and the Group's risk management systems, defining the appropriate methodologies for measuring the current and future set of risks faced by them. The unit ensures ongoing control of the aggregate exposure, at Group and individual unit level, to credit, financial, operational and other relevant risks, within the limits set by the internal and supervisory regulations. The unit also issues guidance to the Group companies, to ensure that the entire Group's exposure to the above risks is governed appropriately.

The unit also functions as secretariat to the Group Risk Management and Lending & Underwriting Committees.

In the exercise of his duties of control, the Group Chief Risk Officer is the person responsible for identifying and implementing an efficient risk management process through developing risk management policies which include defining and quantifying risk appetite and risk limits at both the individual operating unit and Group-wide level, calling on the assistance also of the other Risk Management teams of the various Group companies which to this end report in functional terms to the Group Chief Risk Officer.

As part of the Risk Appetite Framework, the Risk Management unit performs a set of regular internal controls with the aim of measuring the current level of the metrics relative to the limits set in the framework. It also gives prior opinions on whether Most Significant Transactions are consistent with the Risk Appetite Framework and identifies any needs in terms of decision-making escalation. If needs be, and depending on the nature of the transaction, it also seeks the opinion of other units involved in the risk management process.

The unit is responsible for managing the Group's integrated risks monitoring processes, for preparing the ICAAP and Recovery Plan documents, and for executing the Group's stress testing.

The Head of the unit attends meetings of the Risks Committee and the Board of Directors, assisting them in their control tasks. Once a year the unit submits a report to the Risks Committee, the Board of Directors and the Statutory Audit Committee on the activities performed and an assessment of the Group's risk profile and the adequacy of the Group's risk management measures; once a quarter it draws up the integrated risks, RAF and Recovery Plan monitoring report.

The Risk Management unit is involved in making decisions regarding new markets, the Bank's products, and extraordinary operations, in order to assess the impact of these changes and operations on the overall risk level.

The Group Risk Management unit reports directly to the Chief Executive Officer under the leadership of the Group Chief Risk Officer, Pierpaolo Montana. In functional terms the unit reports to the Risks Committee.

8.1.4 Compliance unit

The Compliance unit manages the regulatory and reputational risks of the Group, and checking in particular that the internal procedures set in place are consistent with the objective of preventing breaches of regulations applicable to the Bank and the Group. For the Bank, the unit proposes and monitors the adoption of procedures intended to manage risks of non-compliance linked to the provision of banking services and MiFID investment and ancillary services, ensuring staff are fully updated on developments in the domestic and European regulatory scenario. The unit manages compliance risks at the Group level as well, with the assistance of representatives and officers of the various Group companies, who in functional terms report to the head of the Compliance unit on such matters.

The head of Compliance takes part in Risks Committee meetings, providing support to the committee in its control activities. The Compliance unit reports to the Risks Committee, the Board of Directors and the Statutory Audit Committee once a year, plus an executive summary once a quarter to flag up any critical issues in a timely manner. The Compliance unit is headed up by Massimiliano Carnevali, who reports directly to the Chief Executive Officer. In functional terms the unit reports to the Risks Committee.

8.1.5 Group Anti-Money-Laundering unit

The Anti-Money-Laundering unit, as required by the instructions issued by the Bank of Italy in a measure dated 26 March 2019, is responsible for ongoing monitoring of the Bank's and Group's procedures to ensure they are adequate to prevent and tackle breach of the regulations on money-laundering and terrorist financing. In 2018, the unit was centralized at Mediobanca for the Italian Group companies, while at the non-Italian companies the unit manages these risks with the assistance of the respective representatives and officers, who in functional terms report to the head of the AML unit on such matters.

The head of the Group AML unit is Andrea Verger, who reports to the head of the Compliance unit.

8.1.6 Group Audit unit

Mediobanca maintains a Group Audit Unit, centralized at Mediobanca S.p.A., which is organized so as to assess the thoroughness, adequacy, functioning and reliability of the company's internal control system. The activities regard all companies in the Group under the terms of specific outsourcing contracts, or in limited cases, based on the governance role performed by equivalent local units (i.e. in cases where there is a unit responsible for third-level controls, notably CMB), or alternatively in the capacity of headquarters.

Centralizing internal audit activities in this way allows Mediobanca's role of co-ordination of the internal controls system to be strengthened and makes the whole third-level control structure more efficient by:

– responsibilities to be allocated, and direct coverage provided, by the Group Audit Unit for all subsidiaries;
– defining a Group audit plan, to be submitted to the approval of Mediobanca's Board of Directors; the individual companies' Boards approve the annual audit plans, and where applicable, the three-year audit plans;
– sharing specialized skills (e.g. IT auditing, quantitative issues), and audit methodologies and reporting standards vis-à-vis governing bodies and senior management.

The unit operates independently of the business areas, and has direct access to all information useful to it, and adequate means are made available for it to be able to perform its mandate.

The head of the Group Audit Unit takes part in meetings of the Risks Committee, providing support in relation to aspects regarding the internal control system. The unit submits a report to the Risks Committee, meeting in conjunction with the Statutory Audit Committee, and to the Board of Directors on the activities performed (annually) and remediation of any critical issues noted (twice a year), and a quarterly report to flag up any critical issues in a timely manner.

The plan of activities, drawn up in accordance with the unit's own Regulations, is executed in accordance with the provisions contained in the Audit Plan approved each year by the Board of Directors.

The head of the Group Audit Unit is Giorgio Paleari, who reports to the Board of Directors.

8.2 Financial reporting process

8.2.1. Head of Company Financial Reporting

On the proposal of the Chief Executive Officer, and with the Statutory Audit Committee's favourable opinion, the Board of Directors appoints one person to act as head of financial reporting, chosen from among the Bank's management and must have held management positions for a period of at least three years in the field of accounting administration at the Bank itself or at another leading bank. The post is currently held by Emanuele Flappini (since 30 September 2017).

The Head of Company Financial Reporting is responsible for putting in place adequate administrative and accounting procedures for the preparation of the individual and consolidated accounts, plus all other reporting of a financial nature. The appointed bodies and the Head of Company Financial Reporting issue statements regarding the adequacy of the administrative and accounting procedures and their application in practice, and regarding whether or not they correspond to the data recorded in the company's documents, books and accounts, as required by law.

The Board of Directors exercises supervision to ensure that the Head of Company Financial Reporting is vested with suitable powers and means to carry out the duties entrusted to him, and to ensure that the administrative and accounting procedures are complied with in practice.

8.2.2. Financial control process

Mediobanca has equipped itself with an internal control system for accounting and financial reporting requirements based on benchmark standards which are widely accepted at international levels (CoSO[5] and CobIT Framework[6]). The system provides for:

– Company level controls: controls to ensure that general and supervisory regulations are complied with in the running of the business, which are the norms, regulations and control mechanisms in force in the Group. Company level controls regard the organization of the company and impact on the methods by which the financial reporting and disclosure objectives are reached;

– Administrative/accounting model: organizational processes (operators, activities, risks and controls) which generate the most significant earnings and asset figures included in the financial statements and information disclosed to the market;

– General IT controls: general rules governing technologies and applications developments which are common to the architectures and IT applications used to generate financial reporting.

The system has been constructed and is applied according to the relevance of Group companies, accounts or processes.

For the risks identified in the assessment of the administrative and accounting processes, the appropriate control measures are identified to ensure they are represented truthfully and accurately in the financial reporting. Such measures include "key" controls, i.e. those without which there is the risk of serious error in the financial statements.

To measure the adequacy of these controls and ensure they are up-to-date at all times, tests are carried out twice a year on the design of the controls, and the

[5] The version of the COSO entitled "Internal Control – Integrated framework", published in September 1992, has been used as the benchmark by the US regulators which have oversight in this area (SEC and PCAOB – Public Company Accounting Oversight Board) for purposes of applying the regulations contained in the Sarbanes Oxley Act, the Bank of Italy's Supervisory Instructions, and the Code of conduct for listed companies operated by Borsa Italiana.

[6] The version of the COBIT entitled "IT Control Objective for Sarbanes Oxley" has been considered appropriate for purposes of applying the regulations contained in the Sarbanes Oxley Act.

test of controls itself, chiefly using the self-assessment methodology.[7] At this stage the possible impact is assessed of any irregularities detected in the course of the controls, to ensure the administrative and accounting procedures are adequate and applied effectively in order that the financial statements can be drawn up correctly.

The Group Audit unit, working together with the head of company financial reporting, performs regular checks to ascertain that the tests carried out on a self-assessment basis have been performed in accordance with the relevant methodologies.

Any gaps that emerge from the testing activity are analysed in conjunction with the heads of the organizational units responsible for the process, and possibly also with the areas that will be involved in solving the problems. Co-ordinated by the Head of company financial reporting, a plan of corrective action is drawn up which assigns responsibilities and defines timescales.

Assessment of the adequacy and operational effectiveness of the controls, conducted in accordance with the model adopted, enables the Head of Company Financial Reporting to issue:

- The declarations attached to the annual report, the interim report and the consolidated financial statements, issued in conjunction with the Chief Executive Officer, as required by Article 154-*bis*, paragraph 5 of the Italian Finance Act, that the procedures in force are adequate and have been effectively applied during the period to which the documents apply, and that the documents correspond to the data recorded in the company's books and accounts ledgers and are adequate for the purpose of providing a truthful and adequate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.
- The declarations, required under Article 154-*bis*, paragraph 2 of the Italian Finance Act, to be attached to the financial reporting issued to the market, regarding the results for the period (analyst presentations and press releases), and the Basel III Pillar III disclosure, annual and interim.

The Head of Company Financial reporting presents a report on the activities performed twice a year to the Statutory Audit Committee, which is responsible for carrying out supervision to ensure that the Bank's organizational and administration/accounting structure and financial reporting process are adequate.

[7] Based on the self-assessment methodology, the tests are performed by the process owners, i.e. those responsible for managing the specific process.

The Head of Company Financial reporting also participates in meetings of the Risks Committee, which processes proposals to be submitted to the approval of the Board of Directors in connection with the accounting documents for which he is responsible. Once every six months, in the light of the report presented by the head of company financial reporting on the adequacy of the administration/accounting procedures required by Italian Law 262/05, which illustrates the activities performed in order for the relevant declarations to be issued, the Board of Directors appraises the adequacy of the Bank's administration and accounting arrangements.

The Group Disclosure Policy, approved by the Board of Directors, describes the process for generating and disclosing the financial reporting, in accordance with the best market practices. The policy also describes the internal processes for producing, collecting and preparing the documentation. The Statutory Audit Committee is responsible for monitoring the general principles indicated in the Policy.

8.3 External auditors

At the annual general meeting held on 27 October 2012, the shareholders of Mediobanca appointed PricewaterhouseCoopers to audit the company's full-year financial statements and interim accounts, and to perform other activities provided for under Italian Legislative Decree 39/10 for the 2013-21 period.

8.4 Organizational model instituted pursuant to Italian Legislative Decree 231/01

At a Board meeting held on 31 July 2018, the Directors of Mediobanca approved the revised version of the new organizational model following changes to the external regulatory framework and certain important internal organizational changes (e.g. establishment of the Private Banking division).

The organizational model consists of:

1. A **General Part**, which provides an overview of the set of principles on which the model is based and functions, containing references to the primary regulations and with them a list of the crimes pursuant to Italian Legislative Decree 231/01, the cases of possible exemption from liability, an indication of the requisites for the supervisory body and its members, references to the disciplinary system and reporting flows versus the supervisory body.

2. **Special parts**:

   - **Map of crimes and activities at risk**: document which serves to identify instances of crimes and possible means of committing them in the performance of the Bank's activities.
   - **Protocols**, summarizing the principles of conduct and operating procedures for each sensitive area.
   - **Group Code of Ethics**, which has been adopted by all Group companies, constitutes an integral part of the model, and contains references and principles which are complementary to the legal obligations and self-regulation requirements for directors, advisors, outside staff and suppliers, and are continuous and consistent with the Group's mission and its basic values.
   - **Reporting flows** from/to the supervisory body, containing the data and information which each organizational unit is required to transmit to the supervisory body.
   - **Form for reporting** suspected breaches of the model to the supervisory body.
   - **List of crimes**: document describing the crimes assumed to be applicable to the Bank.

The Statutory Audit Committee also performs the functions assigned to the supervisory unit instituted pursuant to Italian legislative decree 231/01. In this connection, the Statutory Audit Committee is responsible for monitoring the functioning of and compliance with the model and the functioning of the disciplinary system. It maintains and ensures flows of information to the Board of Directors, including:

- Presenting an annual report on the activity carried out;
- Serious breaches of the model, also informing the Chairman of the Risks Committee.

8.5 Corporate Social Responsibility, codes of ethics and conduct, whistleblowing, internal dealing and personal trading

8.5.1 Corporate Social Responsibility

Growth and sustainability are two of the Group's distinctive traits. Our development strategy is based on the conviction that ethics and profits can and indeed must go hand in hand, because in the long term there cannot be economic growth without social and environmental growth as well. Responsible, proper and transparent conduct grows and protects a company's reputation, credibility and consensus over time, laying the foundation for sustainable business development which aims to create and protect value for all stakeholders. In line with our commitment in this area, the Group contributes to promoting the universal principles contained in the Global Compact, of which it is a member, and to realization of the Sustainable Development Goals (SDGs) set out in the United Nations' 2030 Agenda, supporting and encouraging new sustainable growth and development prospects at the global level.

The Group staff incentivization system reflects these principles, and CSR objectives are included in the CEO's and the Group General Manager's performance evaluation scorecards used to determine the variable component of their remuneration.

In 2017 a Group Sustainability unit was set up, with its own head and a management committee chaired by the CEO, with responsibility for: defining the Group's policies in the area of Corporate Social Responsibility (CSR) to be submitted to the Board of Directors for approval; promoting the implementation of practices consistent with this policy up to the limits of its own budget, and monitoring performance.

In September 2019, the Board has set up its own Corporate Social Responsibility committee. For further details, please see section 5.6.

As proof that ESG issues are now a substantive and integral part of the company's business and financial strategies, quantitative sustainability targets have been integrated into the 2019-23 Strategic Plan for the first time, with the intention of contributing to the achievement of six of the United Nations' 17 Sustainable Development Goals. In September 2020 Mediobanca also issued its first seven-year green bond to finance the Group's sustainability commitments based on a framework approved by the Sustainability Committee in June 2020 and certified by ISS Oekom . The deal, which was preceded by meetings with international investors to present the framework, attracted €3.5bn in demand against a size of €500m. The issue confirms Mediobanca's commitment to reduce the direct and indirect impact of its business activities, both by promoting ESG investment products and by initiatives to improve energy efficiency and reduce consumption, as provided in the 2019-23 Strategic Plan.

Mediobanca takes part annually in the questionnaires sent by the leading ESG indexes, including: Sustainalytics, ISS Oekom, VIGEO, CDP, Dow Jones Sustainability Index and FTSEforGood, which recently confirmed that the Bank had been included in its own rating. Mediobanca has also been ranked as one of the ten leading Italian companies by the Integrated Governance Index.

8.5.2 Codes of ethics and conduct

Mediobanca has adopted a Code of Ethics summarizing the ethical principles on which the Bank bases its activity and describing the values which underpin its daily operations.

These principles have also been set out in a Code of Conduct, which represents the benchmark for governing, in cases not expressly covered by the regulations, the Bank's internal and external relations in ethical terms, describing the standard of conduct required from all staff and collaborators.

8.5.3 Whistleblowing

Mediobanca has also adopted a Policy on whistleblowing to enable staff to report, including anonymously, any issues with the functioning of the Bank's organizational structure or internal control systems, or any other irregularity in the Bank's operations or breaches of the regulations on banking activity. The Policy provides for liaison with the supervisory body, to which reports relevant for Italian legislative decree 231/01 are addressed. The policy, adopted by all Group companies, defines the principles, methods and measures to ensure that such instances of whistle-blowing are managed correctly, respecting the confidentiality of the parties involved.

The head of the internal reporting system for Mediobanca is Massimiliano Carnevali, who is also responsible for the Compliance unit.

8.5.4 Internal Dealing and personal Trading

The Board of Directors has adopted Regulations on Internal Dealing to govern reporting requirements for transactions involving financial instruments issued by Mediobanca. Persons defined as "relevant" (chiefly Directors, statutory auditors and strategic management) notify Mediobanca of any transaction involving such instruments, within two days of execution. Mediobanca then discloses all such information to the market and Consob. Relevant persons may not, for example, effect such transactions in the thirty days prior to the date on which the Board of Directors' approval of the Bank's annual, interim and quarterly accounts is made public (black-out period). A more restrictive regime applies to certain management figures, limiting the restrictions on them trading to certain "window" periods only, i.e. the 15 open market days subsequent to the results for the period being published. Internal dealers are also only allowed to sell Mediobanca shares at the opening auction or closing phases of any buyback schemes activated by Mediobanca. Mediobanca, in accordance with the provisions of regulations in this area, has adopted a procedure to ban and/or identify personal transactions made (or transactions recommended, solicited or divulged to third parties) by relevant persons (including members of the Executive Committee and the Statutory Audit Committee, and also other Directors in cases where they have been included in the insider or transaction watch lists) which could give rise to conflicts of interest or otherwise be in breach of the regulations on insider or confidential information.

The Regulations also institute a ban on staff members executing trades in financial instruments with equity content (shares, convertible bonds, derivatives, etc., apart from those involving Mediobanca or SPVs promoted by Mediobanca) if the main market on which the instrument is listed or the issuer's registered office is in one of the member states of the European Union.

9. Statutory Audit Committee

The Statutory Audit Committee consists of three standing auditors and three alternate auditors. Appointment to the Statutory Audit Committee is made on the basis of lists deposited at least twenty-five calendar days prior to the date scheduled for the general meeting to be held in the first or only instance along with professional CVs for the individual candidates and statements by them agreeing to stand as candidates and confirming that they are in possession of the qualifications required under law, the applicable regulations and the Articles of Association. The Articles in particular provide that, without prejudice to the provisions of the law, members of the Statutory Audit Committee may not hold posts in governing bodies other than those with responsibility for control of other Group companies or in companies in which Mediobanca holds, including indirectly, an investment which is deemed to be strategic under the Bank of Italy's Supervisory Instructions, hold the post of Chief Executive Officer, manager or officer in companies or entities, or who otherwise work with the management of companies operating directly or indirectly (including through subsidiaries) in the same sectors as Mediobanca. The Articles of Association further state that lists may only be submitted by shareholders representing in the aggregate at least the percentage of the company's share capital established under regulations in force at the date of the general meeting (currently 1%).

The mechanism for appointments provides that the Chairman of the Statutory Audit Committee shall be chosen from the minority list.

Its composition also ensures the gender balance stipulated in Italian law 120/11.

The Statutory Audit Committee, appointed on 28 October 2017 for the 2018, 2019 and 2020 financial years, is made up as follows:

Members	Position	In office since
Natale Freddi *	Chairman	28/10/2011
Laura Gualtieri ♦	Standing Auditor	28/10/2014
Francesco Di Carlo ♦	Standing Auditor	28/10/2017
Alessandro Trotter ♦	Alternate Auditor	28/10/2014**
Barbara Negri ♦	Alternate Auditor	28/10/2014
Stefano Sarubbi *	Alternate Auditor	28/10/2017

♦ Appointed from the list submitted by UniCredit S.p.A., which at the time owned 8.46% of the company's share capital.

* Appointed from the list submitted by a group of investors owning 3.889% of the share capital.

(**) Alternate auditor until 2 July 2007; member of Management Board from 2 July 2007 to 28 October 2008; and alternate auditor from 28 October 2014.

The members of the Statutory Audit Committee all qualify as independent under Article 148 of Italian legislative decree 58/98 and the Code of Conduct.

The CVs of the Statutory Auditors deposited along with the lists for appointments to the Statutory Audit Committee may be found on the Bank's website in the lists themselves of the proposals published in the "General Meeting 2017" section of the Bank's website (https://www.mediobanca.com/en/corporate-governance/annual-general-meeting/general-meetings/general-meetings.html).

The Statutory Audit Committee performs the duties and functions required of it under the regulations in force. In particular it monitors:

- compliance with the provisions of the law, regulations and the Company's Articles of Association, as well as with the principles of proper management;
- adequacy of the organizational, administrative and accounting arrangements set in place by the company and the financial reporting process;
- the thoroughness, adequacy, functioning and reliability of the internal control system and Risk Appetite Framework;
- the process of auditing the annual and consolidated financial statements;
- the independence of the external auditors, in particular regarding the provision of non-audit-related services;
- the thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee is also responsible for:

- reviewing the plans of activity for the company's control units, along with the reports prepared by them on the work carried out;
- expressing its opinion on the appointment and/or dismissal of the heads of the control units and Head of Company Financial Reporting;
- monitoring the process of calculating the adequacy of the Bank's aggregate capital, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP);

- informing the Board of Directors of the results of the auditing process, and sending the additional report required under Article 11 of European regulation no. 537/2014, along with any comments it might have;
- proposing the audit company for approval by shareholders in annual general meeting to act as the Bank's legal external auditors;
- reviewing the working plan prepared by the external auditors to audit the Bank's accounts, and the results as described in their report and their letter containing suggestions;
- assessing the adequacy of the procedures adopted to regulate transactions involving related parties and compliance with them;
- checking that the criteria and procedures adopted by the Board of Directors to assess the independence of its members are applied correctly;
- monitoring compliance with the requirements provided for in Italian Legislative Decree 254/16 on sustainability;
- reporting any irregularities in operations or breaches of the regulations noted to the supervisory authorities.

The statutory auditors are vested with the broadest powers provided for by the legal and regulatory provisions in force.

The Statutory Audit committee takes part in all meetings of the Board of Directors, the Executive Committee and the other committees set up by the Board for which their participation is required under the Board's regulations. In this way the Statutory Audit Committee is kept informed at all times of the activities carried out and the most significant transactions in earnings, financial and capital terms, executed by the Company or its subsidiaries, transactions with related parties, and transactions in which the Directors have an interest either in their own right or by means of third parties.

The Statutory Audit Committee receives information flows organized and channelled via the company's control units, i.e. Group Audit, Risk Management and Compliance, deals with issues in conjunction with the Risks Committee, and maintains regular relations, with a view to reciprocal exchanges of information, with the external legal auditors, and with other Group companies' Statutory

Audit Committees. The heads of the various areas of the company hold regular meetings with the Statutory Audit Committee to provide further analysis or training on issues that are of interest to them.

The Statutory Audit Committee regularly illustrates the critical issues that emerge in the course of its control activities to the Board of Directors.

A total of twenty-eight meetings of the Statutory Audit Committee were held in the last financial year, twelve of which were held jointly with the Risks Committee, and the Committee met on several occasions with representatives of the external auditors retained to audit the company's financial statements pursuant to the Italian Finance Act.

The average duration of committee meetings was roughly 2 hours and 50 minutes.

10. Succession planning and diversity criteria

At a Board meeting held on 12 July 2018, the Directors approved the "Policies for the selection, appointment, succession and performance assessment of company representatives and Group Key Function Holders" governing *inter alia* the procedure for the succession of executive directors (including the Chief Executive Officer and the Group General Manager) and non-executive directors, the Statutory Auditors and the Key Function Holders, including the emergency plan for renewal of appointments to senior management positions in the event that this should suddenly become necessary. Key Function Holders are persons who are not Board members but have a significant influence on the Bank's management (the heads of the control units, the head of company financial reporting, the heads of the Mediobanca Group business areas – CIB, Wealth Management-Affluent/Consumer, Private Banking, Principal Investing, CMB, MAAM, Mediobanca SGR and the Group HR Director).

Regarding succession planning for the Chief Executive Officer and Group General Manager, the policies stipulate, in addition to the requirements specified by the regulations in force, that candidates for succession must have the specific capabilities required by the role and complexity of the business that must be met in full. In emergency situations, the policies provide that the Chairman shall swiftly call a meeting of the Board of Directors to assign interim powers in order to ensure continuity of business, and to launch ordinary succession procedures with the Appointments Committee's involvement. The Appointments Committee has ascertained that the requirements stipulated are met and has identified a select number of Group senior management members, whose personal and professional qualifications make them potential candidates for succession; this review was also performed during the financial year ended 30 June 2020.

If a member of the Executive Committee requires to be replaced, the responsibility for proposing a replacement falls to the Appointments Committee. In general terms, an executive director must possess all requisites stipulated in general for directors, plus specific experience in banking, professional or corporate areas which highlights their capability to take decisions quickly and on an informed basis. To this end the Appointments Committee assesses the profiles represented on the Board to gauge which candidates might be suitable for inclusion in the Executive Committee; this review was also performed during the financial year ended 30 June 2020.

Regarding the succession of non-executive directors, those appointed from the minority list are replaced, where possible, by unappointed directors from the same list, in accordance with the provisions in force on equal gender representation. For directors appointed from the majority list, in line with best practice, the selection of candidates will reflect the guidance issued by the Board in its Report on the qualitative-quantitative composition of the Board of Directors, giving priority to candidates in possession of the same characteristics as the Director leaving office (in terms of gender, independence, international experience and specialization).

As for the Key Function Holders, a total of fourteen positions have been identified: for each of them, the respective capabilities required to perform them have been defined and formalized. The Appointments Committee ascertains that all the current holders of the fourteen positions meet the requirements, and for each of them – including in the financial year ended 30 June 2020 – has identified an internal candidate with the requisite qualifications who is therefore able to succeed them.

For the second year running, Mediobanca has been included in the Bloomberg Gender-Equality Index (GEI), which tracks the performance of listed companies committed to implementing fair gender policies, based on their respective development, representation and transparency policies in this area. The Group currently has around 4,900 staff, approx. 42% of whom are women. All issues relating to female employment are fully discussed in the Group's Consolidated Non-Financial Statement.

11. Relations with shareholders and investors

Mediobanca maintains an ongoing dialogue with its shareholders, institutional investors and individual holders of shares and bonds and with all other stakeholders within the national and international financial community.

Transparency and prompt disclosure are the hallmarks of the relationship between Mediobanca and its interlocutors, in compliance with the regulations and the internal procedures governing the circulation of inside information.

To enable all shareholders to exercise their rights knowingly, information concerning the Group's business model, corporate governance structure, earnings/financial data and all price-sensitive communications, products and services, social and cultural initiatives, remuneration policies and code of conduct is available on the Bank's website; to promote the greatest possible participation in annual general meetings, the relevant documentation is sent beforehand to the addresses of who requested it.

Furthermore, to promote dialogue via its institutional website at www.mediobanca.com (content in English and Italian), Mediobanca offers interested parties an opportunity to be kept up-to-date with the Group's earnings results and strategic objectives. As well as making available the full documentation produced by the Bank (again in both languages), the website also offers an opportunity to follow the conference calls organized for publication of the Bank's quarterly, half-yearly and annual results via a web streaming service. Regular meetings and conference calls are also held with groups of shareholders, one-to-one and with the market.

Mediobanca has published a list of telephone numbers, email addresses and dedicated fax numbers on its website of persons for investors to contact, in order to intercept and collect the requirements and viewpoints of shareholders and the market in a more structured manner.

Relations with institutional investors, financial analysts and journalists are handled by the relevant units (Paola Schneider – Group Corporate Affairs, Jessica Spina – Group Investor Relations & Strategic Corporate Development and Lorenza Pigozzi – Group Communications & Institutional Relations).

Milan, 16 September 2020

Table 1: Structure of Board of Directors and Committees as at 30 June 2020

Board of Directors													Executive Committee		Risks Committee		Remuneration Committee		Appointment Committee		CSR Committee	
Office	Member (*)	Year of birth	Date first appointed (**)	In office since	In office since until	List	Non exec	Exec.	Indep. (Article 19)	Indep. Financial Act	No. of other posts held (***)	B (%)	A	B	A	B	A	B	A	B	A	B
Chair	Renato Pagliaro	1957	28/10/08 (1)	28/10/17	28/10/20	(a)	X				1	100%								100%		
Deputy Chair ♦	Maurizia Angelo Comneno	1948	28/10/14	28/10/17	28/10/20	(a)		X		X	0	100%		100%								
Deputy Chair	Alberto Pecci	1943	27/10/12	28/10/17	28/10/20	(a)	X				3	100%						100%				
Chief Executive Officer ◊ ♦	Alberto Nagel	1965	28/10/08 (1)	28/10/17	28/10/20	(a)		X			0	100%	P	100%							P	100%
Director and Group General Manager ♦	Francesco Saverio Vinci	1962	28/10/08 (1)	28/10/17	28/10/20	(a)		X			0	100%		100%								
Director	Marie Bolloré	1988	28/10/14	28/10/17	28/10/20	(a)	X			X	11	100%								100%		
Director	Maurizio Carfagna	1947	28/10/14	28/10/17	28/10/20	(a)	X		X	X	3	100%				100%	P	100%				
Director	Maurizio Costa	1948	28/10/14	28/10/17	28/10/20	(a)	X		X	X	1	100%							P	100%		
Director	Angela Gamba	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	1	100%				100%						100%
Director	Valérie Hortefeux	1967	28/10/17	28/10/17	28/10/20	(a)	X		X	X	3	100%				91.67%		100%				
Director	Maximo Ibarra	1968	20/09/18	27/10/18	28/10/20		X		X	X	1	100%										100%
Director	Alberto Lupoi	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	0	100%						100%		100%		
Director	Elisabetta Magistretti	1947	28/10/11	28/10/17	28/10/20	(a)	X		X	X	2	100%			P	100%				100%		100%
Director	Vittorio Pignatti Morano	1957	20/09/18	27/10/18	28/10/20		X		X	X	7	88.9%				91.67%						
Director ♦	Gabriele Villa	1964	28/10/17	28/10/17	28/10/20	(a)		X		X	2	100%		100%								

* The CVs submitted by the directors in conjunction with the lists for appointment to the Board of Directors are available on the Bank's website in the lists or proposals published in the "General Meeting 2017" section of the Bank's website (https://www.mediobanca.com/en/corporate-governance/annual-general-meeting/general-meetings/general-meetings.html).

** The "date first appointed" for each Director refers to the date on which they were appointed for the first time (ever) to the issuer's Board of Directors.

*** Data refers to posts held in other listed companies in regulated markets, including outside Italy, in financial companies, banks and/or insurances of significant size.

♦ Members of the Executive Committee.

(a) Taken from the majority list submitted by Unicredit S.p.A. which at the time owned 8.46% of the Bank's share capital.

(b) Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

A. A. Indicates the director's role within the committee: "C": Chairman.

B. Indicates the directors' attendance records in percentage terms at meetings of the Board of Directors and Committees (no. of meetings which each director attended out the total no. of meetings which they could have attended).

◊ Main person responsible for managing the issuer (Chief Executive Officer or CEO).

(1) Member of the Management Board from 2 July 2007 to 28 October 2008.

No. of meetings held during year 1^ July 2019/30 June 2020:

Board of Directors: 9	Executive Committee: 6	Risks Committee: 12	Related Parties Committee: 10	Remunerations Committee: 6	Appointments Committee: 8	CSR Committee: 4

Quorum required for minority shareholders to submit lists for the appointment of one or more directors:	at least 1% of the share capital

• During the twelve months ended 30 June 2020,year 1^ July 2019/30 June 2020 the Board of Directors also held two meetings of independent Directors, eight induction sessions and two training meetings.

Table 2: Structure of Statutory Audit Committee as at 30 June 2020

Office	Member	Year of birth	Date first appointed*	In office since	In office until	List	Indep., Code of Conduct	Percentage of Committee meetings attended	No. of other posts held **
Chair	Natale Freddi	1952	28/10/11	28/10/17	28/10/20	(b)	X	100%	-
Standing Auditor	Francesco Di Carlo	1969	28/10/17	28/10/17	28/10/20	(a)	X	96.43%	-
Standing Auditor	Laura Gualtieri	1968	28/10/14	28/10/17	28/10/20	(a)	X	96.43%	1
Alternate Auditor	Alessandro Trotter	1940	28/10/00	28/10/17	28/10/20	(a)			
Alternate Auditor	Barbara Negri	1973	28/10/14	28/10/17	28/10/20	(a)			
Alternate Auditor	Stefano Sarubbi	1965	28/10/17	28/10/17	28/10/20	(b)			

No. of meetings held during the year 1^ July 2019/ 30 June 2020: 28§

Quorum required for minority shareholders to submit lists for the appointment of one or more Statutory Auditors:	at least 1% of the share capital

§ 12 of which in conjunction with the Risks Committee.

* The "date first appointed" for each Statutory Auditor refers to the date on which they were appointed for the first time (ever) to the issuer's Statutory Audit Committee.

** Indicates the no. of posts as director or Statutory Auditor held by the person concerned in other companies listed on regulated Italian markets.

(a) Taken from the majority list submitted by Unicredit S.p.A. which at the time owned 8.46% of the Bank's share capital.

(b) Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

Table 3: Other requirements under code of conduct for listed companies

	YES	NO	Reasons for any departures from recommendations made in the Code
Powers to represent the Bank and related party disclosure			
Has the Board of Directors authorized parties to represent the Bank and established:			
a) limits	X		
b) methods for exercising such powers	X		
c) regular reporting requirements?	X		
Has the Board of Directors reserved for itself the right to inspect and approve all significant transactions in terms of earnings, capital and finances (including transactions with related parties)?	X		
Has the Board of Directors set guidelines and established criteria for identifying "significant" transactions?	X		
If so, have such guidelines/criteria been set out in the statement on corporate governance?	X		
Has the Board of Directors implemented procedures for reviewing and approving transactions with related parties?	X		
If so, have such procedures been set out in the statement on corporate governance?	X		
Procedures for most recent appointments to Board of Directors/Statutory Audit Committee			
Were candidates' applications for the post of director lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
Were they accompanied by statements regarding the candidates' eligibility to stand as independent Board members?	X		
Were candidates' applications for the post of statutory auditor lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
General meetings			
Has the Bank adopted specific regulations in respect of the holding of general meetings?		X	Orderly proceedings are ensured by the powers vested in the Chairman under law and the company's Articles of Association, as shown by the minutes of the meeting.
If so, are such regulations attached as an annex hereto, or is indication provided in the annual report as to where they may be obtained or downloaded?		N/A	
Internal controls			
Has the company designated staff to take charge of internal control?	X		
If so, are such staff members independent in operational terms from the various heads of the individual operating units?	X		
Organizational unit responsible for internal control	X		Group Audit
Investor relations			
Has the company appointed a head of investor relations?	X		
If so, what are the head of the IR unit's contact details?	Jessica Spina Tel. no.: (0039) 02-8829.860 - Fax no.: (0039) 02- 8829.819 Email investor.relations@mediobanca.it		

Annex

Posts held in other financial companies, banks, insurances or other companies of significant size by members of the Board of Directors of Mediobanca in office at 30 June 2020 [1]

Name	Post held in Mediobanca	Main posts held in other companies
PAGLIARO Renato	Chair	Director, Istituto Europeo di Oncologia
ANGELO COMNENO Maurizia	Deputy Chair and Executive Committee member	=
PECCI Alberto	Director	Chair, Pecci Filati Chair, Tosco-Fin Director, El.EN.
NAGEL Alberto	Chief Executive Officer and Executive Committee Chairman	=
VINCI Francesco Saverio	Group General Manager, Director and Executive Committee member	=
BOLLORE Marie	Director	Director, Bolloré S.A. Director, Financière de l'Odet Director, Bolloré Participations Director, Financière V Director, Omnium Bolloré Director, Blue Solutions Director, Société Industrielle et Financière de l'Artois Supervisory Board member Sofibol Chair of Supervisory Board, Compagnie du Cambodge Chief Executive Officer, System and Telecoms Division of Bolloré Group Director, Polyconseil
CARFAGNA Maurizio	Director	Director, Futura Invest Director, FingProg Italia S.p.A. Director, Istituto Europeo di Oncologia
COSTA Maurizio	Director	Director Amplifon
GAMBA Angela	Director	Director, Edison
HORTEFEUX Valérie	Director	Director, Blue Solutions Director, Ramsay – Générale de Santé Director, Socfinasia
IBARRA Maximo	Director	Chief Executive Officer, SKY Italia
LUPOI Alberto	Director	=
MAGISTRETTI Elisabetta	Director	Director, Smeg Director, Brembo
PIGNATTI MORANO Vittorio	Director	Director, Trilantic Capital Management GP Director, Trilantic Capital Partners Management Director, Trilantic Capital Partners V Management Director, Ocean Ring Jersey Co Director, Ocean Trade Lux Co Director, Marex Group Director, Istituti Clinici Scientifici Maugeri
VILLA Gabriele	Director and Executive Committee member	Standing Auditor, Edison S.p.A. Standing Auditor, Italmobiliare S.p.A.

[1] The full list of positions is available www.mediobanca.com/en/corporate-governance/board-of-directors/board-of-directors in the individual Director's own profiles.

GLOSSARY

GLOSSARY

The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition)) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB – Foundaton Internal Rating Based), and the "advanced" internal ratings-based method (AIRB – Advanced Internal Rating Based). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

– Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;
– Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

Amortized cost (financial assets measured at amortized cost): this is one of the categories for financial assets and liabilities provided for in IFRS 9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

- The instrument is held according to a business model consisting of collection of the contractual cash flows (Hold to collect, see definition); and
- The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the bail- in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail- in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) Basel II: The short name given to the document entitled International Convergence of Capital Measurement and Capital Standards signed in Basel in 2004 which came into force in 2008.
b) Basel III: This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).
c) Basel IV: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages until 2025.

Benchmark test: a qualitative and quantitative analysis, to be carried out to verify whether the conditions of the SPPI test (see definition) are met, according to paragraph B4.1.9Aff of IFRS9 standard; it regards those financial instruments which show an interest rate mismatch between the duration and the interest rate, thus for them it results a modified remuneration related to the time value of money. In order to carry out the benchmark test, an hypothetical instrument is considered (the "benchmark" instrument), identical to the instrument for which the test is carried out apart from the characteristic which modifies the interest rate. Then, it is necessary to compare the undiscounted contractual cash flows of the instrument subject of the analysis with those of the benchmark instrument; the SPPI test is considered not to be met, whether the difference arising is significant.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: Hold to collect, Hold to collect and sell, and Other.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk- weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk, as expressed by a single risk factor, namely beta (see definition).

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR): Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IAS 39 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS 36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition).

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Collateralized Loan Obligation (CLO): A particular type of CDO (see definition), in which the collateral is made up by receivables.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio): The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Consob – Commissione Nazionale per le Società e la Borsa: Consob is the public authority responsible for regulating the Italian financial markets. Its main functions include: *i*) checking the transparency and correct behaviour by financial market participants, in order to safeguard confidence in, and the competitiveness of, the financial system, to protect investors, and ensure that financial regulations are complied with; *ii*) exercising supervision to prevent improper conduct from occurring, and when it does, to ensure it is punished appropriately; and exercising the powers vested in it by law to ensure investors receive the necessary information in order to make informed investment decisions; and *iii*) working to guarantee maximum efficiency in trading, ensuring the quality of the prices formed and the efficiency and certainty of the means by which contracts concluded on regulated markets are executed.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/ long- term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

– Exposures to SMEs;
– Leveraged finance (see definition);
– Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

COVID-19: – Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel coronavirus. COVID-19 is the name given to the disease associated with the virus. SARS-CoV-2 is a new strain of coronavirus not previously found in human beings. Current evidence suggests that SARS-CoV-2 is spread from person to person: directly, indirectly (via contaminated objects or surfaces) and through close contact with infected persons, in the form of oral and nasal secretions (saliva, respiratory secretions or droplets). To halt the spread of the virus, the free circulation of people has been limited, leading to some economic activities being halted, which has in turn led to an unprecedented economic crisis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enables a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS 9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage 1 comprises:
   a. Credit exposures originated or acquired;
   b. Exposures with no significant increase in credit risk compared to their initial recognition;
   c. Exposures subject to the low credit risk exemption.
b) Stage 2: significant increase in credit risk compared to initial recognition;
c) Stage 3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over- the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD *(Fondo di* *garanzia dei Depositanti del Credito Cooperativo).* At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Discounted Cash Flows Model: alternative valuation method to the Dividend Discount Model (see definition), suitable for companies that do not have to comply with capital requirements, based on the assumption that the value of asset depends on the cash flows generated by the asset itself, their time horizon and risk. In this valuation model too, cash flows are discounted using the Ke rate (determined by to the CAPM methodology, see definition) over a time horizon incorporated by the company into its plans and budgets, and also taking also into account a terminal value obtained by using a constant growth rate "g".

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution, agency in charge of assessing the credit risk whortiness.

Earnings per share – EPS: the ratio between the net income and the average number of shares outstanding during the period, possibly adjusted for taking into account potential equity instruments such as options and convertible bonds.

Effective Interest Rate: the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

EUro Interbank Offered Rate – EURIBOR: it means the short-term interbank rate, calculated on a daily basis, at which the most important banks exchange among them euro-denominated funds.

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro- prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

Euro Short Term Rate: This rate measures the cost of wholesale unsecured one-day funding for a sample of banks in the Euro area. The rate is calculated based on data collected as part of the Money Market Statistical Reporting (MMSR), introduced in 2016 for all money market transactions carried out by the largest banks in the Euro area.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

Fairness/Legal opinion: it means an opinion, given at request, by professionals of sure and certain competence and professionalism, in order to ensure the correctness of economic conditions and/or of the legitimacy and/or of technical aspects of a certain operation at a certain moment.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS 39 to neutralize exposure to changes in a balance-sheet item's fair value.

FINREP: a document issued by the CEBS (Committee of European Banking Supervisors), a body which provides advisory services to the European Commission on banking regulations. The CEBS also promotes co-operation and convergence of regulatory practices within the European Union. In 2011 the EBA (European Banking Authority – see entry) began to define harmonized supervisory reporting schemes with statistical content. FINREP itself came into force in 2014.

FTA – First Time Adoption: Governed by IFRS 1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS 9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

– The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Hold to collect and sell; see definition); and
– The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): An international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

Forward looking information: According to the new impairment model introduced by IFRS 9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Funds Transfer Pricing (FTP): FTP is the rate to which each branch of the Institution resells the gathered funds to the central treasury; mirror-like it can also be the rate to which branches buy funds required to finance their own loans. FTP scheme aims to rebalance the profitability among each branch/area of the institution, rebalancing both funding and loans rates.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

G-SIBs – Global Sistematically Important Banks: These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value (obtained as the difference between acquired assets and assumed liabilities, both valued at fair value) at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

Grand-fathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

IASB – International Accounting Standards Board: an independent body of experts which, as part of the IFRS (International Financial Reporting Standards) Foundation, has since 2001 replaced the IASC (International Accounting Standards Committee) in issuing international accounting standards. The Board is a group of independent experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education.

IFRS 16 Leasing: a lease is defined as a contract under which the lessor grants another party, known as the lessee, the right to use a given asset for a period of time in return for payment of a fee. IFRS 16, which came into force on 1 January 2019 (1 July 2019 for the Mediobanca Group), replaced IAS 17 which had been in force since 2005. The most important aspect which characterizes the new standard is the fact that for purposes of accounting treatment, it does away with the distinction introduced by IAS 17 between finance and operating leases, introducing new concepts such as the right of use over the asset covered by the lease, which enables it to be established as to whether a given contract is a lease or a service. A contract is considered to be or to contain a lease if it transfers ownership of the right to control the use of a specific asset, for a period of time established at the outset, in return for an agreed fee, defining the terms and conditions of the asset's usage, and, even if not stated expressly, the maintenance of its efficiency over time.

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS 9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (stage 1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to stage 1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Impairment test: Test aimed at checking the book value of each financial assets: in case of a permanent reduction in the value, the value of the assets should be reduced (with impact taken to profit and loss). This test should take place once a year both for intangible assets with indefinite life and for goodwill originated by a business combination (see definition); in all other cases, the entity should check, at the end of each reporting date, whether there are evidences of permanent reduction in value.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice (see definition): i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital.

Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord (see definition) requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

IOSCO – International Organization of Securities Commission: IOSCO is the International body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Leveraged Finance: Type of financing which comprises transactions aimed at:

- Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
- Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
- Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

London InterBank Offered Rate – LIBOR: reference rate for the interbank market transactions, calculated on a daily basis by the British Bankers' Association, and the rate at which most important English and European banks exchange funds with short term horizon.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings-based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Loan To Value Ratio – LTV ratio: obtained as the ratio between the amount lended and the value of the asset which is supposed to be bought with this amount. The LTV Ratio is commonly used by banks as an indicator of credit risk.

Lockdown: this term has come to be associated in particular with the response to the Covid-19 pandemic (see entry) and the measures introduced by governments to contain the spread of the virus and so safeguard the health of their respective populations.

Low credit risk exemption: Pursuant to paragraph 5.5.10ff of IFRS 9, a company can assume that for a certain instrument the credit risk has not experienced a significant increase when this instruments shows, at the reporting date, a low credit risk. This definition is met for Stage 1 exposures, which show a low insolvency risk since they can be qualified as investment grade instruments.

Low value (IFRS 16 definition): Pursuant to paragraph 5 of IFRS 16, it represents one of two cases in which the lessee can choose not to apply the standard provisions. The standard (paragraph B3) indicates 5,000$ (ca. 5,000 Euros) as the presumption for considering an asset of low value.

Macroeconomic scenario: description of the economic system at aggregate level, which factors in expected projections of material economic indicators.

Markets In Financial Instruments Directive (MiFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Maturity: it indicates the reimbursement date or the expiring date of the instrument.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
(own funds + eligible liabilities) / (total liabilities + own funds).

Moratorium: the term "moratorium" refers to the suspension of the term for meeting an obligation, granted by provision of law, for exceptional reasons. For this reason it also covers the concessions granted in relation to the Covid-19 pandemic at government level under the so-called "Cura Italia" Decree Law issued on 17 March 2020, and the "Decreto Liquidità" issued subsequently, which provides for the terms set for meeting payment obligations to be suspended following the crisis caused by the pandemic. Under the terms of the EBA guidelines (EBA/GL/2020/02), Covid-related moratoria include suspensions of payment obligation deadlines granted by national legislation (which for Italy means the "Cura Italia" and "Liquidità" Decree Laws) and those granted under initiatives promoted by category associations (ABI/

Assofin in Italy); they do not include voluntary payment relief or private support measure initiatives granted by individual banks.

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiry and amount of the exposure.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

Options: Derivative contracts which include the right, but not the obligation, for the option holder, by paying a premium, to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

O-SII- Other Systematically Important Institution: These are institutions that, due to their systemic importance, are more likely to create risks to financial stability.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

Overtime (OVT) and Point in Time (PIT): According to IFRS 15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

– The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;

– The entity's performance creates or enhances the activity (e.g. work in progress) which the client is able to monitor in the process of its being created or enhanced; or

– The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.
If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non-performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS 15 which refers to "each promise to transfer to the client:

– A distinct good or service (or a combination of both); or

– A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

Pillar III: Pillar III is a disclosure document come into force with EU Regulation n. 575/2013 (CRR, see definition) which introduces into European Union the bank supervisory rules of Basel Committee (see definition) known as "Basel 3". This includes both capital adequacy (Pillar I) and disclosure to the public (Pillar III). These disclosures enable market operators to make a more accurate assessment of banks' capital solidity and exposure to risks.

Plain Vanilla (derivatives): Plain vanilla derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS 3 (Business combinations).

POCI – "Purchased or Originated Credit Impaired": POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as stage 3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined; in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Provisioning (loans): This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

– if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;

– if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Rating: Valuation either formulated by a specialist private agency or determined internally by a specific department, of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Right of Use: According to IFRS 16 (Appendix A) it is defined as "An asset that represents a lessee's right to use an underlying asset for the lease term".

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

*Securitization: S*ecuritization is a financial technique used to raise additional financial resources, which is becoming increasingly common in the economic and financial panorama. Its use as an instrument to raise funding and as an alternative source of income has increased considerably in recent years, in both the private and public sector, becoming one of the principal components of the so-called "shadow" banking system. In the financial crisis referred to above, securitization enabled banks to feed the sub-prime mortgage granting mechanism "without concern".
Technically, securitization of debt is a process whereby one or more financial assets, undivided and illiquid and able to generate cash flows, such as amounts receivable by a bank, are "transformed" into divided, sellable assets, in the form of Asset Backed Securities (ABS).
Depending on the underlying instrument being securitized, we may speak of MBS (mortgage-backed securities, in which mortgages are the underlying), CDOs (collateralized debt obligations, in which public or private bonds are the underlying), or ABCP (asset backed commercial paper, in which short- or very short-term receivables are the underlying).

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two of them.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Significant Increase in Credit Risk – SICR: Pursuant to paragraph 5.5.3ff of IFRS 9 standard, it is necessary to assess at each reporting date whether an instrument has experienced a significant increase in credit risk since the date of initial recognition. This assessment has to take into account qualitative as well as quantitative factors, typical of each facility. The granting of forbearance measures as well as the failing of the 30-days past-due period criterion are considered backstop events. Exposures showing a significant increase in credit risk at the reference date are classified into Stage2.

Short term: according to para. 5 of IFRS 16, it represents one of the two cases when the lessee can decide not to apply the requirements of the principle itself. The lessee can make use of this faculty if the lease has a lease term of 12 months or less.

Significant bank: The EU Regulation n. 1024/2013 (this regulation establishes the Single Supervisory Mechanism, see definition) states three criteria to define whether the financial institution can be considered significant (if even one of this requirements is met):

- Total asset over 30 billions;
- The ratio between total assets and GDP of the EU state in which it resides is more than 20%, unless total assets value is below 5 billions;
- The ratio between total assets/liabilities of the institution and total assets/ liabilities of at least another EU state is more than 20%.

A financial institution is also considered to be significant when it has applied for or has received financial aid. Significant Institution are subject to direct supervision of ECB (see definition).

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Spline: mathematical function consisting of a series of curve arcs used to interpolate a series of points so that the resulting function is continuous and smooth.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS 9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II). SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stress Test: A stress test is a simulation procedure used to measure the impact of extreme market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Structured Notes: A structured note is a debt obligation whose return performance is related to one or more embedded derivative components such as stock index, single securities or currency.

Sublease: According to IFRS 16 (Appendix A) it is "A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and the lessee remains in effect".

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell'Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the "Draghi" law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity's operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – Targeted Long Term Refinancing Operation: The T-LTRO is a non-conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses. The new requirements set the TLAC at 16 percent of RWAs and at 6 percent of leverage exposure by 1 January 2019.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS 15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS 15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

– Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and

– SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely to be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

RESOLUTIONS ADOPTED BY SHAREHOLDERS IN ANNUAL GENERAL MEETING HELD ON 28 OCTOBER 2020

Resolutions adopted by shareholders at the Annual General Meeting held on 28 October 2020

At the Annual General Meeting, extraordinary and ordinary, held on 28 October 2020, the shareholders of Mediobanca adopted the following resolutions:

Extraordinary business:

– To approve the amendments to Articles 2, 4, 7, 9, 13, 15, 16, 17, 18, 19, 21, 23, 24, 25, 27 and 28 of the Company's Articles of Association;

– To approve the three renewals for authorizations to the Board of Directors to increase the company's share capital pursuant to Article 2443 of the Italian Civil Code.

Ordinary business:

– To approve the financial statements for the twelve months ended 30 June 2020, and allocate the entire profit for the period to reserves;

– To establish the number of Directors at fifteen, and appoint the following as Directors until the approval of the financial statements for the year ending 30 June 2023: Renato Pagliaro, Alberto Nagel, Francesco Saverio Vinci, Maurizia Angelo Comneno, Virginie Banet, Maurizio Carfagna, Laura Cioli, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Maximo Ibarra, Alberto Lupoi, Elisabetta Magistretti, Vittorio Pignatti Morano and Gabriele Villa; the aggregate annual gross compensation payable to the Board was set at €2.5m;

- To appoint the following as Statutory Auditors of Mediobanca until the approval of the financial statements for the year ending 30 June 2023: Francesco Di Carlo (Chairman), Ambrogio Virgilio and Elena Pagnoni as Standing Auditors and Stefano Sarubbi, Marcella Caradonna and Roberto Moro as Alternate Auditors; the aggregate annual gross compensation was set at €460,000, €180,000 of which payable to the Chairman, and €140,000 to each of the other Standing Auditors;
- To approve the staff remuneration and incentivization policies for FY 2020-21, the report on compensation paid in FY 2019-20, the policy in the event of the beneficiary leaving office or the employment arrangement being terminated, and the 2021-25 performance share scheme;
- To engage audit firm Ernst & Young to audit the company's accounts for the period from 30 June 2022 to 30 June 2030, setting the remuneration payable to the auditor at €565,250 per annum (net of any statutory ISTAT increases, out-of-pocket expenses, VAT and supervisory contributions).

BALANCE SHEET AND FUND ALLOCATION ANALYSES

Balance sheet analysis ASSETS (€'000)

As at 30 June	Liquid assets	Bills discounted advances, repurchase and forward transactions, and loans	Investment securities (excluding investments in Group undertakings)	Investments in Group undertakings	Investments in consortium companies	Property	Furniture, equipment and intangible assets	Other assets	Total assets	Contra accounts	Grand total
1946/1947	1,536	398	—	—	—	—	6	33	1,973	387	2,360
1947/1948	1,344	1,900	—	—	—	—	6	33	3,283	465	3,748
1948/1949	2,830	3,569	—	1	—	24	—	32	6,456	264	6,720
1949/1950	3,532	5,315	889	3	—	—	—	35	9,774	853	10,627
1950/1951	3,751	6,760	546	25	—	—	—	31	11,113	315	11,428
1951/1952	3,706	9,779	464	38	—	—	—	31	14,018	176	14,194
1952/1953	5,395	12,654	263	—	—	—	—	35	18,347	8,841	27,188
1953/1954	7,804	15,909	763	1	—	—	—	137	24,614	553	25,167
1954/1955	10,294	18,690	971	58	—	—	—	85	30,098	1,644	31,742
1955/1956	14,713	23,573	1,283	5	—	—	—	484	40,058	12,272	52,330
1956/1957	17,670	28,648	1,540	—	—	—	—	245	48,103	10,394	58,497
1957/1958	18,727	31,577	1,798	—	—	—	—	439	52,541	4,799	57,340
1958/1959	31,724	40,713	4,131	—	—	—	—	1,391	77,959	16,828	94,787
1959/1960	45,099	49,813	4,286	—	—	—	—	227	99,425	7,622	107,047
1960/1961	48,464	66,669	6,412	110	—	—	—	244	121,899	7,974	129,873
1961/1962	29,895	100,913	9,027	39	—	—	—	435	140,309	32,419	172,728
1962/1963	39,529	124,090	9,282	142	—	—	—	626	173,669	28,175	201,844
1963/1964	49,714	153,282	9,337	90	—	—	—	1,332	213,755	23,277	237,032
1964/1965	67,815	157,552	13,417	5	—	—	—	1,273	240,062	37,932	277,994
1965/1966	100,651	191,935	15,115	—	—	—	—	2,385	310,086	100,762	410,848
1966/1967	107,097	245,565	17,396	5	—	—	—	3,342	373,405	112,502	485,907
1967/1968	121,745	305,666	17,317	—	—	—	—	4,569	449,297	122,695	571,992
1968/1969	104,636	374,711	19,877	—	—	—	—	6,028	505,252	179,385	684,637
1969/1970	108,075	513,117	19,759	5	—	—	—	5,512	646,468	148,926	795,394
1970/1971	296,325	533,281	19,833	21	—	—	—	4,804	854,264	220,019	1,074,283
1971/1972	211,681	644,004	22,501	541	—	26	—	6,373	885,126	248,839	1,133,965
1972/1973	219,061	768,777	23,083	671	—	26	79	7,999	1,019,696	317,492	1,337,188
1973/1974	725,455	1,091,712	29,243	755	—	190	102	16,095	1,863,552	283,551	2,147,103
1974/1975	898,375	1,243,559	32,603	755	—	190	108	24,963	2,200,553	270,792	2,471,345
1975/1976	842,638	1,394,824	27,159	1,573	—	190	133	27,826	2,294,343	260,533	2,554,876
1976/1977	930,863	1,526,989	32,255	4,042	—	3,615	190	31,666	2,529,620	266,527	2,796,147
1977/1978	931,722	1,719,338	34,759	4,137	—	3,615	198	72,125	2,765,894	414,045	3,179,939
1978/1979	506,795	1,703,992	78,140	4,173	—	3,615	228	74,652	2,371,595	312,152	2,683,747
1979/1980	520,954	1,834,527	55,983	4,174	7,230	3,615	251	75,576	2,502,310	385,483	2,887,793
1980/1981	446,588	2,215,915	73,762	4,008	14,977	3,615	423	174,332	2,933,620	618,841	3,552,461
1981/1982	638,435	2,540,960	165,104	4,008	14,993	3,615	438	174,142	3,541,695	714,778	4,256,473
1982/1983	839,289	2,773,956	170,991	4,008	16,217	3,615	481	231,585	4,040,142	575,962	4,616,104
1983/1984	859,764	3,002,978	225,314	8,088	16,217	19,625	511	224,145	4,356,642	650,010	5,006,652
1984/1985	1,257,350	3,138,244	284,891	8,088	8,986	19,625	700	292,367	5,010,251	685,879	5,696,130
1985/1986	1,697,370	3,388,523	379,210	8,088	1,239	19,625	666	227,820	5,722,541	1,575,268	7,297,809
1986/1987	1,578,922	4,271,623	416,752	8,088	—	19,625	1,153	242,919	6,539,082	1,031,762	7,570,844
1987/1988	1,569,877	4,540,865	565,933	4,213	—	19,625	1,803	208,692	6,911,008	1,827,254	8,738,262
1988/1989	1,403,579	5,465,846	640,118	12,606	—	19,625	2,050	244,208	7,788,032	1,532,042	9,320,074
1989/1990	1,860,248	6,841,257	709,335	9,495	—	19,625	2,353	348,524	9,790,837	2,458,501	12,249,338
1990/1991	2,471,961	6,772,063	926,197	15,652	—	19,625	2,815	407,693	10,616,006	1,914,503	12,530,509
1991/1992	2,245,473	7,356,291	1,149,728	17,897	—	23,800	3,539	516,359	11,313,087	4,974,896	16,287,983
1992/1993	3,104,631	7,933,550	1,187,565	51,589	—	23,800	4,410	532,248	12,837,793	5,464,451	18,302,244
1993/1994	3,347,387	8,961,303	1,389,176	49,085	—	23,800	4,690	522,005	14,297,446	3,851,623	18,149,069
1994/1995	3,150,896	9,609,949	1,618,928	47,725	—	23,800	4,571	478,176	14,934,045	3,103,192	18,037,237
1995/1996	2,571,335	10,717,159	1,793,785	46,491	—	23,800	4,739	484,943	15,642,252	4,114,659	19,756,911
1996/1997	4,337,359	12,058,402	1,820,638	51,422	—	23,800	5,046	582,619	18,879,286	9,531,224	28,410,510
1997/1998	4,789,102	14,115,689	2,106,078	58,298	—	23,800	6,013	856,681	21,955,661	24,883,375	46,839,036
1998/1999	5,201,164	13,175,891	2,602,245	129,792	—	23,800	7,477	1,120,409	22,260,778	33,863,092	56,123,870
1999/2000	4,578,652	14,764,593	2,740,839	60,875	—	23,800	9,286	1,344,067	23,522,112	43,236,774	66,758,886
2000/2001	5,645,521	14,229,607	2,923,030	102,505	—	23,800	10,515	1,491,431	24,426,409	46,827,877	71,254,286
2001/2002	7,377,119	14,861,758	2,912,572	118,779	—	23,800	11,961	1,881,176	27,187,165	50,916,657	78,103,822
2002/2003	8,796,562	12,521,995	2,647,557	118,731	—	23,800	13,810	1,964,690	26,087,145	79,162,015	105,249,160
2003/2004	8,427,864	13,324,382	2,591,198	396,476	—	25,479	14,171	2,188,463	26,968,033	84,319,470	111,287,503
2004/2005	6,538,471	13,995,593	2,719,006	490,219	—	26,255	14,730	2,032,674	25,816,948	81,192,618	107,009,566
2005/2006	8,790,079	15,823,797	2,845,923	457,429	—	27,214	17,252	1,835,453	29,797,147	157,987,333	187,784,480

Balance sheet analysis § ASSETS

(€'000)

At year-end	Net treasury fund application	Banking book investments AFS securities **	Banking book securities already Financial assets held to maturity **	Loans and advances to customers	Investment in Group undertakings	Other investments	Properties	Tangible and intangible assets	Other assets	Total assets ***
2005/2006	5,580,560	4,042,970	625,544	15,870,533	457,429	1,219,525	116,656	6,256	267,649	28,187,122
2006/2007	6,379,384	4,788,039	621,634	20,306,484	468,270	1,212,507	115,237	6,059	251,591	34,149,205
2007/2008	8,845,365	2,846,738	619,214	24,235,221	969,612	1,752,778	113,818	7,756	420,591	39,811,093
2008/2009	13,059,370	4,330,945	1,556,744	23,282,523	971,536	1,873,697	112,783	9,666	555,412	45,752,676
2009/2010	16,241,356	5,237,181	1,454,466	20,194,698	969,510	1,858,777	113,244	17,336	519,658	46,606,226
2010/2011	10,660,781	6,684,674	4,001,102	22,891,839	969,841	1,701,144	112,137	20,684	660,920	47,703,122
2011/2012	10,760,583	9,356,653	4,013,408	27,219,512	1,358,759	1,855,681	119,494	18,565	538,166	55,240,821
2012/2013	9,138,557	10,319,344	5,004,318	23,003,606	1,509,341	1,208,272	118,060	13,879	419,245	50,734,622
2013/2014	9,599,504	7,301,515	5,000,765	20,181,604	1,494,603	1,173,347	116,723	16,650	567,212	45,451,923
2014/2015	3,183,252	6,407,061	4,946,271	22,522,908	1,986,439	1,173,249	115,471	16,710	470,294	40,821,655
2015/2016	4,269,787	7,668,089	4,918,859	23,056,855	1,534,234	1,153,452	114,447	17,588	452,332	43,185,643
2016/2017 *	6,992,662	5,664,401	5,759,347	25,226,651	1,921,731	1,135,267	113,422	18,807	766,123	57,908,907
2017/2018 *	3,650,055	5,166,352	7,035,411	25,745,060	1,948,891	1,135,267	112,303	43,134	600,037	59,234,413
2018/2019 *	4,648,266	684,686	10,779,272	28,671,014	2,056,577	1,135,267	111,125	36,517	868,819	65,908,069
2019/2020 *	6,555,773	938,332	9,592,229	30,507,393	2,015,401	1,135,267	110,826	57,532	959,340	64,837,845

§ IAS/IFRS-compliant.

* From the 30th of June 2017, Mediobanca has adopted a new Reclassified Balance Sheet that has led to some changes in the composition of Loans and advances to customers and Other Assets (see attached tables: New Reclassified Balance Sheet: Reconciliation). The total assets differ from the of the components because the Net treasury fund includes treasury liabilities.

** The Group has availed itself of the right not to restate the comparative data for the first year of IFRS9 adoption on a like-for-like basis.

*** Corresponding to Total Assets of the Balance Sheet format pursuant to Bank of Italy circular no. 262/2005 and following updates.

Balance sheet analysis LIABILITIES (€'000)

At year-end	Capital			Specific credit risks provisions	Provision for discounts and expenses on bonds issued	Securities fluctuation allowance	Provision for writedowns on investments	Time deposits and current accounts	Loans and other funding typologies	Debt securities	Debt securities in issue	Due to banks and EIB funds	Accumulated depreciation on furniture and equipment	Accumulated depreciation on property	Other liabilities and provisions	Profit for the year	Total liabilities	Contra accounts	Grand total
	Share capital	Reserves, provisions qualifying as reserves * and retained earnings	Total																
1946/1947	516	—	516	—	—	—	—	1,448	—	—	—	—	—	—	24	(15)	1,973	387	2,360
1947/1948	516	—	516	—	—	—	—	2,729	—	—	—	—	—	—	30	8	3,283	465	3,748
1948/1949	516	2	518	—	—	—	—	5,746	—	—	—	—	—	—	143	49	6,456	264	6,720
1949/1950	1,033	26	1,059	—	—	—	—	8,325	—	—	—	—	—	—	303	87	9,774	853	10,627
1950/1951	1,549	54	1,603	—	—	—	—	8,985	—	—	—	—	—	—	335	190	11,113	315	11,428
1951/1952	1,549	109	1,658	—	—	—	—	11,745	—	—	—	—	—	—	405	210	14,018	176	14,194
1952/1953	1,549	169	1,718	—	—	—	—	15,623	—	—	—	—	—	—	791	215	18,347	8,841	27,188
1953/1954	1,549	273	1,822	—	—	—	—	21,681	—	—	—	—	—	—	898	213	24,614	553	25,167
1954/1955	1,549	322	1,871	—	—	—	—	26,945	—	—	—	—	—	—	1,045	237	30,098	1,644	31,742
1955/1956	2,066	365	2,431	—	—	—	—	35,586	—	—	—	—	—	—	1,764	277	40,058	12,272	52,330
1956/1957	3,099	446	3,545	—	—	—	—	41,798	—	—	—	—	—	—	2,437	323	48,103	10,394	58,497
1957/1958	3,099	522	3,621	—	—	—	—	45,287	—	—	—	—	—	—	3,245	388	52,541	4,799	57,340
1958/1959	3,099	607	3,706	—	—	—	—	68,934	—	—	—	—	—	—	4,923	396	77,959	16,828	94,787
1959/1960	5,165	747	5,912	—	—	—	—	87,472	—	—	—	—	—	—	5,323	718	99,425	7,622	107,047
1960/1961	5,165	1,127	6,292	—	—	—	—	107,712	—	—	—	—	—	—	6,929	966	121,899	7,974	129,873
1961/1962	5,165	1,562	6,727	—	—	—	—	125,489	—	—	—	—	—	—	7,089	1,004	140,309	32,419	172,728
1962/1963	6,197	2,285	8,482	—	—	—	—	155,196	—	—	—	—	—	—	9,276	715	173,669	28,175	201,844
1963/1964	6,197	2,901	9,098	—	—	—	—	189,266	—	—	—	—	—	—	14,618	773	213,755	23,277	237,032
1964/1965	7,230	3,607	10,837	—	—	—	—	211,506	—	—	—	—	—	—	16,943	776	240,062	37,932	277,994
1965/1966	7,230	4,484	11,714	—	—	—	—	274,589	—	—	—	—	—	—	22,862	921	310,086	100,762	410,848
1966/1967	7,230	5,933	13,163	—	—	—	—	336,544	—	—	—	—	—	—	22,742	956	373,405	112,502	485,907
1967/1968	8,263	7,307	15,570	—	—	—	—	402,293	—	—	—	—	—	—	30,377	1,057	449,297	122,695	571,992
1968/1969	8,263	8,994	17,257	—	—	—	—	449,103	—	—	—	—	—	—	37,439	1,453	505,252	179,385	684,637
1969/1970	8,263	11,326	19,589	—	—	—	—	534,360	—	41,317	—	—	—	—	50,034	1,168	646,468	148,926	795,394
1970/1971	8,263	13,500	21,763	—	—	—	—	726,356	—	41,317	—	—	—	—	63,113	1,715	854,264	220,019	1,074,283
1971/1972	8,263	16,462	24,725	—	—	—	541	745,717	—	41,317	—	—	—	26	71,605	1,195	885,126	248,839	1,133,965
1972/1973	11,569	19,698	31,267	—	—	—	516	839,113	—	40,284	—	—	79	26	106,559	1,852	1,019,696	317,492	1,337,188
1973/1974	11,569	24,879	36,448	—	—	—	669	832,133	—	240,371	—	597,632	102	26	153,960	2,211	1,863,552	283,551	2,147,103
1974/1975	16,527	33,840	50,367	—	—	—	755	1,171,053	—	215,581	—	580,034	108	26	179,651	2,978	2,200,553	270,792	2,471,345
1975/1976	16,527	41,766	58,293	—	—	—	755	1,073,975	—	213,284	—	771,016	133	26	166,756	10,105	2,294,343	260,533	2,554,876
1976/1977	20,658	58,793	79,451	—	—	—	1,572	1,254,227	—	268,556	—	748,283	190	26	162,642	14,673	2,529,620	266,527	2,796,147
1977/1978	26,856	67,217	94,073	—	—	—	4,039	1,449,198	—	396,572	—	601,809	198	3,615	200,652	15,738	2,765,894	414,045	3,179,939
1978/1979	43,382	83,667	127,049	2,622	—	—	4,137	1,531,093	—	423,029	—	62,443	228	3,615	200,944	16,435	2,371,595	312,152	2,683,747
1979/1980	43,382	107,496	150,878	3,300	3,873	—	4,173	1,622,873	—	445,639	—	41,851	251	3,615	207,623	18,234	2,502,310	385,483	2,887,793
1980/1981	52,679	139,245	191,924	1,265	5,087	—	4,174	1,842,966	—	589,210	—	28,807	423	3,615	221,450	44,699	2,933,620	618,841	3,552,461
1981/1982	70,238	167,753	237,991	650	7,308	—	4,008	2,390,742	—	662,617	—	27,385	438	3,615	187,644	19,297	3,541,695	714,778	4,256,473
1982/1983	70,238	186,693	256,931	2,755	8,806	—	4,008	2,753,902	—	738,830	—	23,558	481	3,615	208,464	38,792	4,040,142	575,962	4,616,104
1983/1984	87,798	269,265	357,063	3,267	9,684	—	4,008	2,987,681	—	698,842	—	5,404	511	4,204 [2]	241,537	44,441	4,356,642	650,010	5,006,652
1984/1985	87,798	321,361	409,159	2,556	10,823	—	4,008	3,445,663	—	756,640	—	27,346	700	1,178	285,170	67,008	5,010,251	685,879	5,696,130
1985/1986	87,798	416,625	504,423	1,275	8,163	—	4,008	3,559,090	—	1,170,955	—	98,190	666	1,766	284,740	89,265	5,722,541	1,575,268	7,297,809
1986/1987	87,798	533,608	621,406	620	6,219	—	8,088	3,456,058	—	1,928,005	—	191,501	1,153	2,355	265,317	58,360	6,539,082	1,031,762	7,570,844
1987/1988	105,357	609,693	715,050	440	1,727	—	4,213	3,799,239	—	1,872,357	—	229,658	1,803	2,944	221,321	62,256	6,911,008	1,827,254	8,738,262
1988/1989	105,357	684,026	789,383	416	735	—	2,253	4,160,423	—	2,195,808	—	285,071	2,050	3,533	264,500	83,860	7,788,032	1,532,042	9,320,074
1989/1990	175,595	1,037,632	1,213,227	192	7,031	—	12,606	4,679,784	—	3,160,657	—	247,347	2,353	4,121	343,651	119,868	9,790,837	2,458,501	12,249,338
1990/1991	175,595	1,142,463	1,318,058	15,900	7,370	75,806	9,495	5,029,104	—	3,108,092	—	474,942	2,815	4,710	455,885	113,829	10,616,006	1,914,503	12,530,509
1991/1992	175,595	1,252,575	1,428,170	5,872 [1]	6,137 [3]	131,073 [1]	15,652	5,489,100	—	2,803,155	—	752,917	3,539	5,299	536,812	135,361	11,313,087	4,974,896	16,287,983
1992/1993	175,595	1,418,593	1,594,188	13,039	—	—	—	6,393,007	—	3,063,153	—	1,096,146	4,410	6,013	564,478	103,359	12,837,793	5,464,451	18,302,244
1993/1994	245,833	1,983,409	2,229,242	13,763	—	—	—	5,366,489	—	4,461,893	—	1,601,089	4,690	6,727	502,025	111,528	14,297,446	3,851,623	18,149,069
1994/1995	245,833	2,070,559	2,316,392	36,735	—	—	—	6,097,985	—	4,625,946	—	1,283,946	4,571	7,441	480,929	80,100	14,934,045	3,103,192	18,037,237
1995/1996	245,833	2,152,495	2,398,328	35,201	—	—	—	6,432,396	—	4,783,236	—	1,441,434	4,739	8,155	476,621	62,142	15,642,252	4,114,659	19,756,911
1996/1997	245,833	2,252,872	2,498,705	—	—	—	—	5,773,044	—	7,787,176	—	2,047,681	5,046	8,869	686,944	71,821	18,879,286	9,531,224	28,410,510
1997/1998	295,059	2,972,222	3,267,281	—	—	—	—	4,082,396	—	10,297,074	—	2,707,852	6,013	9,583	1,455,901	129,561	21,955,661	24,883,375	46,839,036
1998/1999	295,366	3,100,762	3,396,128	—	—	—	—	3,452,177	—	10,286,779	—	3,283,081	7,477	10,297	1,711,361	113,478	22,260,778	33,863,092	56,123,870
1999/2000	307,780	3,317,037	3,624,817	—	—	—	—	2,918,920	—	11,072,736	—	3,072,363	9,286	11,011	2,686,566	126,413	23,522,112	43,236,774	66,758,886
2000/2001	331,650	3,743,506	4,075,156	—	—	—	—	3,385,422	—	10,890,941	—	3,417,142	10,515	11,725	2,484,247	151,261	24,426,409	46,827,877	71,254,286
2001/2002	389,265	4,069,354	4,458,619	—	—	—	—	4,508,208	—	11,202,082	—	4,430,055	11,961	12,439	2,446,155	117,646	27,187,165	50,916,657	78,103,822
2002/2003	389,275	4,114,735	4,504,010	—	—	—	—	1,721,391	—	14,653,555	—	3,667,461	13,810	13,153	1,527,612	(14,027)	26,086,965	79,162,015	105,248,980
2003/2004	389,291	3,993,794	4,383,085	—	—	—	—	3,069,781	—	14,663,091	—	2,828,314	14,171	13,917	1,568,111	427,563	26,968,033	84,319,470	111,287,503
2004/2005	397,478	4,130,486	4,527,964	—	—	—	—	2,133,993	—	14,491,296	—	2,749,348	14,730	14,705	1,444,858	440,054	25,816,948	81,192,618	107,009,566
2005/2006	405,999	4,346,447	4,752,446	—	—	—	—	729,603	—	20,892,213	—	1,394,510	17,252	15,521	1,501,268	494,334	29,797,147	157,987,333	187,784,480

* Provision for general banking risks, general credit risks provisions and securities fluctuation allowance (between 1967 and 1984, when this allowance was taken to Reserve).

[1] Taken to Reserve.

[2] Of which €3.6m taken to Reserve.

[3] Of which €12.5m taken to Reserve and the balance to write down the the book value of securities.

Balance sheet analysis § LIABILITIES

(€'000)

At year-end	Capital			Provisions	Debt securities in issue	Other funding forms	Other liabilities	Profit for the year	Total liabilities **
	Share capital	Reserves, other provisions with capital content * and retained earnings	Total						
2005/2006	405,999	4,527,856	4,933,855	165,712	20,192,077	1,811,063	538,895	545,520	28,187,122
2006/2007	408,781	5,128,989	5,537,770	162,433	23,027,454	4,077,662	782,776	561,110	34,149,205
2007/2008	410,028	4,217,383	4,627,411	161,452	30,541,427	3,199,445	658,779	622,579	39,811,093
2008/2009	410,028	4,210,394	4,620,422	160,612	35,860,227	4,388,413	702,194	20,808	45,752,676
2009/2010	430,551	4,244,955	4,675,506	160,650	36,150,327	4,587,318	788,286	244,139	46,606,226
2010/2011	430,565	4,380,729	4,811,294	159,991	36,783,922	5,059,996	760,543	127,376	47,703,122
2011/2012	430,565	4,191,175	4,621,740	160,075	31,561,792	18,494,608	602,757	(200,151)	55,240,821
2012/2013	430,565	4,296,680	4,727,245	160,458	26,905,614	18,463,685	712,618	(234,998)	50,734,622
2013/2014	430,703	4,396,778	4,827,481	161,676	23,606,132	15,826,116	864,605	165,913	45,451,923
2014/2015	433,599	4,423,095	4,856,694	149,260	19,729,098	14,927,077	826,481	333,045	40,821,655
2015/2016	435,510	4,551,720	4,987,230	139,927	19,229,901	17,931,792	608,755	288,038	43,185,643
2016/2017 °	440,606	4,559,232	4,999,838	105,668	18,826,771	22,211,421	1,136,387	318,326	57,908,907
2017/2018 °	443,275	4,505,198	4,948,473	105,509	16,769,393	22,403,654	872,447	337,034	59,234,413
2018/2019 °	443,608	4,357,026	4,800,634	125,982	15,785,759	26,967,864	925,059	386,245	65,908,069
2019/2020 °	443,617	4,230,842	4,674,459	121,634	16,331,800	29,942,139	762,702	39,359	64,837,845

§ IAS/IFRS-compliant.

* Provision for general banking risks, general credit risks provisions and securities fluctuation allowance (between 1967 and 1984, when this allowance was taken to Reserve).

° From the 30th of June 2017, Mediobanca has adopted a new Reclassified Balance Sheet that has led to some changes in the composition of Debt securities in issue, Other funding forms and Other liabilities (see attached tables: New Reclassified Balance Sheet: Reconciliation). The total liabilities differ from the sum of the components because the treasury liabilities are included in the aggregate Net Treasury Fund.

** Corresponding to Total Liabilities of the Balance Sheet format pursuant to Bank of Italy circular no. 262/2005 and following updates.

Fund allocation analysis

(€'000)

For years ended 30 June	Gross profit for year	Allocation to credit risks provision	Net profit	Appropriation of net profit: Amount taken to Reserve	Amount taken to Special Reserve [1]	Writedowns in securities and investments, depreciation on furniture and equipment, and amortization of discounts on bonds issued	Total dividend paid	Percent dividend paid	Directors' remuneration [2]	Increase (decrease) in retained earnings
1946/1947	(15)	—	(15)	—	—	—	—	—	—	—
1947/1948	23	—	23	2	—	21 [3]	—	—	—	—
1948/1949	49	—	49	24	—	24	—	—	1	—
1949/1950	87	—	87	26	—	3	54	7	2	2
1950/1951	190	—	190	52	—	25	108	7	2	3
1951/1952	210	—	210	52	—	38	108	7	3	9
1952/1953	215	—	215	103	—	—	108	7	3	1
1953/1954	213	—	213	52	—	52	108	7	3	(2)
1954/1955	237	—	237	52	—	84	108	7	3	(10)
1955/1956	277	—	277	77	—	57	135	7,50	3	5
1956/1957	323	—	323	77	—	52	194	7,50	3	(3)
1957/1958	388	—	388	77	—	52	248	8	3	8
1958/1959	396	—	396	129	—	—	248	8	8	11
1959/1960	718	—	718	387	—	—	331	8	8	(8)
1960/1961	966	—	966	439	—	109	413	8	8	(3)
1961/1962	1,004	—	1,004	413	—	116	465	9	9	1
1962/1963	1,025	310	715	103	—	142	465	9	9	(4)
1963/1964	1,289	516	773	103	—	90	558	9	12	10
1964/1965	1,370	594	776	155	—	5	604	9	12	—
1965/1966	1,644	723	921	181	—	—	723	10	14	3
1966/1967	1,911	955	956	207	—	5	723	10	15	6
1967/1968	2,219	1,162	1,057	258	—	—	775	10	16	8
1968/1969	2,873	1,420	1,453	516	—	—	909	11	19	9
1969/1970	2,976	1,808	1,168	258	—	5	909	11	18	(22)
1970/1971	3,652	1,937	1,715	258	—	537	909	11	19	(8)
1971/1972	3,390	2,195	1,195	258	—	—	909	11	19	9
1972/1973	4,822	2,970	1,852	387	—	155	1,273	11	26	11
1973/1974	6,988	4,777	2,211	511	—	395	1,273	11	26	6
1974/1975	11,112	8,134	2,978	775	—	155	1,983	12	41	24
1975/1976	17,077	6,972	10,105	1,808	4,132	2,109	1,983	12	41	32
1976/1977	22,549	7,876	14,673	5,165	178	6,059	3,223	12	66	(18)
1977/1978	25,034	9,296	15,738	6,197	6,197	98	3,223	12	65	(42)
1978/1979	29,346	12,911	16,435	7,747	—	2,489	6,074	14	124	1
1979/1980	33,728	15,494	18,234	7,747	3,099	1,214	6,074	14	123	(23)
1980/1981	67,940	23,241	44,699	17,043	17,560	2,571	7,375	14	150	—
1981/1982	29,720	10,423	19,297	7,747	—	1,498	9,833	14	201	18
1982/1983	52,450	13,658	38,792	10,329	17,560	878	9,833	14	200	(8)
1983/1984	60,560	16,119	44,441	27,372	—	3,476	13,170	15	272	151
1984/1985	87,848	20,840	67,008	51,646	—	—	14,926	17	307	129
1985/1986	124,380	35,115	89,265	67,139	—	4,080	17,560	20	361	125
1986/1987	89,906	31,546	58,360	40,800	—	—	17,560	20	351	(351)
1987/1988	84,324	22,068	62,256	40,800	—	—	21,071	20	429	(44)
1988/1989	110,642	26,782	83,860	38,734	—	16,649	28,095	20	311	71
1989/1990	153,577	33,709	119,868	83,912	—	339	35,119	20	454	44
1990/1991	147,192	33,363	113,829	59,450	—	18,666	35,119	20	456	138
1991/1992	171,152	35,791	135,361	99,852	—	—	35,119	20	452	(62)
1992/1993	141,654	38,295	103,359	64,041	—	—	38,631	20	528	159
1993/1994	154,910	43,382	111,528	61,975	—	—	49,167	20	733	(347)
1994/1995	126,220	46,120	80,100	30,213	—	—	49,167	20	740	(20)
1995/1996	110,692	48,550	62,142	12,137	—	—	49,167	20	742	97
1996/1997	128,026	56,205	71,821	21,949	—	—	49,167	20	739	(34)
1997/1998	191,858	62,297	129,561	62,090	—	—	66,401	22,50	1,091	(20)
1998/1999	175,711	62,233	113,478	45,914	—	—	66,460	22,50	1,093	11
1999/2000	198,407	71,994	126,413	47,898	—	—	77,230	25	1,312	(27)
2000/2001	233,894	82,633	151,261	49,913	—	—	99,522	30	1,769	57
2001/2002	204,646	87,000	117,646	265	—	—	116,782	30	618	(19)
2002/2003	30,973	45,000	(14,027)	(154,166) [4]	—	—	140,139	36	—	(81)
2003/2004	460,563	33,000	427,563	111,201	—	—	311,535	80	4,827	—
2004/2005	440,054	—	440,054	51,416	—	—	382,365	96	6,273	—
2005/2006	494,334	—	494,334	15,058	—	—	473,003	116	6,273	—

[1] Allocation to Special Reserve were used to fund bonus issues of €4.1m in October 1976, €6.2m (together with €6,019,000 from the Revaluation Reserve) in October 1977, €6.2m in October 1978, €3.1m in October 1980, €17.6m in October 1981 and €17.6m in October 1983.

[2] Plus fixed fee of €258,000 as from 30/6/89 and €1.5m as from 30/6/02.

[3] Of which €15,000 to absorb prior year loss.

[4] Of which €14,027,000 to cover loss for the year, and €140,139,000 for payment of dividend.

Fund allocation analysis §

(€'000)

Financial year	Profit before tax for the year	Transfers to risk provisions	Net profit	Allocation of net profit				Changes in retained earnings
				To reserves	Dividends paid out	%	Remuneration due to Board [1]	
2005/2006	545,520	—	545,520	66,244	473,003	116	6,273	—
2006/2007	561,110	—	561,110	22,423	532,414	130	6,273	—
2007/2008	622,579	—	622,579	89,543	533,036	130	—	—
2008/2009	20,808	—	20,808	20,808	—	—	—	—
2009/2010	244,139	—	244,139	100,643	143,496	34	—	—
2010/2011	127,376	—	127,376	(16,124)	143,500	34	—	—
2011/2012	(200,151)	—	(200,151)	(242,357) [2]	42,206	10	—	—
2012/2013	(234,998)	—	(234,998)	(234,998)	—	—	—	—
2013/2014	165,913	—	165,913	39,064	126,849	30	—	—
2014/2015	333,045	—	333,045	120,152	212,893	50	—	—
2015/2016	288,038	—	288,038	57,123	230,915	54	—	—
2016/2017	318,326	—	318,326	31,833	320,226	74	—	—
2017/2018	337,034	—	337,034	33,703	412,814	94	—	—
2018/2019	386,245	—	386,245	38,624	409,732	94	—	—
2019/2020	39,359	—	39,359	39,359	—	—	—	—

§ IAS/IFRS-compliant.

[1] Plus fixed fee of €258,000 as from 30/6/89 and €1.5m as from 30/6/02.

[2] Of which €200,151 to cover losses for the period and €42,206 to pay for the dividend.

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