Draft

MEDIOBANCA

Annual Accounts and Report as at 30 June 2017

Annual General Meeting, 28 October 2017

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 440,617,579.00
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Annual General Meeting
28 October 2017

www.mediobanca.com

translation from the Italian original which remains the definitive version

BOARD OF DIRECTORS

			Term expires
	Renato Pagliaro	Chairman	2017
*	Maurizia Angelo Comneno	Deputy Chairman	2017
	Marco Tronchetti Provera	Deputy Chairman	2017
*	Alberto Nagel	Chief Executive Officer	2017
*	Francesco Saverio Vinci	General Manager	2017
	Tarak Ben Ammar	Director	2017
	Gilberto Benetton	Director	2017
	Mauro Bini	Director	2017
	Marie Bolloré	Director	2017
	Maurizio Carfagna	Director	2017
*	Angelo Caso'	Director	2017
	Maurizio Costa	Director	2017
	Vanessa Labérenne	Director	2017
	Elisabetta Magistretti	Director	2017
	Alberto Pecci	Director	2017
*	Gian Luca Sichel	Director	2017
*	Alexandra Young	Director	2017

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Natale Freddi	Chairman	2017
Laura Gualtieri	Standing Auditor	2017
Gabriele Villa	Standing Auditor	2017
Alessandro Trotter	Alternate Auditor	2017
Barbara Negri	Alternate Auditor	2017
Silvia Olivotto	Alternate Auditor	2017

* * *

Massimo Bertolini	Head of Company Financial Reporting and Secretary to the Board of Directors

CONTENTS

Accounts of the Bank

CONSOLIDATED ACCOUNTS

REVIEW OF GROUP OPERATIONS

REVIEW OF GROUP OPERATIONS

The Mediobanca Group reported an increase of 24% in net profit to €750.2m, reflecting growth in earnings by all the Group's divisions, as reshaped following the three-year strategic plan unveiled in November 2016. The Corporate and Investment Banking division saw net profit rise from €222.8m to €253.9m, on lower loan loss provisions and boosted by Specialty Finance operations (from €16m to €21.6m). Consumer Banking delivered a net profit of €258.2m (30/6/16: €153.8m), due to the increase in net interest income (up 9.5%) and a substantial decrease in loan loss provisions (down 22.1%) due to the improved risk profile. The net profit posted by Wealth Management increased from €38m to €55m, as a result of the consolidation of Cairn Capital, Barclays Italy and the acquisition of the remaining 50% of Banca Esperia. The Principal Investing division's contribution increased from €373.2m to €422.1m, and is related to higher capital gains (up from €119.8m to €161.6m). Only the Holding Functions division reported a loss of €241.8m (30/6/16: loss of €189.3m) due to higher cash and liquid assets in a negative interest rate scenario which impacted on net interest expense (up from €33.3m to €76.3m).

The Group's outstanding performance is reflected in capital ratios at their highest levels since the introduction of CRR/CRDIV regulations: the CET1 ratio stood at 13.31%, and the total capital ratio at 16.85%.

The Group's risk-adjusted gross operating profit, including loan loss provision, rose by 16.2%, from €735.8m to €855.2m. Total revenues were up 7.3%, form €2,046.6m to €2,195.6m, despite the strong credit spread reduction and short-term interest rates remaining firmly in negative territory, with the main income items performing as follows:

– Net interest income rose by 6.7% from €1,206.7m to €1,287.8m, reflecting growth of 9.5% in Consumer Banking (from €746.9m to €818.1m) and of 31% in Wealth Management (from €186.4m to €244.1m largely due to the consolidation of the Barclays Italy business unit's operations for ten months) which more than offset the reduction in Holding Functions (net expense totalling €76.3m, compared with €33.3m last year) showing an improvement in the fourth quarter;

- Net treasury income fell from €133.1m to €121.3m driven by lower AFS dividends (€17m, as against €29.2m last year, as a result of the smaller portfolio) and a decrease in the contribution of CIB fixed-income trading (€48.9m, as against €64.7m last year);
- Net fee and commission income rose by 16.1% (from €450.1m to €522.6m) driven by the contribution of CheBanca! (up from €43.4m to €68.9m, including €22.5m contributed by the former Barclays business unit) Specialty Finance (up from €20m to €42.5m), Cairn Capital (up from €8.9m to €27.5m) and Banca Esperia (up 18m in the fourth quarter, consolidated line-by-line); Wholesale Banking remained stable at €207.4m, while Consumer Banking decreased slightly from €126.1m to €118.1m.
- The contribution from equity-accounted companies, virtually all of which is now attributable to Assicurazioni Generali only, increased from €256.7m to €263.9m.

Operating costs rose by 14.8%, from €891.9m to €1,023.7m, almost entirely related to new entities. On a like-for-like basis, the increase in overheads would have been 2.5%, most of which in labour costs.

Loan loss provisions fell by 24.4%, from €418.9m to €316.7m, reflecting a widespread improvement in the loan book risk profile, in Consumer Banking particularly (where provisioning declined from €354.4m to €276.2m) and Wholesale Banking (€15m in writebacks, as against writeoffs of €28.5m one year previously). The cost of risk therefore fell to 87 bps (124 bps), on higher coverage ratios: 54.6% for the non-performing assets and 1.1% for performing items.

Other provisions and charges of €101.9m (€104.3m) refer mainly to the €49.6m one-off contribution to the national Bank Resolution Fund (required as part of the measures to support Banca delle Marche, Banca Popolare dell'Etruria, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara); €25.3m by way of compulsory contribution to the European Single Bank Resolution Fund; a €13m contribution to the Deposit Guarantee Scheme (DGS) for 2016 and 2017 (six months); €24.9m in expenses to settle the yacht leasing tax disputes outstanding (fully covered by third parties' share plus €15m withdrawn from the Mediobanca S.p.A. provisions for risks); €19m in restructuring expenses (€14.9m of which in connection with the Banca Esperia acquisition and €2.7m in connection with SelmaBipiemme). The Barclays Italy acquisition generated net income of

€15.2m; taking into account the allocation of the badwill received in respect of the transaction (€240m), the fair value of assets and liabilities recognized during the PPA process (€98.3m), and the expenses incurred during the ten months due to restructuring and integration (€83.1m).

With the new strategic plan coming into force, the Group's operations are now structured into five separate divisions:

– *Corporate & Investment Banking* (CIB): this division brings together all services provided to corporate clients in the following areas: Wholesale Banking (lending, advisory, capital markets activity and proprietary trading); and Specialty Finance (factoring and credit management, including NPL portfolios);
– *Consumer Banking* (CB): this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass and Futuro);
– *Wealth Management* (WM): this division brings together all activities addressed to private clients and high net worth individuals (Compagnie Monégasque de Banque, Banca Esperia and Spafid) and asset management services provided to affluent & premier customers (CheBanca!); the division also includes Cairn Capital (Alternative AM);
– *Principal Investing* (PI): this division brings together the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali;
– *Holding Functions*: this division houses the Group's Treasury and ALM activities (which previously were included in the CIB division); it also includes all costs relating to Group staffing and management functions, most of which were also previously allocated to the Corporate Centre and CIB, and continues to include the leasing operations.

The five divisions' respective performances for the year under review were as follows:

Corporate and Investment Banking reported a net profit of €253.9m (30/6/16: €222.8m), on a 1.7% increase in revenues, a stable cost/income ratio, and lower loan loss provisions and writedowns to securities totalling €11m (compared with €34.5m last year). Both segments showed an improvement in profits: Wholesale Banking from €206.8m to €232.3m, and Specialty Finance from €16m to €21.6m.

Consumer Banking delivered an extraordinary increase in net profit from €153.8m to €258.2m, a record level, due to the combined effect of higher revenues (up 7.2%, from €873m to €936.2m), virtually unchanged costs, and lower loan loss provisions of €276.2m (€354.4m), the declining cost of risk reflecting the improved credit quality (down from 332 bps last year to 243 bps).

Wealth Management reported a net profit of €55m, higher than last year (€38m) due to the expanded area of consolidation: the higher total revenues of €459.5m (€334.1m) reflects the contributions of the Barclays' business unit (€83.8m), Cairn Capital's activities consolidated for twelve months, and Banca Esperia being fully consolidated in the fourth quarter as opposed to pro rata; as does the increase in costs, which amounted to €376.3m (€268.4m), €75.2m of which derived from Barclays. The result also includes €15.2m in income which arose from the Barclays' business unit acquisition, almost entirely offset by the Banca Esperia integration costs (€14.9m). CheBanca! reported a net profit of €26.9m (€8.5m), whereas private banking saw a decrease in net profit from €29.5m to €28.1m due to the restructuring costs referred to above.

Principal Investing reported an increase in net profit from €373.2m to €422.1m, mainly due to the higher contribution of Assicurazioni Generali (from €255m to €263.6m) and higher gain on the disposal of AFS securities (from €119.8m to €161.6m).

Holding Functions reported a loss of €241.8m (30/6/16: €189.3m), driven by higher treasury management costs reflected in net interest expense up from €33.3m to €76.3m and lower profits (€16.5m, as against €23.3m). Leasing operations showed a decrease in net profit to €3.1m (30/6/16: €4.6m), not including expenses relating to the tax litigation.

Total assets slightly grew from €69.8bn to €70.4bn. The individual asset headings reflect the following performances:

– Loans and advances to customers rose from €34.7bn to €38.2bn, due to the mortgage loans acquired from Barclays (€2.5bn), and Banca Esperia (€0.9bn), to the growth in Consumer Banking (up €755.1m) and Speciality Finance (up €770.1m, €686m of which from factoring) and the decrease in Wholesale Banking (down €1,414.1m);

– Funding increased from €46.7bn to €49.1bn, due to Barclays which added €2.9bn and Banca Esperia (€1.5bn), taking retail and private deposits to €13.4bn and €4.5bn respectively: together they now represent 36% of consolidated funding. The other forms of funding showed a slight decrease, although ECB deposits rose from €5bn to €5.9bn;

– Debt securities held as part of the banking book declined from €9.9bn to €8.4bn, offset by the increase in net treasury assets which climbed from €5.5bn to €7.3bn (€2.1bn of which ECB deposits);

– Assets under management in connection with Wealth Management activities, including retail funding, rose from €42.2bn to €59.9bn (with Banca Esperia now consolidated line-by-line); AUM/AUA climbed to €30bn, split between Private Banking (€22.9bn) and the Affluent & Premier segment (CheBanca!; €7.1bn).

The Group's capital ratios as at 30 June 2017, based on the phase-in regime and a proposed dividend of €0.37 per share, and taking into account the decline in RWAs, show a strong improvement. The Common Equity Ratio1 closed at 13.31% (up from 12.08%) and the Total Capital Ratio improved from 15.27% to 16.85%. Risk-weighted assets decreased from €53.9bn to €52.7bn, due to lower CIB volumes: the lower market risk component offset the growth by CheBanca!, Consumer Banking and Specialty Finance. The Assicurazoni Generali investment has been deducted as to approx. one-third of its book value, inter alia to comply with the concentration risk threshold. The fully-phased ratios (i.e. with full application of CRR – in particular the right to include the whole AFS reserve in the CET1 calculation – and the Assicurazioni Generali investment weighed at 370%) increased to 13.54% for the CET1 ratio and to 17.11% for the Total Capital ratio. Liquidity ratios remained well above the regulatory thresholds due to the substantial holdings of liquid assets which, as mentioned previously, impacted on the Holding Functions division's performance.

* * *

Significant events that took place during the twelve months include:

– CheBanca! completed its acquisition of Barclays' Italian retail operations on 26 August 2016. The acquisition involved 85 branches, 564 commercial retail staff, 68 financial advisors, 220,000 customers, €0.4bn in liquid assets, €2.5bn in residential mortgages (with no bad loans), €2.9bn in direct funding and €2.8bn in indirect funding, €2bn of which in assets under management. Under the terms of the deal, Barclays paid CheBanca! €240m in respect of the business unit with balanced assets and liabilities. This amount has been subject to purchase price allocation as required by

IFRS 3. Following this process, an initial fair value has been assigned to the assets and liabilities of minus €61.7m (including €26m of intangible assets in the form of indirect funding), potential liabilities of €59m (in connection with the restructuring process), and provisions in respect of mortgage loans totalling €21m, roughly half of which in respect of non-performing loans. The bargain purchase income totalled €98.3m, €83.1m of which was taken up by one-off costs incurred in connection with the process of integrating the former Barclays network into the CheBanca! platform. The overall benefit of the transaction booked to the profit and loss account therefore comes to €15.2m (€11.7m net of taxation);

– Approval of the 2016/19 strategic plan guidelines, which confirmed the Group's reshaping towards an even more sustainable, diversified and valuable business model, able to generate high income and capital, while matching outstanding balance-sheet content with efficiency. Growth in banking businesses is expected to derive from leveraging on strengths and opportunities in Corporate and Investment Banking and Consumer Banking, and from development of the new Wealth Management platform. Capital generation is expected to derive from growth in earnings, but also from optimizing the management processes, reducing the equity investments (AFS and the Assicurazioni Generali stake), and validation of the advanced models (AIRB) applied to the Large Corporate (CIB), Consumer Banking (Compass and Futuro) and Mortgage lending (CheBanca!) portfolios. For the period-end (30 June 2019) the Group has set the following objectives:

  – GOP (net of cost of risk): €1bn, 3Y CAGR +10%;

  – ROTE[1]: 10%

  – ROAC[2] of banking businesses: 12%, with cost of risk at 105 bps;

– On 4 April 2017, once all necessary authorizations had been received, the acquisition of the 50% of Banca Esperia not already owned was completed from the Mediolanum Group for a consideration of €141m. Banca Esperia was thus consolidated line-by-line for the fourth quarter of the financial year under review. The merger of Banca Esperia into Mediobanca S.p.A. should be complete by the end of 1H FY 2017/18, having been approved by the Board of Directors at a meeting held on 10 May 2017. The acquisition forms part of the Group's strategy to grow its presence in the private (WM) and mid-

[1] ROTE: net profit/average tangible common equity (KT). KT= shareholders' equity less goodwill less identifiable tangible assets.

[2] ROAC: net profit/capital allocated (K). K= 9% * RWAs.

cap (CIB) segments, which represent two of the main pillars of the new plan. Integration of Banca Esperia will enable the Mediobanca Group to achieve significant cost synergies and reshape its private banking service offering in Italy through the new Mediobanca Private Banking brand. Its platform for services to mid-corporate clients and the Group's asset management product factory will also be empowered as a result of the acquisition;

– The ECB's decision on 8 December 2016, following the outcome of the SREP 2016 process, to set the minimum phase-in CET1 ratio to be complied with at the consolidated level at 7%, and the total capital ratio at 10.5%. These ratios are assisted by the phase-in regime for the capital conservation buffer, and even though they increase to 8.25% and 11.75% respectively fully-phased, they are still much lower than last year (CET1 ratio limit: 150 bps lower phase-in, 50 bps lower fully-phased). The ECB's decision also reflects the results of the stress tests, which confirmed the Group's solidity even in stressed conditions. In the adverse scenario, in 2018 the impact on CET1 is just 94 basis points, one of the lowest levels recorded by any EU bank;

– Disposal of a 1.35% stake in Atlantia and of 5.1% in Koening & Bauer; the Group has also tendered its 2.8% investment in Italmobiliare under the terms of the recent IPO:

– The range of Spafid's IT services has been expanded through the acquisition of the Information Services Professional Solutions (ISPS) division previously owned by Borsa Italiana (one of the leading providers of financial data for the Italian market); the factoring businesses have also been spun off into MB Facta, thus leaving NPLs acquisition and management activities in Creditech (which has changed its name to MBCredit Solutions);

– The partial buyback of two subordinated bond issues, completed in an amount of €218.4m, with a view to optimize the Group's liabilities management and liquidity position;

– In April 2017, ratings agency Fitch lowered the Bank's long-term rating from BBB+ to BBB, keeping the short-term rating unchanged at F2. This decision reflects the downgrade to the republic of Italy's long-term rating, from BBB+ to BBB, which took place at the same time. Both Mediobanca's short-term and long-term ratings are thus aligned with the sovereign ratings. S&P, meanwhile, kept its rating unchanged at the BBB- level, with stable outlook.

Developments in capital markets

Recourse by companies to the Italian capital market showed a recovery during the twelve months ended 30 June 2017, climbing €7.6bn to record the highest level seen since 2009/10 (€14bn, over nine-tenths of which was due to a capital increase implemented by a leading banking group). Conversely, the value of public tender offers reduced sharply during the year, from €6.4bn to €2.2bn, with dividends up from €15.7bn to €18.4bn. The net outflow of funds to companies, while down sharply at €6.6bn (€15.8bn), still brings the aggregate total for the past ten years to €81bn, which is one-sixth the stock market capitalization (16%) at end-June2017:

(€m)

	12 mths to 30/6/15		12 mths to 30/6/16		12 mths to 30/6/17	
Issues and placements of:°						
convertible ordinary and savings shares		7,938		8,122		14,806
non-convertible preference and savings shares		—		—		—
convertible and cum warrant bonds		—		—		—
Total		**7,938**		**8,122**		**14,807**
*of which, for rights issues:**						
par value	*3,890*		*2,823*		*457*	
share premium	*1,098*	*4,988*	*1,860*	*4,683*	*13,020*	*13,477*
Dividends distributed		14,899		15,722		18,405
Public tender offers		549		6,435		2,198
Balance		**(7,510)**		**(14,035)**		**(5,796)**

° Excluding placements exclusively addressed to professional investors.
* Excluding IPOs and other public offers (none were implemented during the years shown in the table), offers restricted to employees, and offers without option rights.

Fund-raising has once again been carried out primarily by banks (this has been the case in seven out of the last eight years), which accounted for 99% of the rights issues, with share premiums near their highest-ever levels (up from 40% to 97%). Public tender offers declined sharply, totalling just €386m, the lowest amount in the past four years, compared with €1,664m last year. Issues reserved to employees, generally as part of stock option schemes, totalled €114m, an improvement on the €48m reported in 2015/16 but still modest; the number of companies involved in such issues declined further, from eight to eleven. The most recent convertible bond issues for significant amounts date back to 2010/11.

Dividends increased for the third year running, up 16%, from €15.7bn to €18.4bn, the highest amount in the last nine years, with the payout ratio up slightly, from 51% to 53%. The increase was driven in particular by the industrial groups (up €2.2bn), while the increase in dividends paid by banks totalled €0.5bn and those paid by the insurances were stable. The industrial companies' share of the total dividends distributed rose from 62.2% to 65.2%, with the insurances' share falling from 14.7% to 12.5% and the banks' share falling from 23.1% to 22.3%. Some 43% of listed companies failed to pay dividends, although in the aggregate such companies account for barely 13% of the total market capitalization (compared with 7% last year). Public tender offers resulted in two companies being delisted (compared with four last year).

The net 2016 aggregate results posted by Italian companies listed at end-June 2017 reflect combined earnings of €1.2bn, compared with €10.7bn in 2015. The benefit deriving from the strong recovery in profits earned by the industrial companies (up from €1.2bn to €12.1bn, at a ROE of 6.3%), was more than offset by the substantial reductions posted by the banking groups (net profits down €13.5bn, compared with a €7bn increase the previous year), while the insurance companies consolidated the previous twelve months' results (net profit up from €2.4bn to €2.6bn).

The contributing factors in the banks' performance included the reduction in net revenues (down €3.7bn) the increases in labour costs (up €1.2bn) and depreciation and amortization charges (up €0.5bn), a €13.2bn rise in loan loss provisioning, and extraordinary gains down €2.6bn), with the cumulative negative effects being mitigated only slightly by the lower tax charges (down €0.7bn). In 2016, the 10.1% reduction in regulatory capital, albeit offset to some degree by a 2.3% decrease in risk-weighted assets, drove a deterioration in the total capital ratio, from 15.1% to 13.9%. Leverage, expressed in terms of the ratio between total assets and tangible net equity (excluding the so-called Tremonti bonds) in turn increased from 17.2x to 19.2x (compared with an average for the leading European banking groups of approx. 20.2x (versus 19.8x the previous year).

The insurance companies' profits for 2016 improved from €2.4bn to €2.6bn (ROE up from 8.3% to 8.7%). The reduction in claims-related expenses (down €3bn), the €0.5bn decrease in the tax burden, the lower share attributable to minorities (down €0.2bn) and falling operating costs (down €0.1bn) were almost entirely offset by the €3.1bn decline in underwriting income and the deterioration in net sundry insurance business (down €0.5bn).

Industrial groups posted a marked recovery in operating profit, from €1.2bn to €12.1bn, with ROE up from 0.6% to 6.2%. The sharp, €8.1bn reduction in writedowns, against stronger sundry net income (up €3.8bn), and helped by lower depreciation charges (down €0.8bn), net interest expense (down €0.3bn), and tax (down €0.3bn), were only marginally offset by the €1.1bn decline in value added, lower net gains on disposals (down €1.1bn) and an increase in the share attributable to minorities (up €0.4bn).

The profits earned by the companies included in the STAR segment increased further, from €1.2bn to €1.4bn (ROE up from 9.4% to 10.4%). The industrial companies' aggregate net equity showed a slight, 3% increase, which, along with the 2% reduction in borrowings, led to a lower debt/equity ratio than in 2015, at 93% (94%).

The Mediobanca share price index showed a strong recovery during the twelve months, gaining 27% (31% in the total return version), driven in particular by banks (which put on 60%), with the industrials also recording gains of 15%, albeit below the market average; while the increase in stock market prices reported by the insurance companies was around 36%. The average daily value of stocks traded on the MTA in the twelve months ended 30 June 2017 showed an approx. 12% reduction on the previous year, down from €2.8bn to €2.4bn per session. The free float reached an all-time high of 62% (59%), while the turnover ratio, which declined from 16% to 15%, recorded the lowest levels seen since 2002/03, with the volatility ratio down from 2.2% in 2015/16 to 1.9%. Share prices have continued to rise since the balance-sheet date, putting on 3.5% in the days and weeks to 4 September 2017.

In the twelve months ended 1 April 2017, the recovery in share prices which affected all western markets was reflected in the changes recorded in the dividend yields and also in the price/earnings ratios. The two ratios generally showed reductions:

	Price/dividend (%)		Price/earnings (%)	
	2015	2016	2015	2016
Benelux**	3.1	2.8	4.6	4.6
France*	2.7	2.6	5.2	4.8
Germany*	2.1	2.1	5.0	4.7
Italy*	3.3	3.1	5.5	5.4
United Kingdom*	3.1	2.9	4.6	4.3
United States*	2.6	2.3	4.6	4.9
Switzerland (**)	3.4	3.2	4.1	4.1

* Top 50 profitable, dividend-paying companies by market capitalization.

** Top 20 profitable, dividend-paying companies by market capitalization.

NB: Median indicators based on share prices at 31 March 2017 The changes in prices on the principal stock markets between 1 April 2016 and 31 March 2017 were as follows (indexes used are in brackets): Italy up 9.1% (Mediobanca MTA), Switzerland up 12.3% (SMI), Netherlands up 18.2% (AEX), Germany up 20.1% (CDAX), United States up 13.8% (S&P 500), Belgium up 10% (BAS), France up 17.8% (SBF 250), United Kingdom up 17.5% (FTSE All-Share).

Assets managed by mutual funds incorporated under Italian law (including funds of funds, closed and hedge funds) continued their increase in AUM, rising to €248.3bn in June 2017 compared with €231.5bn at end-June 2016, on net inflows of €12.3bn and an operating profit of €4.5bn for the twelve months. Roundtrip funds continue to see their assets increase, and like the Italian UCITS, were helped by subscriptions outweighing redemptions by an amount in the region of €24.8bn, plus a €12.1bn increase in operating profit. As at end-2017 assets managed by such funds had risen in the twelve months from €330.9bn to €367.8bn.

The aggregate market capitalization of listed companies at 30 June 2017 totalled €514bn compared with 407bn twelve months previously, with the free float increasing from €241 to €320bn); the €107bn increase, net of rights issues and changes to the stock market composition, is due largely to changes in market prices.

* * *

The Italian consumer credit market, as observed by Assofin during 2016, reported steep growth of 16.3% compared to last year, for a total amount of €60.6bn in new finance.

This upward trend continued in the first six months of 2017, albeit at a slower rate than last year, of 10.8%. The main factors driving this positive performance for the market were Italian households' higher spending capacity and increasingly relaxed supply policies.

The aggregate data for the individual segments in 2017 show that the positive performance was the result of a 19.6% increase in vehicle credit (cars and motorbikes especially) and a 16.3% increase in personal loans; salary-backed finance grew at a slower rate, of 4.1%, as did credit cards (by 6.2%). Conversely, other specific purpose loans were down 9.7%.

	2014		2015		2016		1H 2017	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	10,047	21.6	11,805	22.6	13,687	22.6	5,096	16.6
Personal loans	15,280	32.8	17,570	33.6	20,137	33.2	12,238	40.0
Specific purpose loans	3,571	7.7	3,931	7.5	4,075	6.7	1,797	5.9
Credit cards	13,463	28.8	14,474	27.7	17,472	28.8	8,942	29.2
Salary-backed finance	4,226	9.1	4,484	8.6	5,221	8.6	2,552	8.3
	46,587	100.0	52,264	100.0	60,592	100.0	30,624	100.0

Source: Assofin.

The Italian residential real estate market, after the substantial, 18% increase recorded in 2016, saw this positive trend continue in the first quarter of 2017, with the number of properties sold up 8.6% year-on-year. Similarly, the domestic residential mortgages market showed a total volume of €49bn and a growth rate of 20%, and here too the positive trend continued in the first quarter of 2017 as well (up 8% on the corresponding period of 2016).

The Italian leasing market in 2016 saw the positive trend recorded in 2015 continue. In particular, 487,000 new contracts were executed, an increase of 31.1%, for a total value of €20.7bn, up 20.9% on 2015. In the first six months of 2017 the market continued to grow, with more than 206,000 contracts and €9.6bn financed, representing growth of 6% in terms of quantity and 9% in terms of value.

New loans	**2013**		**2014**		**2015**		**2016**		**1H 2017**	
	(€m)	**%**	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**
Vehicles	4,568	31.7	5,310	33.3	6,256	36.6	8,920	43.1	3,600	37.5
Core goods	6,741	46.7	6,381	40.0	6,660	38.9	7,635	36.9	3,808	39.6
Property	2,939	20.4	4,064	25.5	3,874	22.6	3,807	18.4	1,916	19.9
Yachts	179	1.2	207	1.3	322	1.9	328	1.6	282	2.9
	14,427	100.0	15,962	100.0	17,112	100.0	20,690	100.0	9,606	100.0

Source: Assilea.

Consolidated financial statements*

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. The results are also presented in the format recommended by the Bank of Italy as an annex.

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	1,206.7	1,287.8	6.7
Treasury income	133.1	121.3	-8.9
Net fee and commission income	450.1	522.6	16.1
Equity-accounted compsanies	256.7	263.9	2.8
Total income	**2,046.6**	**2,195.6**	**7.3**
Labour costs	(440.8)	(516.0)	17.1
Administrative expenses	(451.1)	(507.7)	12.5
Operating costs	**(891.9)**	**(1,023.7)**	**14.8**
Gain (losses) on AFS, HTM and L&R	124.2	168.6	35.7
Loan loss provision	(418.9)	(316.7)	-24.4
Provision for other financial assets	(19.4)	(7.9)	-59.3
Other profits (losses)	(104.3)	(101.9)	-2.3
Profit before tax	**736.3**	**914.0**	**24.1**
Income tax for the period	(128.7)	(171.7)	33.4
Minority interests	(3.1)	7.9	n.m.
Net profit	**604.5**	**750.2**	**24.1**
Gross operating profit from banking activities	**457.5**	**586.6**	**28.2**

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

CONSOLIDATED BALANCE-SHEET

(€m)

	30/6/16	30/6/17
Assets		
Financial assets held for trading	9,505.3	7,833.9
Treasury financial assets	8,407.9	9,435.1
AFS equity	914.3	786.1
Banking book securities	9,890.3	8,357.7
Loans and advances to customers	34,738.7	38,190.9
Equity investments	3,193.3	3,036.5
Tangiible and intangible assets	757.8	857.8
Other assets	2,411.0	1,947.5
Total assets	**69,818.6**	**70,445.5**
Liabilities and net equity		
Funding	46,658.4	49,120.6
Treasury funding	5,254.7	4,037.2
Financial liabilities held for trading	7,141.5	5,920.6
Other liabilities	1,661.9	1,919.9
Provisions	180.3	255.6
Net equity	8,228.1	8,358.7
Minority interests	89.2	82.7
Profit for the period	604.5	750.2
Total liabilities and net equity	**69,818.6**	**70,445.5**
Tier 1 capital	*6,504.8*	*7,017.3*
Regulatory capital	*8,227.2*	*8,879.0*
Risk-weighted assets	*53,861.6*	*52,708.2*
Tier 1 capital/risk-weighted assetts	*12.08%*	*13.31%*
Regulatory capital/risk-weighted assets	*15.27%*	*16.85%*
No. of shares in issue (million)	*871.0*	*881.2*

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

(€m)

30/6/17	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	292.6	818.1	244.1	(7.1)	(76.3)	1,287.8
Treasury income	93.4	—	12.3	16.7	3.3	121.3
Net fee and commission income	249.9	118.1	203.1	—	16.5	522.6
Equity-accounted companies	—	—	—	263.6	—	263.9
Total income	**635.9**	**936.2**	**459.5**	**273.2**	**(56.5)**	**2,195.6**
Labour costs	(135.5)	(93.9)	(187.0)	(3.8)	(113.8)	(516.0)
Administrative expenses	(111.9)	(186.0)	(189.3)	(0.8)	(52.4)	(507.7)
Operating costs	**(247.4)**	**(279.9)**	**(376.3)**	**(4.6)**	**(166.2)**	**(1,023.7)**
Gains (losses) on AFS, HTM and L&R	—	—	7.6	161.6	—	168.6
Net loss provisions	(11.0)	(276.2)	(22.0)	(0.9)	(16.0)	(324.6)
Other profits (losses)	—	—	(2.0)	—	(103.0)	(101.9)
Profit before tax	**377.5**	**380.1**	**66.8**	**429.3**	**(341.7)**	**914.0**
Income tax for the period	(123.6)	(121.9)	(11.8)	(7.2)	92.0	(171.7)
Minority interest	—	—	—	—	7.9	7.9
Net profit	**253.9**	**258.2**	**55.0**	**422.1**	**(241.8)**	**750.2**
Cost/Income (%)	*38.9*	*29.9*	*81.9*	*1.7*	*n.m.*	*46.6*
Balance-sheet data						
Loans and advances to customers	14,481.0	11,750.3	9,686.1	—	2,273.5	38,190.9
Risk-weighted assets	23,104.2	11,782.7	5,790.6	7,714.9	4,315.8	52,708.2
No. of staff	590	1,405	2,023	11	769	4,798

Notes:
1) Divisions comprise:
- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
- Wholesale Banking, Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey);
- Specialty Finance, comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech);
- Consumer Banking (CB): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE);
- Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
- Affluent & Premier, addressed by CheBanca!;
- Private & High Net Worth Individuals, addressed in Italy by Banca Esperia and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque; this division also comprises the alternative AM product factory and in particular Cairn Capital);
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment).

2) Sum of divisional data differs from Group total due to:
- The pro-rata consolidation (50%) of Banca Esperia, instead of the equity-method consolidation, for the first nine months of FY 2016/17;
- Adjustments/differences arising on consolidation between business areas (equal to €2.8m).

(€m)

30/6/16	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	300.9	746.9	186.4	—	(33.3)	1,206.7
Treasury income	96.2	—	13.1	29.2	3.5	133.1
Net fee and commission income	227.9	126.1	134.6	—	23.3	450.1
Equity-accounted companies	—	—	—	255.0	—	256.7
Total income	**625.0**	**873.0**	**334.1**	**284.2**	**(6.5)**	**2,046.6**
Labour costs	(134.4)	(88.5)	(128.1)	(4.5)	(106.5)	(440.8)
Administrative expenses	(105.4)	(185.5)	(140.3)	(1.4)	(55.7)	(451.1)
Operating costs	**(239.8)**	**(274.0)**	**(268.4)**	**(5.9)**	**(162.2)**	**(891.9)**
Gains (losses) on AFS, HTM and L&R	—	—	4.5	119.8	—	124.2
Net loss provisions	(34.5)	(354.4)	(16.9)	(17.9)	(14.8)	(438.3)
Other profits (losses)	(2.5)	(5.6)	(5.4)	—	(92.3)	(104.3)
Profit before tax	**348.2**	**239.0**	**47.9**	**380.2**	**(275.8)**	**736.3**
Income tax for the period	(125.4)	(85.2)	(9.9)	(7.0)	89.6	(128.7)
Minority interest	—	—	—	—	(3.1)	(3.1)
Net profit	**222.8**	**153.8**	**38.0**	**373.2**	**(189.3)**	**604.5**
Cost/Income (%)	*38.4*	*31.4*	*80.3*	*2.1*	*n.m.*	*43.6*
Balance-sheet data						
Loans and advances to customers	15,125.1	10,995.2	6,607.5	—	2,494.5	34,738.7
Risk-weighted assets	27,229.7	11,248.4	4,356.1	6,756.3	4,271.1	53,861.6
No. of staff	579	1,401	1,432*	11	752	4,036

(*) Includes 139 staff employed by Banca Esperia on a pro-forma basis, not included in the Group total.

Balance Sheet

The Group's total assets increased from €69.8bn to €70.4bn. The main balance-sheets items, to which Mediobanca S.p.A. contributes slightly more than 50%, showed the following trends for the twelve months under review (comparative data as at 30 June 2016).

Funding – this item rose from €46.7bn to €49.1bn, due chiefly to the consolidation of the former Barclays operations (€2.9bn) and Banca Esperia (€1.5bn). During the period, new issuances totalled approx. €3bn, €350m of which in subordinated instruments, while buybacks and redemptions totalled €4.2bn (including €218.4m as a result of the partial buyback of two different subordinated tier 2 tranches); this item also includes bonds issued by Banca Esperia (€170m). Other movements and changes include a decrease in interbank funds which were down €1.2bn, offset by higher recourse to ECB funding (up €0.9bn, including €250m by Banca Esperia).

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	20,310.7	44%	19,301.5	39%	-5.0%
CheBanca retail funding	10,724.1	23%	13,353.3	27%	24.5%
Private Banking deposits	3,002.8	6%	4,482.0	9%	49.3%
Interbank funding (+CD/CP)	5,542.3	12%	4,301.0	9%	-22.4%
T-LTRO	5,011.0	11%	5,854.1	12%	16.8%
Other funding	2,067.5	4%	1,828.7	4%	-11.6%
Total funding	**46,658.4**	**100%**	**49,120.6**	**100%**	**5.3%**

Loans and advances to customers – the 9.9% growth in this item chiefly involves: the addition of the former Barclays mortgage receivables (€2.5bn), loans and advances contributed by Banca Esperia (€943.5m), and the growth in lending in the Consumer Banking and Specialty Finance segments (of €755.1m and €770.1m respectively, the latter in factoring business in particular). Conversely, Wholesale Banking loans and advances decreased from €14.3bn to €12.8bn, due to stricter rules and parameters in granting new loans and repayments in advance (more than €2.6bn). During the twelve months, new loans in Consumer Banking were up 7.1%, from €6,197.8m to €6,638.1m, while turnover in the Specialty business more than doubled, from €1,915m to €3,818m, with new mortgage loans up 15.5% (from €1,074.1m to €1,240.9m). The Wholesale portfolio reflects new loans of €4,536.9m, on redemptions totalling €5,917.4m (€2,615m of which were early). Net NPLs remained at very low levels, accounting for just 2.5% (2.7%) of the total loan book, with the coverage ratio increasing slightly (from 54.3% to 54.6%). The increase in non-performing mortgages (from €148.5m to €180.6m) is principally due to the addition of Barclays (€26.9m of overdue and unlikely-to-pay exposures). Net bad loans generated by the Group's activity decreased to €156.8m (from €184.6m) and represent 0.41% (0.53%) of the total loan book. The increase is due to the NPLs portfolios acquired by MBCredit Solutions, which during the period increased from €70.5m to €134.8m.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Wholesale Banking	14,254.1	41%	12,840.0	33%	-9.9%
Specialty Finance	871.0	3%	1,641.0	4%	88.4%
Consumer Banking	10,995.2	32%	11,750.3	31%	6.9%
Real estate mortgages	5,051.3	15%	7,513.2	20%	48.7%
- of which: Barclays	*n.m.*	*n.m.*	*2,459.6*	*6%*	*n.m.*
Private Banking	1,072.6	3%	2,172.9	6%	n.m.
- of which: Banca Esperia	*n.m.*	*n.m.*	*943.5*	*2%*	*n.m.*
Leasing	2,494.5	6%	2,273.5	6%	-8.9%
Total loans and advances to customers	**34,738.7**	**100%**	**38,190.9**	**100%**	**9.9%**

	30/6/16		30/6/17		Chg.
	(€m)	coverage ratio %	(€m)	coverage ratio %	
Wholesale Banking	379.0	49.9%	372.5	50.0%	-1.7%
Specialty Finance	10.1	64.5%	14.4	67.5%	42.4%
Consumer Banking	175.7	72.8%	189.6	71.2%	7.9%
Real estate mortgages	148.5	49.2%	180.6	47.8%	21.6%
Private Banking	2.8	50.9%	14.4	35.6%	n.m.
Leasing	230.1	32.1%	169.0	33.8%	-26.6%
Total net non performing loans	**946.2**	**54.3%**	**940.5**	**54.6%**	**-0.6%**
– of which: bad loans	*184.6*		*156.8*		*-15.0%*

Equity investments – these decreased from €3,193.3m to €3,036,5m, due to changes in the accounting scope (down €62.5m) and the lower book value of the Assicurazioni Generali investment (down €94.3m), now carried at €2.997,5m (compared to a market value of €2,921.1m at end-June, or €3,032.6m based on current prices). Movements for the period include earnings of €263.6m, adjusted for the dividend received (€162.2m), and lower valuation reserves (down €179.2m).

The changes in the account scope involved the exit of Athena Private Equity (€2.6m, after the Group received €2.3m) and Banca Esperia (following the acquisition of the 50% not previously owned; its fair value at the acquisition date was €92.9m, equal to the book value as at 31 March 2017) and the addition of the Istituto Europeo di Oncologia investment (with a book value of €39m), following the increase in the stake from 14.8% to 25.37% (after buying out other investors' interests).

	% share capital	30/6/16	30/6/17
Assicurazioni Generali	13.0	3,091.8	2,997.5
Banca Esperia *	—	96.7	—
Burgo Group	22.13	—	—
Athena Private Equity (in liquidation)	—	4.8	—
Istituto Europeo di Oncologia	25.37	—	39.0
Total investments		**3,193.3**	**3,036.5**

* Fully consolidated starting from this accounting period.

Banking book securities – these consist of the debt securities held as part of the portfolios (AFS, HTM and unlisted securities), and reflect a combined value of €8.4bn, 15.5% lower than the €9.9bn reported at 30 June 2016. During the period under review there were redemptions amounting to €3.3bn, most of which (€3bn) was reinvested, and sales totalling €1.4bn (generating gains of €16m, less €8.2m due to forex variations). The Italian government securities portfolio decreased from €5.1bn to €3.3bn, and now represents 40% of the total.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
AFS securities	7,725.1	78%	5,606.6	67%	-27.4%
Financial assets held to maturity	1,975.4	20%	2,400.2	29%	21.5%
Unlisted debt securities (stated at cost)	189.8	2%	350.9	4%	84.9%
Total banking book securities	**9,890.3**	**100%**	**8,357.7**	**100%**	**-15.5%**

	30/6/16			30/6/17			Chg.
	Book Value	%	AFS reserve	Book Value	%	AFS reserve	
Italian government bonds	5,091.1	51%	89.8	3,319.0	40%	63.3	-34.8%
Foreign government bonds	1,982.7	20%	16.1	2,284.2	27%	16.7	15.2%
Bonds issued by financial institutions	1,656.6	17%	35.2	1,862.1	22%	39.9	12.4%
- of which: Italian	*1,021.1*	*10%*	*23.2*	*1,053.3*	*13%*	*25.6*	*3.2%*
Corporate bonds	1,159.9	12%	25.1	892.4	11%	27.7	-23.1%
Total debt securities	**9,890.3**	**100%**	**166.2**	**8.357.7**	**100%**	**147.6**	**-15.5%**

The valuation reserve decreased from €166.2m to €147.6m, in part due to realized positions (€34.6m); the reserve also reflects unrealized gains on fixed financial assets totalling €86.5m (30/6/16: €100m).

AFS securities – this portfolio brings together the Group's holdings in equities and investments in funds, including in those promoted by the Group itself (seed capital).

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Equities	859.2	94%	666.9	85%	-22.4%
Others	55.1	6%	119.2	15%	n.m.
Total AFS securities	**914.3**	**100%**	**786.1**	**100%**	**-14.0%**

The item declined from €914.3m to €786.1m, despite the funds held by Banca Esperia (€78.4m), due to sales of shares totalling €337.2m, in particular half the Atlantia investment (disposal of €261m, generating a gain of €110.4m), 5.1% of Koening & Bauer (€39m disposal generating a €28m gain), and 2.8% of Italmobiliare in acceptance of the recent market transaction (€33m disposal generating a €22.2m gain). Fund investment activity grew by €15.7m, representing the balance between investments of €66.6m (€50.6m in funds managed by Cairn Capital), and redemptions totalling €50.9m (yielding gains of €7m), €17.7m of which redeemed directly by Compagnie Monégasque de Banque.

The stake in Cassa di Risparmio di Cesena should also be noted, which involved a total outlay of €4.3bn and written down as to €2.2bn at the year-end, as a result of participating voluntarily in the Deposit Guarantee Scheme.

	30/6/16			30/6/17		
	Book Value	%	AFS reserve	Book Value	%	AFS reserve
Atlantia	500.4	2.7	198.4	275.6	1.4	124.6
Italmobiliare	66.5	9.5	31.9	69.2	6.1	45.4
RCS MediaGroup	26.2	6.2	6.0	41.8	6.55	20.1
Koening & Bauer	*38.4*	*5.1*	*27.3*	—	—	—
Other listed shares	9.8	—	0.4	12.7	—	5.0
Other unlisted shares	217.9	—	29.1	267.6	—	50.8
Total AFS shares	**859.2**		**293.1**	**666.9**		**245.9**
Other AFS	55.1	—	1.3	119.2	—	0.8
Total AFS	**914.3**		**294.4**	**786.1**		**246.7**

The valuation reserve for equity shares and funds decreased from €294.4m to €246.7m, as a result of sales (€144m) and increases in value (€96.2bn). Writedowns for the period totalled €3.2m.

Net treasury assets – the difference between financial instruments held for trading and treasury assets and liabilities was €7,311.2m, far higher than the €5,517m reported last year, chiefly due to the higher liquid asset balances held with the ECB (€1,259.5m). Equities totalled €1,702.5m (€1,528.1m), more than 80% of which hedged by derivative contracts, liquid assets totalling €2,368m, other net deposits (including repurchase agreements and repos) of €3,030m (€2,356.7m), and debt securities of €579.4m (€1,192.2m)

(€m)

	30/6/16	30/6/17	Chg.
Financial assets held for trading	9,505.3	7,833.9	-18%
Treasury funds	8,407.9	9,435.1	12%
Financial liabilities held for trading	(7,141.5)	(5,920.6)	-17%
Treasury funding	(5,254.7)	(4,037.2)	-23%
Total	**5,517.0**	**7,311.2**	**33%**

(€m)

	30/6/16	30/6/17	Chg.
Loan trading	15.2	69.6	n.m.
Derivative contract valuations	(371.7)	(438.1)	18%
Equities	1.528.1	1,702.5	11%
Bonds securities	1.192.2	579.4	-51%
Financial instruments held for trading	**2,363.8**	**1,913.4**	**-19%**

(€m)

	30/6/16	30/6/17	Chg.
Cash and banks	796.5	2,368.0	n.m.
Assets PCT&PT	1,147.1	1,535.5	34%
Financial assets deposits	648.6	457.0	-30%
Stock Lending	560.9	1,037.3	85%
Net treasury assets	**3,153.1**	**5,397.8**	**71%**

(€m)

	30/6/16		30/6/17		Chg.
	Book Value	%	Book Value	%	
Italian government bonds	36.9	3%	138.1	24%	n.m.
Germany government bonds	160.4	14%	(40.6)	-7%	n.m.
Other government bonds	(84.3)	-7%	(259.7)	-45%	n.m.
Bonds issued by financial institutions	885.1	74%	624.1	108%	-29%
- of which: Italian	*374.1*	*31%*	*392.2*	*68%*	*5%*
Corporate bonds	194.1	16%	117.5	20%	-39%
Total debt securities	**1,192.2**	**100%**	**579.4**	**100%**	**-51%**

Tangible and intangible assets – the increase in this item, from €757.8m to €857.8m, is principally due to the increase in goodwill (up €69.5m) and other intangible assets (up €26.5m), following the acquisitions completed during the period (mainly Banca Esperia and the ISPS[1] and former Credit Agricole[2] divisions).

(€k)

Operazione	30/6/16	30/6/17
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	—	3,831
Cairn Capital	44,924	42,225
Banca Esperia *	—	59,061
CMB-former Credit Agricole *	—	6,624
Total goodwill	**416,740**	**483,557**

[1] Business acquired by Spafid Connect from the London Stock Exchange Group which provides financial services.

[2] Acquisition by Compagnie Monégasque de Banque of a business unit previously owned by CFM Indosuez Wealth (Monaco-based, wholly-owned subsidiary of the Crédit Agricole group), mainly consisting of accounts outstanding with a group of clients resident primarily in French-speaking Africa countries and Latin America.

* For the former Credit Agricole transaction and the Banca Esperia acquisition, the PPA process has been started, and as required by IFRS 3, will be completed within twelve months of the acquisition date.

(€k)

Description	Deal	30/6/16	30/6/17
Customer relationship		600	25,884
	IFID	*600*	*408*
	Spafid	—	*699*
	ISPS	—	*3,129*
	Barclays	—	*21,648*
Brand	ISPS	—	983
Commercial agreements	Linea	2,740	1,370
Purchased software	Spafid Connect	3,088	5,077
Total intangible assets from PPA		**6,428**	**33,314**

All items passed the impairment test successfully.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Land and properties	262.9	35%	268.0	31%	1.9%
- of which: core	*192.2*	*25%*	*188.7*	*22%*	*-1.8%*
Other tangible assets	41.9	6%	37.5	4%	-10.5%
Goodwill	416.7	55%	483.6	57%	16.1%
Other intangible assets	36.3	4%	68.7	8%	89.3%
Total tangible and intangible assets	**757.8**	**100%**	**857.8**	**100%**	**13.2%**

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

30/6/17

	Squ. M	Book value (€m)	Book value per squ. M (€m)
Milan:			
– Piazzetta Enrico Cuccia n. 1	6,874	15.3	2.2
– Via Filodrammatici n. 3, 5, 7 - Piazzetta Bossi n. 1	11,093	58.6	5.3
– Piazza Paolo Ferrari n. 6	1,967	5.5	2.8
– Foro Buonaparte n. 10	3,918	8.5	2.2
– Via Siusi n. 1-7	22,608	26.5	1.2
Rome *	1,790	8.3	4.6
Vicenza	4,239	5.2	1.2
Luxembourg	442	4.0	9.0
Principato di Monaco	4,576	56.1	12.3
Other minor properties	2,950	0.7	0.2
	60,457	**188.7**	

* The Piazza di Spagna property, carried at a book value of €25.5m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties increased from €70.7m to €79.3m, principally due to PPEs acquired by SelmaBPM during the workout activity (real estate leasing). During the period, nine new tangible assets rented to third-parties were added (€11m), one sale took place (in an amount of €0.7m), and improvements were made totalling €0.2m. Depreciation and amortization charges totalled €1.9m.

Provisions – these increased from €180.3m to €255.6m, chiefly due to provisions of €97.7m set aside for restructuring and reorganization of Barclays (€82.1m), Banca Esperia (€12.2m) and SelmaBipiemme (€2.7m). Withdrawals for the period totalled €39.6m, €15m of which covered the expenses for settling the yacht leasing litigation, and €14.9m for settling the 2002 Fondiaria-SAI cases; while a further €8.1m was set aside. The staff severance provision was virtually unchanged at €29.8m (€29m).

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Provisions for risks and charges	151.3	84%	225.8	88%	49.2%
Staff severance indemnity provision	29.0	16%	29.8	12%	2.8%
of which: staff severance provision discount	*2.4*	—	*1.6*	—	*-0.3%*
Total provisions	**180.3**	**100%**	**255.6**	**100%**	**41.8%**

Net equity – the 3.1%, or €276.3m, increase in this item reflects the profit for the period (€750.2m), the dividend (€230m) and the reduction in the valuation reserves of €273.6m, €180.6m of which relating to the consolidation of Assicurazioni Generali. The share capital increased from €435.5m to €440.6m, following the exercise of 5,725,000 stock options and distribution of 4,467,564 performance shares to staff members worth a total of €37m, including the share premium.

(€m)

	30/6/16	30/6/17	Chg.
Share capital	435.5	440.6	1.2%
Other reserves	6,647.6	7,046.7	6.0%
Valuation reserves	1,145.0	871.4	-23.9%
- of which: AFS securities	*382.9*	*319.4*	*-16.6%*
cash flow hedge	*(16.4)*	*(44.3)*	*n.m.*
equity investments	*779.2*	*598.6*	*-23.2%*
Profit for the period	604.5	750.2	24.1%
Total Group net equity	**8,832.6**	**9,108.9**	**3.1%**

Of the AFS reserve, €245.9m involves equities, and €148.4m bonds and other financial instruments (including €63.3m in Italian government securities), net of the €74.9m tax effect.

(€m)

	30/6/16	30/6/17	Chg.
Equities	293.2	245.9	-16.1%
Bonds	167.4	148.4	-11.4%
of which: Italian government bonds	*89.8*	*63.3*	*-29.5%*
Tax effect	(77.7)	(74.9)	-3.6%
Total AFS reserve	**382.9**	**319.4**	**-16.6%**

Profit and Loss Account

Net interest income – the 6.7% increase in net interest income, from €1,206.7m to €1,287.8m, was driven by Consumer Banking (up 9.5%), on higher volumes and stable earnings from loans and advances, and by Wealth Management (up 31%, to which the Barclays portfolio contributed €51.3m). Net interest income earned by the CIB division was stable, due to growth in Specialty Finance, from €36.8m to €44m. The Holding Functions' contribution was negative, due to the high amount of treasury assets invested at low and sometimes negative interest rates, and the unfavourable repricing of instruments falling due (which more than offset the benefit derived from the lower cost of funding, which fell from 106 bps to 101 bps).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Wholesale Banking	264.1	248.6	-5.9%
Specialty Finance	36.8	44.0	19.6%
Consumer Banking	746.9	818.1	9.5%
Wealth Management	186.4	244.1	31.0%
Holding Functions and other (includ. IC)	(27.5)	(67.0)	n.m.
Net interest income	**1,206.7**	**1,287.8**	**6.7%**

Net treasury income – net treasury income declined, from €133.1m to €121.3m, due to the lower contribution from fixed-income trading (€52.3m, from €63.4m) and from AFS dividends (down 41.8%); conversely, equity trading improved from €31.5m to €44.6m. Gains on banking book securities (€24.1m, net of the forex effect) were offset by losses on the buyback of own issues, including subordinated issues (€16.8m).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
AFS dividends	29.2	17.0	-41.8%
Fixed income trading profit	72.4	59.7	-17.5%
- of which: banking book	*9.0*	*7.4*	*-17.8%*
Equity trading profit	31.5	44.6	41.6%
Net trading income	**133.1**	**121.3**	**-8.9%**

Net fee and commission income – fee income rose from €450.1m to €522.6m, due to the consolidation of the Barclays' business unit (€22.5m), the consolidation of Cairn for the entire period (approx. €20m), and that of Banca Esperia for the fourth quarter (€18m). Fees earned by Wealth Management increased by 50.9%, from €134.6m to €203.1m, due to increased management and placement activity by CheBanca! and CMB. Growth by the CIB division of 9.7%, from €227.9m to €249.9m, was driven by fees earned by Specialty Finance (up from €20m to €42.5m), while Wholesale Banking remained stable at €207.4m.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Wholesale Banking	207.9	207.4	-0.2%
Specialty Finance	20.0	42.5	n.m.
Consumer Banking	126.1	118.1	-6.3%
Wealth Management	134.6	203.1	50.9%
Holding Functions and other (includ. IC)	(38.5)	(48.5)	26.0%
Net fee and commission income	**450.1**	**522.6**	**16.1%**

Equity-accounted companies – the profit of €263.9m (€256.7m) reflects the contribution from Assicurazioni Generali (which rose from €255m to €263.6m). During the period under review, the main highlight was the addition of the Istituto Europeo di Oncologia investment, while Banca Esperia stake refers to the first three quarters only (€0.2m).

Operating costs – these increased from €891.9m to €1,023.7m, €133.9m of which due to the enlarged area of consolidation (Cairn for six months €24.6m, Barclays €75.2m, and Banca Esperia €34.1m); on a like-for-like basis the increase would have been approx. 2.5%. Costs attributable to new entities include labour costs (700 new staff costing €72.8m), with the remainder made up of rents and PPEs maintenance, data processing, info provider costs and overheads. Conversely, all costs related to the integration plans for Barclays (€60.1m) and Banca Esperia (€14.9m) have been classified as non-recurring items.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Labour costs	440.8	516.0	17.1%
of which: directors	*8.3*	*8.3*	—
stock options and performance share schemes	*10.9*	*12.1*	*11.0%*
Sundry operating costs and expenses	451.1	507.7	12.5%
of which: depreciations and amortizations	*40.4*	*44.6*	*10.4%*
administrative expenses	*410.7*	*459.2*	*11.8%*
Operating costs	**891.9**	**1,023.7**	**14.8%**

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Legal, tax and professional services	15.7	15.3	-2.5%
Other consultancy expenses	38.5	39.5	2.6%
Credit recovery activities	42.6	43.2	1.4%
Marketing and communication	51.2	49.3	-3.8%
Rent and property maintenance	38.8	47.9	23.5%
EDP	67.9	77.0	13.3%
Financial information subscriptions	30.0	34.2	14.1%
Bank services, collection and payment commissions	17.5	17.3	-0.9%
Operating expenses	52.6	75.4	43.3%
Other labour costs	19.8	20.1	1.3%
Other costs	19.9	18.1	-9.2%
Direct and indirect taxes (net of substitute tax)	16.2	21.9	35.2%
Total administrative expenses	**410.7**	**459.2**	**11.8%**

Loan loss provisions – loan loss provisions were down 24.4%, from €418.9m to €316.7m, due to the good quality of the corporate and household loan book; this was reflected in a cost of risk of 87 bps, substantially lower than last year (124 bps). In particular Consumer Banking recorded provisions totalling €276.2m (354.4m), with the cost of risk down from 332 bps to 243 bps; while Wholesale Banking recorded net writebacks of €15m. The overall coverage ratio rose from 54.3% to 54.6%, 71.2% for Consumer Banking, 47.8% for mortgages, 50% for Wholesale Banking, and 33.8% for leasing. Conversely, the coverage ratio for performing loans rose from 1% to 1.1% (2.6% for Consumer Banking).

			(€m)
	12 mths ended 30/6/16	**12 mths ended 30/6/17**	**Chg.**
Wholesale Banking	28.5	(15.0)	n.m.
Specialty Finance	6.0	22.9	n.m.
Consumer Banking	354.4	276.2	-22.1%
Wealth Management	16.6	20.0	20.5%
Holding Functions	13.4	12.6	-6.0%
Loan loss provisions	**418.9**	**316.7**	**-24.4%**
Cost of risk (bps)	**124**	**87**	**-29.8%**

Provisions for other financial assets – these mainly refer to the collective writedowns charged on fixed bonds (€4.4m) and the equity component (€3.1m).

			(€m)
	12 mths ended 30/6/16	**12 mths ended 30/6/17**	**Chg.**
Equity investments	—	0.4	n.m.
Shares	18.0	3.1	-82.8%
Bonds	1.4	4.4	n.m.
Total	**19.4**	**7.9**	**-59.3%**

Income tax – income tax totalled €171.7m, at an effective tax rate of 18.8%, slightly above last year's levels (€128.7m and 17.5% respectively). This represents the average between the tax rate on corporate gains from banking activity (34%), and the 2.5% under the PEX regime on dividends and gains on equity stakes.

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

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

A review of the Group's performance in its main areas of operation is provided below, based on the new segmentation.

CORPORATE AND INVESTMENT BANKING

This division provides services to corporate customers (included sales and corporate gains) in the following areas:

– *Wholesale Banking*: client business (lending, advisory, capital markets activities) and proprietary trading;

– *Specialty Finance*: factoring and credit management (including acquisition and management of NPL portfolios).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	300.9	292.6	-2.8
Treasury income	96.2	93.4	-2.9
Net fee and commission income	227.9	249.9	9.7
Total income	**625.0**	**635.9**	**1.7**
Labour costs	(134.4)	(135.5)	0.8
Administrative expenses	(105.4)	(111.9)	6.2
Operating costs	**(239.8)**	**(247.4)**	**3.2**
Net loss provisions	(34.5)	(11.0)	-68.1
Other profits (losses)	(2.5)	—	n.m.
Profit before tax	**348.2**	**377.5**	**8.4**
Income tax for the period	(125.4)	(123.6)	-1.4
Net profit	**222.8**	**253.9**	**14.0**
Cost/Income (%)	38.4	38.9	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	15,125.1	14,481.0
New loans	8,487.5	8,338.3
No. of staff	579	590
Risk-weighted assets	27,229.7	23,104.2

WHOLESALE BANKING

This division includes the client business (lending, advisory, capital markets activities) and proprietary trading; activities carried out by Mediobanca, Mediobanca International, Mediobanca Securities and Mediobanca Turkey.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	264.1	248.6	-5.9
Treasury income	96.2	93.5	-2.8
Net fee and commission income	207.9	207.4	-0.2
Total income	**568.2**	**549.5**	**-3.3**
Labour costs	(121.4)	(119.6)	-1.5
Administrative expenses	(90.1)	(92.3)	2.4
Operating costs	**(211.5)**	**(211.9)**	**0.2**
Net provisions	(28.5)	11.9	n.m.
Profit before tax	**328.2**	**349.5**	**6.5**
Income tax for the period	(121.4)	(117.2)	-3.5
Net profit	**206.8**	**232.3**	**12.3**
Cost/Income ratio (%)	37.2	38.6	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	14,254.1	12,840.0
New loans	6,576.4	4,536.9
No. of staff	368	367
Risk-weighted assets	26,305.3	21,499.7

The net profit earned by Wholesale Banking was up 12.3%, from €206.8m to €232.3m, in part due to writebacks on loans and securities totalling €11.9m (compared with writedowns of €28.5m last year). Revenues were down 3.3%, from €568.2m to €549.5m, with operating costs flat at €211.9m. The main items performed as follows:

Net interest income – this item recorded a decrease of 5.9%, from €264.1m to €248.6m, due to the combined effect of lower volumes and profitability of corporate loans, only partly offset by the lower cost of funding.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Interest income	351.1	332.6	-5.3%
Interest expense	(97.7)	(85.9)	-12.1%
Other [1]	10.7	1.9	-82.2%
Net interest income	**264.1**	**248.6**	**-5.9%**

[1] Includes margins on interest rate derivative contracts (heading 80) and and the hedging effect (heading 90)

Treasury income – this item remained more or less flat, at €93.5m, with the improved trend in equity trading (income up from €44.6m to €31.5m) offsetting the reduction in fixed-income trading (in the fourth quarter especially).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Fixed income trading profit	64.7	48.9	-24.4%
- of which: banking book	*7.7*	*6.1*	*n.m.*
Equity trading profit	31.5	44.6	41.6%
Treasury income	**96.2**	**93.5**	**-2.8%**

Net fee and commission income – fee income was virtually unchanged at €207.4m, despite the high volatility in the capital market and despite the first half-year reflecting lower business volumes; equity capital market operations in particular benefited from some major deals, which offset the reduction in advisory and M&A operations (which in both cases was in line with the market trends).

The European investment banking market reflected a reduction in M&A activity for the period. While the German and Spanish markets were up by 24% and 22% respectively, all the other countries saw reductions, including the Italian market which fell by 7%. ECM activity was up in the main European markets, including Italy (66%), the only exceptions being the U.K. (down 20%) and Spain (down 14%). Similar, growth was recorded in DCM operations in all markets, including Italy (up 10%). Conversely, the EMEA corporate banking debt market declined during the period, by 12%. Also worth noting was the increase by 76% in leveraged finance operations, due to improved overall conditions.

The scenario described above drove a reduction in M&A-related fees, from €57.4m to €47.8m. Some of the main transactions included: the merger between Banco Popolare and BPM, ICBPI (the Setefi acquisition and sale of a minority interest), Eurobank (sale of Eurolife), Italmobiliare (the Italcementi sale), ENEL (restructuring of Spanish and South America operations), Banca Finmat (Investire SGR), Abertis (acquisition of A4 holding company), Gilde Buy Out Partners (acquisition of a German chain of jewellers), Boscolo (sale of a minority interest), and several deals on the Spanish market (Groupe Bruxelles Lambert, Bergé, Antin Infrastructure). Fees from lending activity fell from €51.4m to €48.2m, because of lower volumes. Conversely, ECM fees rose from €52.3m to €68.6m, generated from approx. twenty deals (the most important being the Unicredit capital increase). DCM activity generated fees of €17.4m (€18.3m) and over fifty transactions. Overall net fees and other commission income remained flat at €207.9m (€207.4m), broken down as follows:

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Capital Market	70.6	86.1	22.0%
Lending	51.4	48.2	-6.2%
Advisory M&A	57.4	47.8	-16.7%
Market, sales and other gains	28.5	25.3	-11.2%
Net fee and commission income	**207.9**	**207.4**	**-0.2%**

Operating costs – operating costs remained roughly stable, at €211.9m (compared with €211.5m of last year), despite major projects relating to introduction of the AIRB models for measuring credit risk and the introduction of new regulations; while the reduction in labour costs is aligned with the decrease in revenues.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Labour costs	121.4	119.6	-1.5%
Operating expenses and sundry costs	90.1	92.3	2.4%
of which: EDP and IT projects	*9.0*	*13.8*	*53.3%*
Info provider	*12.2*	*11.4*	*-6.6%*
Legal, fiscal and other professional services	*3.4*	*4.1*	*20.6%*
Operating costs	**211.5**	**211.9**	**0.2%**

Loan loss provisions – financial assets (loans and banking book securities) recorded net writebacks of €11.9m, representing the balance of €15m in reversals on the loan book due to the improved risk profile (€5m of which in respect of non-performing items and €11m of performing items, due to lower volumes and lower risk) and €3.1m in writedowns to securities.

Loans and advances to customers – these decreased by almost 10%, from €14.3bn to €12.8bn, with new loans of €4.5bn and redemptions of €5.9bn, €2.6bn of which in advance; approx. €400m in loans were also refinanced at the end of the year under review, with disbursement to take place this year. Non-performing items were down from €379m to €372.5m. This item, which only covers unlikely-to-pay amounts (i.e. corporates with the capability to generate cash flows), represents 2.9% of the total loan book and its coverage ratio was 50%.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Italy	7,137.8	50%	6,444.1	50%	-9.7%
France	1,145.7	8%	1,025.5	8%	-10.5%
Spain	934.3	7%	774.1	6%	-17.1%
Germany	835.6	6%	818.1	6%	-2.1%
U.K.	690.8	5%	846.1	7%	22.5%
Other non resident	3,509.9	24%	2,932.1	23%	-16.5%
Total loans and advances to customers	**14,254.1**	**100%**	**12,840.0**	**100%**	**-9.9%**

SPECIALTY FINANCE

The division includes factoring and credit management (including NPL portfolios), headed up respectively by MB Facta (in operation as from 1 April 2017) and MBCredit Solutions, the new name given to Creditech following the spinoff (last year both activities were included in the Consumer Banking division).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	36.8	44.0	19.6
Treasury income	—	(0.1)	n.m.
Net fee and commission income	20.0	42.5	n.m.
Total income	**56.8**	**86.4**	**52.1**
Labour costs	(13.0)	(15.9)	22.3
Administrative expenses	(15.3)	(19.6)	28.1
Operating costs	**(28.3)**	**(35.5)**	**25.4**
Net provisions	(6.0)	(22.9)	n.m.
Other profits (losses)	(2.5)	—	n.m.
Profit before tax	**20.0**	**28.0**	**40.0**
Income tax for the period	(4.0)	(6.4)	60.0
Net profit	**16.0**	**21.6**	**35.0**
Cost/Income ratio (%)	49.8	41.1	

	Specialty 30/6/16	Specialty 30/6/17
Balance-sheet data		
Loans and advances to customers	871.0	1,641.0
New loans	1,911.1	3,801.4
No. of staff	211	223
Risk-weighted assets	924.4	1,604.5

This division reported a net profit of €21.6m for the twelve months, representing a strong improvement on the €16m posted last year, €8m from factoring and €13.6m from credit management. Revenues were up 52.1%, from €56.8m to €86.4m, driven by net interest income (up 19.6%, from €36.8m to €44m) and net fees and commission income which more than doubled (from €20m to €42.5m). The result was boosted in particular by the contribution of NPL activity, due to net interest income of newly-acquired portfolios and higher collections than anticipated (€17.6m).

At the same time operating costs were up 25.4%, from €28.3m to €35.5m, due to higher collection costs on the NPLs portfolio in connection with higher volumes (up €5m).

Provisions for financial assets rose from €6m to €22.9m, comprising €7.2m for the NPLs portfolio and €15.8m for the factoring business (particularly the "by instalment" segment), €3.4m of which in respect of the performing loan book to align the expected loss over a twelve-month time horizon.

Loans and advances to customers nearly doubled, from €871m to €1,641m, split between factoring (up from €800.6m to €1,506.3m) and NPL management (up from €70.5m to €134.8m). Net non-performing items amounted to €149.1m and included, apart from the NPLs purchased, €14.4m in accounts relating to factoring business (€10.1m). During the twelve months under review, NPLs worth a nominal amount of €995.1m were acquired, for a consideration of €71m; the total nominal amount for this item is €2,776.7m (carried at a book value of €134.8m), only €619.2m of which (carried at €13m) relates to assets acquired from other Group companies (principally the Consumer Banking division).

CONSUMER BANKING *

This division provides retail customers with the full range of consumer credit products, ranging from personal loans to targeted ones, to salary-backed finance (Compass and Futuro). Compass RE is also included, which carries out reinsurance activities on insurance products sold.

(€)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	746.9	818.1	9.5
Net fee and commission income	126.1	118.1	-6.3
Total income	**873.0**	**936.2**	**7.2**
Labour costs	(88.5)	(93.9)	6.1
Administrative expenses	(185.5)	(186.0)	0.3
Operating costs	**(274.0)**	**(279.9)**	**2.2**
Loan loss provisions	(354.4)	(276.2)	-22.1
Other profits (losses)	(5.6)	—	n.m.
Profit before tax	**239.0**	**380.1**	**59.0**
Income tax for the period	(85.2)	(121.9)	43.1
Net profit	**153.8**	**258.2**	**67.9**
Cost/Income ratio (%)	31.4	29.9	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	10,995.2	11,750.3
New loans	6,197.8	6,638.1
No. of branches	164	166
No. of staff	1,401	1,405
Risk-weighted assets	11,248.4	11,782.7

This division reported a record net profit for the twelve months of €258.2m, up sharply on the €153.8m reported last year, on 7.2% growth in revenues (from €873m to €936.2m) and a 22.1% reduction in loan loss provisions. Revenues were boosted in particular by the 9.5% growth in net interest income trend, from €746.9m to €818.1m, driven by higher average volumes (up 6.4%) on stable margins; fees and commissions were slightly lower (by 6.3%) due to non-

* Figures have been restated to reflect the inclusion of Creditech, as from the present financial year, in the CIB division as part of Specialty Finance (factoring and credit management).

recurring items linked to distribution network improvements. Operating costs were up 2.2%, from €274m to €279.9m, due exclusively to labour costs (up 6.1%, which includes the staff increase and certain performance-related awards). Loan loss provisions were down 22.1%, from €354.4m to €276.2m, reflecting a cost of risk of 243 bps (substantially lower than last year's 332 bps), again signalling the improved risk profile. The coverage ratio remained basically flat for non-performing items at 71.2% (72.8%), while the ratio for performing exposures increased from 2% to 2.6%.

Loans and advances increased in the twelve months from €10,995.2m to €11,750.3m, and new loans also increased by 7.1%, to €6,638.1m. Non-performing items increased from €175.7m to €189.6m, and represent 1.6% of the total loan book.

WEALTH MANAGEMENT (RETAIL & PRIVATE BANKING)

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

– Affluent & Premier (CheBanca!);

– Private & High Net Worth Individual (addressed in Italy by Banca Esperia and Spafid, in the Principality of Monaco by Compagnie Monégasque de Banque, and by Cairn Capital as Alternative Asset Management in London).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	186.4	244.1	31.0
Treasury income	13.1	12.3	-6.1
Net fee and commission income	134.6	203.1	50.9
Total income	**334.1**	**459.5**	**37.5**
Labour costs	(128.1)	(187.0)	46.0
Administrative expenses	(140.3)	(189.3)	34.9
Operating costs	**(268.4)**	**(376.3)**	**40.2**
Gains (losses) on AFS, HTM and L&R	4.5	7.6	68.9
Net loss provisions	(16.9)	(22.0)	30.2
Other profits (losses)	(5.4)	(2.0)	-63.0
Profit before tax	**47.9**	**66.8**	**39.5**
Income tax for the period	(9.9)	(11.8)	19.2
Net profit	**38.0**	**55.0**	**44.7**
Cost/Income ratio (%)	80.3	81.9	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	6,607.5	9,686.1
New loans, mortgages	1,074.1	1,240.9
No. of staff	1,432	2,023
Risk-weighted assets	4,356.1	5,790.6

	30/6/16	30/6/17
AUM/AUA	17,403.0	30,005.4
AUC	10,688.9	12,106.0
Direct fundng	14,117.2	17,755.6
Total assets under management, advice and custody	**42,209.1**	**59,867.0**

CHEBANCA!

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	149.0	205.3	37.8
Treasury income	—	0.4	n.m.
Net fee and commission income	43.4	68.9	58.8
Total income	**192.4**	**274.6**	**42.7**
Labour costs	(64.9)	(101.5)	56.4
Administrative expenses	(97.4)	(135.5)	39.1
Operating costs	**(162.3)**	**(237.0)**	**46.0**
Net provisions	(16.6)	(19.4)	16.9
Other profits (losses)	—	15.2	n.m.
Profit before tax	**13.5**	**33.4**	**n.m.**
Income tax for the period	(5.0)	(6.5)	30.0
Net profit	**8.5**	**26.9**	**n.m.**
Cost/Income ratio (%)	84.4	86.3	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	5,051.3	7,513.2
New loans	1,074.1	1,240.9
Direct funding	10,724.1	13,353.3
AUM/AUA	3,937.8	7,079.0
No. of branches	58	141
No. of staff	981	1,401
Risk-weighted assets	2,512.3	3,498.9

During the twelve months under review, CheBanca! delivered a net profit of €26.9m, up strongly on the €8.5m posted last year due to the Barclays acquisition. Revenues were up 42.7%, from €192.4m to €274.6m, with the acquired business contributing €83.8m; net interest income came in at €205.3m (up 37.8%), on higher volumes and lower funding costs, while fees and commissions rose by almost 60% (from €43.4m to €68.9m), driven by the contribution of AUM and AUA. Similarly, operating costs increased by 46%, from €162.3m to €237m, almost entirely due to the Barclays business (€75.2m). Provisions for financial assets increased from €16.6m to €19.4m, in line with the higher mortgage lending volumes. The result includes non-recurring gains of €15.2m in relation to the Barclays acquisition, which during the period were absorbed by integration costs (the integration process was completed during the month of May, when all activities migrated to the CheBanca! platform). During the twelve months under review, direct funding increased from €10.7bn to €13.4bn, and indirect funding from €3.9bn to €7.1bn, both benefiting from the

Barclays acquisition, by €2.9bn and €2.8bn respectively. Loans and advances to customers also increased, from €5.1bn to €7.5bn, with Barclays contributing €2,459.6m (on a total of 22,885 mortgages); new loans stood at €1,240.9m (up 15.5%), partly offset by subrogations. Non-performing assets rose from €148.5m to €180.6m, virtually all of the increase attributable to Barclays with €27.1m in overdue or unlikely-to-pay positions at the transfer date); the coverage ratio stood at 47.8%, down slightly since last year (49.2%).

* * *

PRIVATE BANKING

This division comprises Compagnie Monégasque de Banque, Banca Esperia (fully consolidated as from the fourth quarter; accounted for pro rata at 50% for the first nine months), Spafid and Cairn Capital (alternative AM).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	37.4	38.8	3.7
Treasury income	13.1	11.9	-9.2
Net fee and commission income	91.2	134.2	47.1
Total income	**141.7**	**184.9**	**30.5**
Labour costs	(63.2)	(85.5)	35.3
Administrative expenses	(42.9)	(53.8)	25.4
Operating costs	**(106.1)**	**(139.3)**	**31.3**
Gains (losses) on AFS, HTM and L&R	4.5	7.6	68.9
Net provisions	(0.3)	(2.6)	n.m.
Other profits (losses)	(5.4)	(17.2)	n.m.
Profit before tax	**34.4**	**33.4**	**-2.9**
Income tax for the period	(4.9)	(5.3)	8.2
Net profit	**29.5**	**28.1**	**-4.7**
Cost/Income ratio (%)	74.9	75.3	

	30/6/16	30/6/17
Balance-sheet data		
Loans and advances to customers	1,556.2	2,172.9
Direct funding	3,393.1	4,402.3
AUM/AUA	13,465.2	22,926.4
AUC	10,688.9	12,106.0
No. of staff	451	622
Risk-weighted assets	1,843.8	2,291.7

Private banking delivered a net profit for the twelve months of €28.1m, 4.7% lower than the €29.5m posted last year solely on account of higher one-off expenses of €17.2m (€5.4m) attributable to the Banca Esperia integration ahead of its merger into Mediobanca. At the operating level, GOP from banking activities was up 26%, from €35.6m to €44.9m.

The 30.5% increase in revenues, from €141.7m to €184.9m, was helped by Banca Esperia being fully consolidated for the fourth quarter and by Cairn Capital's results being included for the twelve months (as opposed to six months last year). Net interest income was up 3.7%, from €37.4m to €38.8m, most of which was offset by the reduction in net treasury income (from €13.1m to €11.9m). Fees and commissions were up 47.1%, from €91.2m to €134.2m, with increasing contributions from all areas, in particular Cairn (up €18.6m, €5.8m of which in performance fees) and Spafid (up €5.2m, €3.9m of which from the corporate services provided following minor acquisitions). At the same time operating costs were up 31.3%, from €106.1m to €139.3m (€48.7m on a like-for-like basis).

Cairn Capital's contribution consisted of revenues of €28m and costs of €24.6m, whereas CMB made a net profit of €36.8m, after revenues of €89.4m, costs of €51.8m, gains on AFS shares totalling €7m, and tax of €6.6m. Banca Esperia (consolidated pro rata for nine months at 50% and for three months at 100%) posted an €11.2m net loss, on revenues of €53.7m, €47.7m in operating costs, and non-recurring provisions of €17.7m. Spafid, which performs fiduciary business and provides corporate services, added revenues of €14m and a net profit of €2.1m.

AUM and AUA in the twelve months rose from €13.5bn to €22.9bn, split between CMB with €6.7bn (€5.3bn), Banca Esperia with €13.7bn (€6bn, taking into account the full integration), and Cairn Capital with €2.5bn (€2.1bn). AUC rose from €10.7bn to €12.1bn, due to growth by Spafid (from €3bn to €4.4bn) and Banca Esperia (from €1.6bn to €3.6bn, fully consolidated).

PRINCIPAL INVESTING

The Principal Investing division (PI) brings together the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali;

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Dividends	29.2	9.6	-67.1
Equity-accounted companies	255.0	263.6	3.4
Total income	**284.2**	**273.2**	**-3.9**
Labour costs	(4.5)	(3.8)	-15.6
Administrative expenses	(1.4)	(0.8)	-42.9
Operating costs	**(5.9)**	**(4.6)**	**-22.0**
Gain (losses) on disposal of AFS shares	119.8	161.6	34.9
Net loss provisions	(17.9)	(0.9)	n.m.
Profit before tax	**380.2**	**429.3**	**12.9**
Income tax for the period	(7.0)	(7.2)	2.9
Net profit	**373.2**	**422.1**	**13.1**

	30/6/16	30/6/17
Balance-sheet data		
AFS securities	851.9	659.5
Equity investments	3,096.6	3,036.5
Risk-weighted assets	6,756.3	7,714.9

The net profit earned by this division totalled €422.1m (€373.2m), reflecting higher gains on disposal of AFS shares (from €119.8m to €161.6m) and the contribution of Assicurazioni Generali (up from €255m to €263.6m).

The book value of the Assicurazioni Generali investment decreased from €3,091.8m to €2,997.5m, on profit for the period totalling €263.6m, and negative equity adjustments of €357.9m (chiefly due to the valuation reserves), net of the dividend collected (€162.2m).

The AFS shares declined from €851.9m to €659.5m, following sales of €336.7m (yielding gains of €161.6m), involving half the Atlantia stake (1.35%), 5.1% of Koening & Bauer, and 2.8% of Italmobiliare following the IPO launched by the company. During the twelve months under review there were also redemptions of private equity funds totalling €29.9m, new investments in seed capital funds owned by Cairn Capital for a total of €50.6m, and fair value increases amounting to €93.7m.

Investments in entities subject to significant influence now also includes the investment in Istituto Europeo di Oncologia (carried at €39m), following acquisitions which saw the stake increase from 14.8% to 25.4% of the capital.

After the reporting date, the other 11.22 million Atlantia shares (1.35%) were delivered under the terms of previous forward sale agreements generating further gains of €89m, to be booked to the accounts for the 2017/18 financial year).

* * *

HOLDING FUNCTIONS (LEASING & TREASURY AND OTHER FUNCTIONS)

The centralized Holding Functions division houses the Group's the leasing operations, and also its Treasury and ALM activities previously included in the CIB division, with the objective of optimizing management of the funding and liquidity process at consolidated level; it also includes all costs relating to Group staffing and management functions, most of which were also previously allocated to CIB.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data			
Net interest income	(33.3)	(76.3)	n.m.
Treasury income	3.5	3.3	-5.7
Net fee and commission income	23.3	16.5	-29.2
Total income	**(6.5)**	**(56.5)**	**n.m.**
Operating costs	**(162.2)**	**(166.2)**	**2.5**
Net loss provisions	(14.8)	(16.0)	8.1
Other profits (losses)	(92.3)	(103.0)	11.6
Profit before tax	**(275.8)**	**(341.7)**	**23.9**
Income tax for the period	89.6	92.0	2.7
Minority interest	(3.1)	7.9	n.m.
Net profit	**(189.3)**	**(241.8)**	**27.7**

	12 mths ended 30/6/16	12 mths ended 30/6/17
Balance-sheet data		
Loans and advances to customers	2,494.5	2,273.5
Banking book securities	8,313.0	7,624.5
No. of staff	752	769
Risk-weighted assets	4,271.1	4,315.8

The division reported a loss of €241.8m, compared with €189.3m last year, with net interest expense of €76.3m (€33.3m) despite the recovery in 4Q (40% higher Q.o.Q.), reflecting the higher treasury management costs (repricing of securities held in the portfolios and higher short-term liquidity levels) in a negative short-term interest rate scenario. Operating costs were virtually unchanged at €166.2m (€162.2m), as were extraordinary expenses at €103m (€92.3m), linked to the contributions paid to the Single Resolution Fund and Deposit Guarantee Fund and to the settlement of yacht leasing tax dispute covered by withdrawals from the risks provision (€15m) and the share attributable to third parties (approx. €10m).

The various segments performed as follows:

- Group Treasury and ALM delivered a net loss of €112m, worse than the €83.3m loss posted last year, due to higher net interest expense (up from €86.3m to €123.6m), impacted by the higher liquidity levels (but reducing in the course of the year) and higher operating costs (up from €24.2m to €32.6m) due to strengthening of units and systems;
- Leasing reported a net loss of €11.9m, compared with a €4.6m net profit last year, due to non-recurring items of €27.5m (€25m of which in relation to the tax litigation referred to above). Net of the tax loss the bottom line would have shown a €3.1m profit, still lower than last year due to the decrease in volumes which cut revenues by 12.5% (from €54.6m to €47.8m), and was only in part offset by the 12.2% reduction in operating costs (from €28.7m to €25.2m). Leases outstanding at the reporting date declined from €2,494.5m to €2,273.5m, with new finance stable at €418m (€416m); net non-performing accounts fell, from €230.1m to €169.0m, with the coverage ratio up from 32.1% to 33.8%.

* * *

The financial highlights for the other Group companies in the twelve months under review are shown below, divided by business area:

(€m)

Company	Percentage shareholding	Business line	Total assets	Loans and advances to customers	Total net equity [1]	No. of staff
Mediobanca Securities (data in USD/1000)	100%	Wholesale Banking	7.9	—	4.0	4
Mediobanca Turkey (data in TRY/1000)	100%	Wholesale Banking	2.3	—	7.4	7
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.5	—	0.4	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	5,218.4	3,299.9	307.8	12
MB Facta	100%	Specialty Finance	1,540.0	1,506.3	85.5	26
MB Credit Solution	100%	Specialty Finance	187.1	134.8	98.5	198
Compass Banca	100%	Consumer Banking	11,690.1	10,171.4	1,377.3	1,338
Futuro	100%	Consumer Banking	1,656.4	1,578.9	86.8	75
Quarzo	90%	Consumer Banking	0.3	—	—	—
Quarzo CQS	90%	Consumer Banking	0.3	—	—	—
Compass RE	100%	Consumer Banking	303.2	—	72.2	1
CheBanca!	100%	Affluent & Premier	19,309.2	7,513.2	328.7	1,413
Mediobanca Covered Bond	90%	Affluent & Premier	0.4	—	0.1	—
Compagnie Monégasque de Banque	100%	Private Banking	4,018.2	1,229.4	710.8	216
Banca Esperia	100%	Private Banking	1,989.4	943.5	186.7	280
Spafid	100%	Private Banking	58.6	—	47.8	55
Spafid Connect	100%	Private Banking	31.5	—	17.2	18
Spafid Family Office SIM	100%	Private Banking	1.0	—	1.0	3
Cairn Capital Group Limited (data in GBP/1000) *	100%	Private Banking	14.9	—	7.6	56
CMB Wealth Management UK (data in GBP/1000)	100%	Private Banking	1.4	—	1.4	—
Mediobanca International Immobilierè	100%	Holding Functions	1.9	—	1.7	—
SelmaBipiemme Leasing	60%	Holding Functions	2,485.4	2,273.7	226.6	144
Quarzo Lease	90%	Holding Functions	—	—	—	—
Prominvestment (in liquidation)	100%	Holding Functions	5.0	—	(1.8)	6
Mediobanca Innovation Services	100%	Holding Functions	80.0	—	37.6	175
Ricerche e Studi	100%	Holding Functions	1.1	—	0.1	14

[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. 99.

(€m)

Company	Percentage shareholding	Business line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USD/1000)	100%	Wholesale Banking	3.9	(2.4)	—	0.6
Mediobanca Turkey (data in TRY/1000)	100%	Wholesale Banking	0.2	(5.7)	—	(5.5)
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	—	—	—	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	36.2	(7.3)	0.8	20.8
MB Facta	100%	Specialty Finance	9.2	(2.1)	(3.2)	2.6
MB Credit Solution	100%	Specialty Finance	59.9	(33.7)	(2.4)	19.0
Compass Banca	100%	Consumer Banking	838.9	(260.5)	(271.2)	201.2
Futuro	100%	Consumer Banking	57.3	(19.0)	(5.0)	22.5
Quarzo	90%	Consumer Banking	0.2	(0.2)	—	—
Quarzo CQS	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	40.3	(0.7)	—	27.7
CheBanca!	100%	Affluent & Premier	274.6	(297.1)	(19.4)	16.4
Mediobanca Covered Bond	90%	Affluent & Premier	0.1	—	—	—
Compagnie Monégasque de Banque	100%	Private Banking	89.3	(50.5)	—	38.0
Banca Esperia	100%	Private Banking	79.9	(90.7)	(3.1)	(17.4)
Spafid	100%	Private Banking	8.5	(8.8)	—	1.1
Spafid Connect	100%	Private Banking	5.3	(4.4)	—	1.3
Spafid Family Office SIM	100%	Private Banking	0.4	(0.7)	—	(0.3)
Cairn Capital Group Limited (data in GBP/1000) *	100%	Private Banking	24.0	(21.2)	—	2.1
CMB Wealth Management UK (data in GBP/1000)	100%	Private Banking	—	(0.1)	—	—
Mediobanca International Immobilierè	100%	Holding Functions	0.1	—	—	—
SelmaBipiemme Leasing	60%	Holding Functions	47.8	(50.1)	(12.0)	(19.8)
Quarzo Lease	90%	Holding Functions	—	—	—	—
Prominvestment (in liquidation)	100%	Holding Functions	0.2	(1.4)	—	(1.2)
Mediobanca Innovation Services	100%	Holding Functions	69.5	(69.1)	—	—
Ricerche e Studi	100%	Holding Functions	2.0	(2.0)	—	—

* Taking into account the put and call option, see Part A1 – Section 3 – Area and methods of consolidation, p. 99.

With reference to accounts of Banca Esperia and CMB:

- On 27 February 2017, Banca Esperia approved its consolidated financial statements for 2016, which show a net profit of €5.8m, lower than last year's €6.6m: total income was up, from €82.6m to €87.5m, due to a good performance by proprietary trading which delivered revenues of €10.2m (€5m). Net fees and commission income from private banking activity increased from €65m to €66.4m. Performance fees remained stable at €10.8m (€10.6m). Transfers in a total amount of €2.4m were made to the provisions for risks and charges to cover the tax litigation pending and efficiency measures. AUM rose from €17.2bn to €18.1bn.
- On 3 May 2017, Compagnie Monégasque de Banque approved its consolidated financial statements for 2016, which reflect a net profit of €2m (€49.3m). The substantial reduction compared to last year is not due to current operations, the result from which was basically flat year-on-year, but to a non-recurring, €22.5m contribution to a general banking risks provision to cover possible expenses from regulatory changes in the Principality of Monaco (this provision is not recorded in the in IFRS accounts used for the Mediobanca Group's consolidated financial statements). From FY 2016, CMB's accounts and those of its subsidiary CMG are subject to taxation; the tax burden for the twelve months was €5m. Total income decreased from €84.6m to €83.4m, mainly due to the lower net interest income (which was down from €24.5m to €21.6m) and lower fees (down from €49m to €46.5m). Conversely, operating costs rose from €50m to €52m. Loans and advances increased during the twelve months, from €951.4m to €1,192.2m, as did bank deposits (from €669.5m to €1,690.1m), due to the increase in funding from customers (up from €2,302.9m to €3,453.6m) which reflects a prudent approach in conditions of market volatility. Net AUM/AUA rose from €7.8bn to €9.4bn.

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2017 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 36 of Consob's market regulations

With reference to Article 36 of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company covered by this regulatory 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 an indication of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP process now required by the regulations in force.

In particular, this involves concentration risk in the Group's corporate finance activities towards the leading Italian industrial groups, financial risk on the banking book – principally represented by interest rate risk –, strategic or "business" risk, equity investments risk, risk deriving from exposure to volatility on financial markets for shares held as part of the AFS portfolio and from exposure to government bonds.

Section 12 of the Liabilities in the Notes to the Accounts also contains information on the most relevant litigation involving the Mediobanca Group still pending and the principal disputes outstanding with the Italian revenue authorities.

Group sustainability reporting

For the first time this year, the annual report includes among its accompanying schedules a document on Group Sustainability reporting. With this report the Group's intention is to inform our stakeholders of the approach and policies we have adopted on social and environmental issues, and to describe the results we have achieved in developing our business on a sustainable business with a view to creating value over the long term.

This year the report has been compiled on a voluntary basis, will become compulsory as from the next financial year and which accordingly will be published annually, is based on the GRI Standards (in accordance with the "core" option) on sustainability reporting issued by the Global Reporting Initiative (GRI), which are at present the most widely-used standards at an international level in the area of sustainability reporting, and also in accordance with the provisions of Italian Legislative Decree 254/16 on "Non-Financial Information".

Research

R&S has continued its analysis of companies and capital markets as in the past. The company produced the forty-first edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around ninety other industrial and financial groups online. The fourth edition of the survey about local utilities owned by local authorities, the twenty-first edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the fifteenth edition of its survey of the leading international banks, and the sixth edition of its review of industrial companies in southern Italy on behalf of the Fondazione Ugo La Malfa.

Credit rating

The long-term rating assigned by Standard & Poor's to Mediobanca is BBB- with stable outlook, while the short-term rating is A-3 (both aligned with the Italy sovereign risk). The rating assigned by Fitch to Mediobanca is BBB with stable outlook (short-term rating F2).

Outlook

The outlook for the new financial year suggests that the Group's good earnings performance is set to continue, but remains conditional upon the low interest rate and strongly competitive scenario which will impact on net interest income driven by higher volumes in Consumer Banking and by a further reduction in the cost of retail funding. Further growth by the Wealth Management platform should deliver an additional increase in fees. The rise in operating costs is entirely attributable to the enhanced area of consolidation, and will be partly offset by cost synergies relating to improvements and savings in the Affluent & Private Banking segments. The positive trend in the cost of risk is expected to continue.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	**Net profit (loss)**
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,999,838	318,326
Net surplus over book value for consolidated companies	14,822	320,964
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(6,147)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,350,216	110,910
Dividends received during the period	—	—
Total	**8,358,729**	**750,200**

Milan, 15 September 2017

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

as required by Article 81-ter of Consob resolution no. 11971
issued on 14 May 1999 as amended

---

1. The undersigned Alberto Nagel and Massimo Bertolini, 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 consolidated financial statements:
   - were adequate in view of the company's characteristics;
   - were effectively applied in the year ended 30 June 2017.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2017 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 consolidated 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;
      - corresponds to the data recorded in the company's books and accounts ledgers;
      - are 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, 15 September 2017

Chief Executive Officer
Alberto Nagel

Head of Company
Financial Reporting
Massimo Bertolini

EXTERNAL AUDITORS' REPORT

Mediobanca SpA

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

Consolidated Financial Statements as of 30 June 2017

Independent auditors' 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 the Mediobanca Group (the Group), which comprise the consolidated balance sheet as of 30 June 2017, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flows 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 2017, and of the result of its operations and cash flows for the year then ended in compliance 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 described in detail in the section of this report titled '*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*'. We are independent of the 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 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 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

pwc

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans to customers *Notes to the accounts:* *Part B – Notes to the consolidated balance sheet, Assets, section 7;* *Part C – Notes to the consolidated profit and loss account, section 8;* *Part E - Information on risks and related hedging policies.* Loans to customers as of 30 June 2017 were equal to Euro 38.4 billion, corresponding to 54% of total assets of the consolidated financial statements. We paid special attention to those items during our audit because the accounting processes and policies adopted by the Mediobanca Group are characterised by high subjectivity and the use of estimations for a number of variables such as, mainly, existence of indicators of impairment, calculation of the expected future cash flows and related timing of recovery, realisation value of guarantees, type of customers, as well as by the use of internal and external inputs observable at the measurement date.	As part of the audit, to address this key audit matter we performed the following main activities: • analysis of the adequacy of the IT environment and testing of the operating effectiveness of relevant controls in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • analysis of the valuation models, both in aggregate and individually, and sample testing of the reasonableness of the variables estimated in those models, with the support of experts from the PwC network; • On a sample basis, testing of the valuation and classification in the financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting.
Valuation of complex unlisted financial instruments measured at fair value *Notes to the account:* *Part B – Notes to the consolidated balance sheet, Assets, sections 2 and 8, and Liabilities, sections 4 and 6;* *Part C – Notes to the consolidated profit and loss account, sections 4 and 5.* As part of our audit we paid special attention to the analysis of the valuation models applied to complex unlisted financial instruments measured at fair value. The use of estimates applies mainly to certain types of compound instruments and derivative financial instruments, which are	As part of the audit, to address this key audit matter we performed the following main activities: • analysis of the adequacy of the IT environment and testing of the operating effectiveness of relevant controls in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of financial instruments classified in the fair value 2 and fair value 3 hierarchy levels; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of

pwc

Key audit matters	*Auditing procedures performed in response to key audit matters*
measured using valuation models fed by inputs that are not directly observable in the market and that were estimated internally (financial instruments classified in the fair value 2 and fair value 3 hierarchy levels).	findings with the corporate functions involved; • On a sample basis, testing of the valuation models used by the Group and of the reasonableness of the input data and parameters used, with the support of experts from the PwC network.
Recognition of extraordinary transactions, specifically, business combinations (Operazione Barclays) *Notes to the accounts:* *Part B – Notes to the consolidated balance sheet, Assets, section 13;* *Part C – Notes to the consolidated profit and loss account, sections 2, 11, 12 and 15;* *Part G – Combination involving Group companies or business units.* The analysis of the measurement and recognition of the bargain purchase arising from the acquisition of the retail operations of Barclays Italia by CheBanca! SpA, during the fiscal year under examination, was one of the key activities in our audit process due to the complexity of the valuation methods applied and the related accounting treatment. In details, the transaction mentioned above generated a gain on a bargain purchase of Euro 98 million that was recognised in the income statement.	As part of the audit, with the support of experts from the PwC network, to address this key audit matter we performed the following main activities: • analysis of documentary evidence and discussion with the corporate functions involved of the method applied to determine the cost of the transaction; • understanding and evaluating of the assumptions and parameters used for the fair value measurement of the business acquired; • understanding and evaluating of the method applied to calculate the fair value and its allocation to the assets and liabilities identified; • analysis of the accounting treatment applied to the transaction in accordance with International Financial Reporting Standard "IFRS 3 Revised - Business Combinations", endorsed by the European Commission in accordance with the procedure specified in article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002.
Recognition of extraordinary transactions, specifically, business combinations (Operazione Banca Esperia) *Notes to the accounts:* *Part B – Notes to the consolidated balance sheet, Assets, sections 10 and 13;* *Part C – Notes to the consolidated profit and loss account, sections 2, 11, and 12.* The analysis of the measurement and recognition of the acquisition of the remaining 50% interest in	As part of the audit, with the support of experts from the PwC network, to address this key audit matter we performed the following main activities: • analysis of documentary evidence and discussion with the corporate functions involved of the method applied to calculate the cost of the transaction; • understanding and evaluating of the method applied to calculate the fair value of 50% previously held by Mediobanca in the acquiree before acquisition of control;

Key audit matters	*Auditing procedures performed in response to key audit matters*
Banca Esperia from the Mediolanum Group, during the year under examination, was one of the key activities in our audit process due to the complexity of the valuation methods applied and of the consequent accounting treatment. The allocation process, for the purpose of identification, as a residual item, of goodwill equal to Euro 53.4 million will be completed by the end of December 2017, consistently with the requirements of International Financial Reporting Standards.	• analysis of the accounting treatment applied to the transaction and related disclosures in accordance with International Financial Reporting Standard "IFRS 3 Revised - Business Combinations", endorsed by the European Commission in accordance with the procedure specified in article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

Responsibilities of the Directors and Those Charged with Governance 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 the directors 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, when preparing the consolidated financial statements, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. The directors prepare consolidated financial statements on a going concern basis unless they either intend to liquidate the parent company Mediobanca SpA or to cease trading, or have no realistic alternative but to do so.

The statutory audit committee ("collegio sindacale") is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance that, but is not a guarantee that an audit performed 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 these consolidated financial statements.

As part of the audit 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 in response to those risks; we obtained sufficient and appropriate audit evidence on which to base 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 the 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. Where 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, subsequent 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 such a manner as to give a true and fair view;
- We obtained sufficient and 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 to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the 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 to them any circumstances that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we identified those 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 separate 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 consolidated financial statements expressed in this report is consistent with the additional report to the statutory audit committee ("collegio sindacale"), in their 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 2017, 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 2017 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 the Mediobanca Group as of 30 June 2017 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, 29 September 2017

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

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

CONSOLIDATED
FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	30/6/17	30/6/16
10. Cash and cash equivalents	1,330,224	156,342
20. Financial assets held for trading	7,833,903	9,505,295
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	6,392,680	8,639,392
50. Financial assets held-to-maturity	2,400,203	1,975,411
60. Due from banks	7,959,931	5,386,601
70. Due from customers	38,763,124	37,881,476
80. Hedging derivatives	462,300	933,434
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,036,541	3,193,345
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	305,556	304,844
130. Intangible assets	552,208	452,932
of which: goodwill	*483,557*	*416,740*
140. Tax assets	847,361	960,867
a) current	*132,002*	*209,540*
b) deferred	*715,359*	*751,327*
of which under L. 214/2011	*609,074*	*647,526*
150. Loans classified as held-for-sale	—	—
160. Other assets	561,533	428,666
Total assets	**70,445,564**	**69,818,605**

(€'000)

Liabilities and net equity	30/6/17	30/6/16
10. Due to banks	12,689,595	11,940,298
20. Due to customers	20,365,999	18,164,542
30. Debt securities in issue	20,108,721	21,813,134
40. Trading liabilities	5,920,583	7,141,458
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	341,159	339,900
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	559,982	572,627
a) current	*189,736*	*207,553*
b) deferred	*370,246*	*365,074*
90. Liabilities included in disposal groups classified as held for sale	—	—
100. Other liabilities	846,260	596,623
110. Staff severance indemnity provision	29,779	28,975
120. Provisions	225,850	151,341
a) post-employment and similar benefits	—	—
b) other provisions	*225,850*	*151,341*
130. Insurance reserves	165,974	147,861
140. Revaluation reserves	871,387	1,144,992
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	5,056,865	4,692,729
180. Share premium reserve	2,187,580	2,152,829
190. Share capital	440,606	435,510
200. Treasury shares	(197,709)	(197,982)
210. Minority interest	82,733	89,218
220. Profit for the period	750,200	604,550
Total liabilities and net equity	**70,445,564**	**69,818,605**

Consolidated Profit and Loss Account

(€'000)

Item		30/6/17	30/6/16
10.	Interest and similar income	1,916,412	1,906,556
20.	Interest expense and similar charges	(638,884)	(706,051)
30.	**Net interest income**	**1,277,528**	**1,200,505**
40.	Fee and commission income	482,516	406,758
50.	Fee and commission expense	(104,589)	(84,041)
60.	**Net fee and commission income**	**377,927**	**322,717**
70.	Dividends and similar income	81,381	80,520
80.	Net trading income	34,245	38,587
90.	Net hedging income (expense)	15,782	8,321
100.	Gain (loss) on disposal/repurchase of:	156,410	96,301
	a) loans and advances	*(11,132)*	*(15,959)*
	b) AFS securities	*183,338*	*115,788*
	c) financial assets held to maturity	*2,090*	*618*
	d) financial liabilities	*(17,886)*	*(4,146)*
120.	**Total income**	**1,943,273**	**1,746,951**
130.	Adjustments for impairment to:	(293,673)	(417,374)
	a) loans and advances	*(285,823)*	*(398,714)*
	b) AFS securities	*(3,079)*	*(17,990)*
	c) financial assets held to maturity	*(2,864)*	*(1,045)*
	d) other financial assets	*(1,907)*	*375*
140.	**Net income from financial operation**	**1,649,600**	**1,329,577**
150.	Premiums earned (net)	52,324	46,781
160.	Other income (net) from insurance activities	(14,427)	(15,567)
170.	**Net profit from financial and insurance activities**	**1,687,497**	**1,360,791**
180.	Administrative expenses:	(1,218,004)	(1,000,644)
	a) personnel costs	*(531,947)*	*(443,286)*
	b) other administrative expenses	*(686,057)*	*(557,358)*
190.	Net transfers to provisions	(16,387)	(5,011)
200.	Net adjustments to tangible assets	(17,585)	(20,566)
210.	Net adjustments to intangible assets	(27,035)	(19,836)
220.	Other operating income (expense)	243,303	144,844
230.	**Operating costs**	**(1,035,708)**	**(901,213)**
240.	Gain (loss) on equity investments	263,452	276,708
270.	Gain (loss) on disposal of investments	(1,254)	(18)
280.	**Profit (loss) on ordinary activity before tax**	**913,987**	**736,268**
290.	Income tax for the year on ordinary activities	(171,738)	(128,652)
300.	**Profit (loss) on ordinary activities after tax**	**742,249**	**607,616**
310.	**Gain (loss) on disposal of investments after tax**	**—**	**—**
320.	**Net profit (loss) for the period**	**742,249**	**607,616**
330.	Net profit (loss) for the period attributabe to minorities	7,951	(3,066)
340.	**Net profit (loss) for the period attributable to Mediobanca**	**750,200**	**604,550**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		30/6/17	30/6/16
10.	Profit (loss) for the period	742,249	607,616
	Other income items net of tax without passing through profit and loss	**3,894**	**78,884**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	1,143	(1,892)
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	2,751	80,776
	Other income items net of tax passing through profit and loss	**(276,043)**	**(366,138)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	(2,697)	(3,463)
90.	Cash flow hedges	(26,458)	2,931
100.	AFS financial assets	(63,543)	(49,676)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	(183,345)	(315,930)
130.	**Total other income items, net of tax**	**(272,149)**	**(287,254)**
140.	**Comprehensive income (headings 10 + 130)**	**470,100**	**320,362**
150.	**Minority interests in consolidated comprehensive incomes**	**(6,495)**	**2,507**
160.	**Consolidated comprehensive income attributable to Mediobanca**	**476,595**	**317,855**

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/17	Net equity attributable to the group at 30/6/17	Net equity attributable to the minorities at 30/6/17
		Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 30/6/17			
					New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments				
Share capital:	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
a) ordinary shares	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,154,677	—	—	—	34,751	—	—	—	—	—	—	—	2,189,428	2,187,580	1,848
Reserves:	4,765,569	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	12,243	—	—	5,132,771	5,056,865	75,906
a) retained earnings	4,643,216	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	—	—	—	4,998,175	4,922,269	75,906
b) others	122,353	—	—	—	—	—	—	—	—	12,243	—	—	134,596	134,596	—
Valuation reserves	1,139,917	—	—	—	—	—	—	—	—	—	—	(272,149)	867,768	871,387	(3,619)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,982)	—	—	—	—	273	—	—	—	—	—	—	(197,709)	(197,709)	—
Profit (loss) for the period	607,616	(607,616)	—	—	—	—	—	—	—	—	—	742,249	742,249	750,200	(7,951)
Total net equity	8,921,847	—	(230,915)	(19,226)	37,613	—	—	—	—	12,243	—	470,100	9,191,662	X	X
Net equity attributable to the group	8,832,630	—	(230,915)	(19,237)	37,613	—	—	—	—	12,243	—	476,595	X	9,108,929	X
Net equity attributable to minorities	89,217	—	—	11	—	—	—	—	—	—	—	(6,495)	X	X	82,733

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

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/15	Allocation of profit for previous period		Changes during the reference period									Overall consolidated profit for the 12 mths ended 30/6/16	Total net equity at 30/6/16	Net equity attributable to the group at 30/6/16	Net equity attributable to the minorities at 30/6/16
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity											
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments [3]					
Share capital:	458,548	—	—	—	1,912	—	—	—	—	—	(8,410)	—	452,050	435,510	16,540
a) ordinary shares	458,548	—	—	—	1,912	—	—	—	—	—	(8,410)	—	452,050	435,510	16,540
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,147,275	—	—	—	8,340	—	—	—	—	—	(938)	—	2,154,677	2,152,829	1,848
Reserves:	4,434,516	589,751	(212,893)	(63,695)	(1,220)	(706)	—	—	—	24,019	(4,203)	—	4,765,569	4,692,731	72,838
a) retained earnings	4,336,182	589,751	(212,893)	(63,695)	(1,220)	(706) [2]	—	—	—	—	(4,203)	—	4,643,216	4,570,378	72,838
b) others	98,334	—	—	—	—	—	—	—	—	24,019	—	—	122,353	122,353	—
Valuation reserves	1,432,602	—	—	(3,838)	—	—	—	—	—	—	(1,593)	(287,254)	1,139,917	1,144,992	(5,075)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(198,688)	—	—	—	—	706	—	—	—	—	—	—	(197,982)	(197,982)	—
Profit (loss) for the period	592,845	(592,845)	—	—	—	—		—	—	—	—	607,616	607,616	604,550	3,066
Total net equity	8,867,098	(3,094)	(212,893)	(67,533)	9,032	—	—	—	—	24,019	(15,144)	320,362	8,921,847	X	X
Net equity attributable to the Group	8,759,082	—	(212,893)	(67,533)	9,032	—	—	—	—	24,019	3,068	317,855	X	8,832,630	X
Net equity attributable to minorities	108,016	(3,094)	—	—	—	—	—	—	—	—	(18,212)	2,507	X	X	89,217

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

[2] Free equity granting following the performance shares scheme.

[3] Reduction due to purchase of Teleleasing minorities.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	30/6/17	**30/6/16**
A. Cash flow from operating activities		
1. Operating activities	**159,288**	**387,694**
- interest received	2,852,412	3,275,504
-interest paid	(1,820,289)	(2,389,556)
-dividends and similar income	64,358	54,056
-net fees and commission income	155,607	147,597
-cash payments to employees	(378,338)	(320,261)
-net premium income	67,288	63,788
-other premium from insurance activities	(145,388)	(173,776)
-other expenses paid	(1,145,141)	(1,417,791)
-other income received	647,130	1,299,633
-income taxes paid	(138,351)	(151,500)
-net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(488,385)**	**2,465,290**
- financial assets held for trading	850,786	756,400
financial assets recognized at fair value	—	—
-AFS securities	2,025,064	(501,197)
-due from customers	(256,411)	3,062,752
-due from banks: on demand	408,403	(741,170)
-due from banks: other	(3,413,549)	9,619
-other assets	(102,678)	(121,114)
3. Cash generated/absorbed by financial liabilities	**1,442,505**	**(1,998,511)**
-due to banks: on demand	1,014,101	(83,379)
-due to banks: other	1,568,389	(1,917,547)
-due to customers	743,138	1,015,959
-debt securities	(1,696,321)	(257,874)
-trading liabilities	(189,243)	(377,081)
-financial liabilities assets recognized at fair value	—	—
-other liabilities	2,441	(378,589)
Net cash flow (outflow) from operating activities	**1,113,408**	**854,473**
B. Investment activities		
1. Cash generated from	**382,614**	**536,760**
-disposals of shareholdings	2,258	59,859
-dividends received in respect of equity investments	162,171	145,954
-disposals/redemptions of financial assets held to maturity	214,682	329,628
-disposals of tangible assets	3,503	1,319
-disposals of intangible assets	—	—
-disposals of subsidiaries or business units	—	—
2. Cash absorbed by	**(128,841)**	**(1,080,056)**
-acquisitions of shareholdings	(26,950)	—
-acquisitions of held-to-maturity investments	(652,718)	(1,000,206)
-acquisitions of tangible assets	(21,683)	(17,279)
-acquisitions of intangible assets	(125,897)	(62,505)
-acquisitions of subsidiaries or business units	698,407	(66)
- Net cash flow (outflow) from investment/servicing of finance	**253,773**	**(543,296)**
C. Funding activities	**(193,301)**	
-issuance/acquisition of treasury shares	37,614	9,031
-issuance/acquisitions of equity instruments	—	—
-dividends payout and other applications of funds	(230,915)	(212,893)
Net cash flow (outflow) from funding activities	**(193,301)**	**(203,862)**
NET CASH FLOW (OUTFLOW) DURING PERIOD	**1,173,880**	**107,315**

Reconciliation of Movements in Cash Flow during the Period

(€'000)

	Amounts	
	30/6/17	**30/6/16**
Cash and cash equivalents: balance at start of period	156,342	49,027
Total cash flow (ouflow) during period	1,173,880	107,315
Cash and cash equivalents: exchange rate effect	2	—
Cash and cash equivalents: balance at end of period	1,330,224	156,342

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 2017 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 2017 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 (fourth amendment issued on 15 December 2015), which establish the structure of the financial statements and the methods for completing them, along with the contents of the notes to the accounts.

SECTION 2

General principles

These consolidated financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive profit and loss account;

– 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.

The following list details the recently issued-regulations which have supplemented the accounting standards in force and have been incorporated into the Group's accounting policies:

Regulation	**Date of application for Group**	**Accounting Standard**
2015/2113 issued on 23 November 2015	1 July 2016	Changes to IAS 16 – *Property, plant and equipment*
2015/2173 issued on 24 November 2015	1 July 2016	Changes to IFRS 11 – *Joint arrangements*
2015/2231 issued on 2 December 2015	1 July 2016	Changes to IAS 16 – *Property, plant and equipment*
		Changes to IAS 38 – *Intangible assets*
2015/2343 issued on 15 December 2015	1 July 2016	Changes to IFRS 5 – *Non-current assets held for sale and discontinued*
		Changes to IFRS 7 – *Financial instruments: disclosures*
		Changes to IAS 19 – *Employee benefits*
		Changes to IAS 34 – *Interim financial reporting*
2015/2406 issued on 18 December 2015	1 July 2016	Changes to IAS 1 – *Presentation of financial statements*
2015/2441 issued on 18 December 2015	1 July 2016	Changes to IAS 27 – *Separate financial statements*
2016/1703 issued on 22 September 2016	1 July 2016	Changes to IFRS 10 – *Consolidated financial statements*
		Changes to IFRS 12 – *Disclosures of interests in other entities*
		Changes to IAS 28 – *Investments in associates and joint ventures*

The changes listed above have not impacted significantly on the Mediobanca Group's financial statements.

The accounting standards which have been ratified but which have not yet come into force are as follows:

Regulation	**Date of application for Group**	**Accounting standard**
2016/1905 issued on 22 September 2016	1 July 2018	Adoption of IFRS 15 – *Revenues from contracts with customers*
2016/2067 issued on 22 November 2016	1 July 2018	Adoption of IFRS 9 – *Financial instruments*

With regard to IFRS 15 (revenues from contracts with customers), this standard specifies the rules for recognizing such revenue, introducing an approach whereby the revenue is recognized only when the contractual obligations have been met in full. Under the new standard revenue is recognized on the basis of the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract based on their market prices (i.e. stand-alone selling prices);
- Recognize revenue when (or as) the entity satisfies a performance obligation, i.e. when the client obtains control of the good or service.

An internal Preliminary Impact Assessment has been in progress since November 2015, to identify the main problems raised for the accounting issues currently faced. This project, the application of which comprises all the most affected companies, has revealed that the accounting issues currently faced are already substantially aligned with the new requisites.

In January 2016 the IASB also issued IFRS 16 (leasing), which has still not been ratified by the European Commission and will come into force on 1 January, with companies having the option of applying it early (subject to application of IFRS 15). The standard will replace IAS 17 which is currently in force for leasing contracts, and also the IFRIC 4, SIC 15 and SIC 27 interpretations.

Under the terms of the new standard:

- For the lessee, the distinction between financial and operating leases will be abolished. All contracts must be recognized according to the rules for the "old" financial leasing, that is, with an asset/liability being booked to the balance sheet and the interest expenses being recorded through the profit and loss account;
- For the lessor, conversely, there are no changes.

IFRS 9: The Mediobanca Group project

Regulatory framework

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

The new standard replaces IAS 39 and will be applicable as from the first day of the financial year starting on 1 January 2018 or of the first financial year starting thereafter.

The main changes regard classification and impairment, and are as follows:

– How financial assets (apart from shares) are classified and measured will depend on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the "Solely Payments of Principal and Interest Test" (or SPPI). Only those instruments which pass both tests can be recognized at cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio ("Held to collect and sell"), for which, like with the existing Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income).

– Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account.

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

Current projects

The Mediobanca Group will adopt the new standard starting from 1 July 2018. An internal project was launched in spring 2015, under the joint leadership of the Risk Management and Group Financial Reporting areas, with the involvement of all other areas affected (in particular the front office teams, Group Technology and Operations, Group ALM, Group Treasury). The initiative has been developed in line with the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting), and has been split into two phases: Assessment, and Design and Implementation.

Regarding the new criteria for classifying and measuring financial instruments, analysis has been carried out of the entire product portfolio, without any particular effects being noted. In the last six months the methodological framework has been completed for the implementation of organizational and applications processes, the IT systems in particular, and will become operative by 31 December 2017.

Work on developing the new impairment models was completed during the six months, with the internal means for calculating the expected shortfall now finalized (principally the criteria of staging and the introduction of macroeconomic criteria and forward-looking elements). This activity included all the Group's main asset portfolios, in line with the findings of the Classification phase of the project, with no particular impact being noted in quantitative terms and requiring only minimal revisions to the monitoring processes. This activity too will be completed by year-end 2017, in particular with regard to IT implementation.

For the Hedge Accounting area, the Group will avail itself of the opt-in option introduced for general hedges, with no significant impact expected.

The Design and Implementation activity is also now basically complete, hence in the second half of 2017 work can begin on testing the new IFRS 9 systems and processes so as to be able to run IAS 39 and IFRS 9 in parallel from the start of 2018 (i.e. six months prior to actual application).

SECTION 3

Area and methods of consolidation

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

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 new companies have been included in the Group's area of consolidation since 30 June 2016: MB Funding Lux S.A. (securitization SPV) and Spafid Family Office SIM (broker set up by Spafid), while CB!NewCo has been merged into CheBanca!.

Acquisition of the other 50% of Banca Esperia not already owned from the Mediolanum Group, announced in November 2016, was completed on 4 April 2017. Accordingly, the company has been consolidated on a line-by-line basis in the Mediobanca Group's consolidated financial statements as from the fourth and final quarter of this financial year.

It should also be noted that ownership of CMB Wealth Management has been transferred from CMB to Mediobanca S.p.A., a transaction which entailed no expansion in the area of consolidation as the company was already fully consolidated. In the fourth quarter of the financial year under review, the factoring business unit consisting of the relevant set of assets and accounts was spun off by MB Credit Solutions S.p.A. (formerly Creditech) to MB Facta, with a view to streamlining and improvement ordinary factoring and NPL management operations, while MB Mexico, already in liquidation, was finally wound up.

On 6 October 2016, the court of Milan approved the composition procedure under Article 161, para. 6 of the Italian bankruptcy law for Prominvestment, which had become necessary in order to complete the liquidation process for the company which had started in September 2008, without prejudice to its creditors.

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	Milan	1	A.1.1	100.00	100.00
3.	SPAFID S.P.A.	Milan	1	A.1.1	100.00	100.00
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.00	70.00
5.	MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.00	100.00
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Montecarlo	1	A.1.1	100.00	100.00
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99.95	99.95
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERES S.A.M.	Montecarlo	1	A.1.6	99.96	99.96
9.	CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.3	99.4
10.	CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.1	100.00	100.00
11.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.12	1.00	1.00
12.	COMPASS BANCA 1 S.P.A.	Milan	1	A.1.1	100.00	100.00
13.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.00	100.00
14.	MB CREDIT SOLUTION S.P.A. *	Milan	1	A.1.12	100.00	100.00
15.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.00	60.00
16.	MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.00	100.00
17.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.00	100.00
18.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
19.	MB FACTA S.P.A	Milan	1	A.1.1	100.00	100.00
20.	QUARZO S.R.L.	Milan	1	A.1.12	90.00	90.00
21.	QUARZO LEASE S.R.L.	Milan	1	A.1.15	90.00	90.00
22.	FUTURO S.P.A.	Milan	1	A.1.12	100.00	100.00
23.	QUARZO CQS S.R.L.	Milan	1	A.1.22	90.00	90.00
24.	QUARZO MB S.R.L.	Milan	1	A.1.1	90.00	90.00
25.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.00	90.00
26.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.00	100.00
27.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S.A.R.L.	Luxembourg	1	A.1.11	100.00	100.00
28.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.00	100.00
29.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.00**	51.00
30.	CAIRN CAPITAL LIMITED	London	1	A.1.29	100.00	100.00
31.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.29	100.00	100.00
32.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.29	100.00	100.00
33.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.29	100.00	100.00
34.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.29	100.00	100.00
35.	AMPLUS FINANCE LIMITED (non operating)	London	1	A.1.29	100.00	100.00
36.	SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.00	100.00
37.	BANCA ESPERIA S.P.A.	Milan	1	A.1.1	100.00	100.00

(*) Formerly Creditech S.p.A.
(**) Taking into account the put and call option exercisable as from the third anniversary of the execution date of the transaction.

Legend
1 Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence 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:

(a) When the investor has power over the investee, defined as having substantive rights over the investee’s relevant activities;

(b) When the investor has exposure, or rights, to variable returns from its involvement with the investee;

(c) When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

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

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

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

For equity-accounted companies, any differences in the carrying amount of the investment and investee company’s net equity are reflected in the book value of the investment. This value is also reduced if the investee company distributes dividends. The profit made or loss incurred by the investee company is recorded in the profit and loss account, as are any long-term reductions in value or reversals.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

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

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

5. Other information

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

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

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, paras. 33-34), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date.

SECTION 4

Events subsequent to the reporting date

Since the reporting date no events have taken place which are such as would alter the results stated in the consolidated financial statements for the year end 30 June 2017.

After clearance was received from the Bank of Italy, the transfer of 100% of Esperia Servizi Fiduciari S.p.A. from Banca Esperia S.p.A. and Spafid S.p.A. was completed on 6 September 2017. It is anticipated that the company will be merged into Spafid by the year-end.

Other significant events which have occurred since the reporting date are described in greater length in the Review of Operations.

A.2 – Significant accounting policies

Financial assets held for trading

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

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value [1] not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account.

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

[1] See Part A - Information on Fair Value, pp. 114-124 for further details.

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

AFS securities

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

AFS assets are initially recognized at fair value [2], which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over 30% or for longer than twenty-four months, compared to the initial recognition value. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to the profit and loss account for debt securities to and net equity for shares.

Financial assets held to maturity

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

[2] See Part A - Information on Fair Value, pp. 114-124 for further details.

Such assets are initially recognized at fair value [3], which is calculated as at the settlement date and includes any transaction costs or income directly attributable to them. Following their initial recognition they are measured at amortized cost using the effective interest method. Differences between the initial recognition value and the amount receivable at maturity are booked to the profit and loss account pro-rata.

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

Loans and receivables

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

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

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts

[3] See Part A - Information on Fair Value, pp. 114-124 for further details.

written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

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

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

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

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

Leasing

IAS 17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period [4].

Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

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

[4] As required by the amortized cost rules under IAS 39.

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

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

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

Equity investments

This heading consists of investments in:

- 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, which are recognized at cost.

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

Property, plant and equipment

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

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

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 (list of clients and development software) deriving from the Purchase Price Allocation process.

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

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

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

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

Derecognition of assets

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

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

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

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

Provisions for liabilities and charges

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

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

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

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities.

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

The sale of treasury shares over the market following a buyback (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.

Staff severance indemnity provision

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

Conversely, actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS 19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EE 475/12[5].

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

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

[5] These items were accounted for directly as labour costs by the Group until 30 June 2012.

date, whereas the profit-and-loss items have been converted on the basis of the average exchange rates 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.

EU regulation 634/14 introduced IFRIC 21, providing guidelines on the methods of accounting for certain taxes not covered in the treatment provided for in IAS 12.

Stock options and performance shares

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

Treasury shares

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

Dividends and commissions

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

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

Related parties

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

a) individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;

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

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

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

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

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

g) transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

A.3 - Information on transfers between financial asset portfolios

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 30/6/17	Fair value at 30/6/17	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities (ABS) [1]	Financial assets held for trading	Due from customers	70,912	72,779	(123)	952	—	952
Debt securities (ABS) [1]	AFS securities	Due from customers	8,995	9,094	38	142	—	142
Debt securities [2]	AFS securities	Financial assets held to maturity	162,149	173,660	(6,614)	9,610	—	9,610
Total			242,056	255,533	(6,699)	10,704	—	10,704

[1] Made during FY 08/09.

[2] Made during FY 10/11.

A.3.2 Reclassified financial assets: effects on comprehensive profit and loss before transfer

(€'000)

Type of instrument	Transferred from	Transferred to	Profit and Loss plus/minus (pre-tax)		Balance Sheet plus/minus (pre-tax)	
			30/6/17	30/6/16	30/6/17	30/6/16
Debt securities (ABS)	Financial assets held to maturity	Due from customers	23	4	—	—
Total			23	4	—	—

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.

For investment funds, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds, fair value is taken to be the net asset value (NAV) per stock unit published by the funds themselves. Certain other types of equity for which it is not possible to reliably determine fair value using the methods described above are stated at cost.

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

Fair value is reported according to rankings based on the quality of the input parameters used to determine it. [6]

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.

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.

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.

[6] 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.

Fair Value Adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

- Credit/debt valuation adjustment;
- Other adjustments.

Credit/debt valuation adjustment (CVA/DVA)

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

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

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

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

- Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;
- Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels or valuation parameters.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis

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

- Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. ABS are basically categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3.
- 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 where an internal model is used to determine fair value.

– 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 NAV is available daily and considered to be active; otherwise they are categorized as Level 3.

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

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

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

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

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks).

A.4.2 Measurement processes and sensibilitiesi

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 (€'000), 30/6/17**	**+/- delta vs MtM (€'000), 30/6/16**
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)	624	266
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	50	90

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value* Assets 30/6/17 (€m)**	**Fair value* Liabilities 30/6/17 (€m)**	**Fair value* Assets 30/6/16 (€m)**	**Fair value* Liabilities 30/6/16 (€m)**
OTC equity plain vanilla options, OTC equity digital options, variance swap	Black-Scholes/ Black model	Implicit volatility[1]	1.25	(9.87)	5.49	(12.84)
OTC equity basket options, best of/ worst of	Black-Scholes method	Equity-equity correlation[2]	2.80	(0.34)	7.20	-
Synthetic CDOs	Gaussian copula model using factor with base correlation	Base correlation with bootstrap starting from quoted data on liquid index tranches[3]	0.14	(0.13)	0.16	(0.29)

* 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.

[3] The base correlation is the level of relation between the default events for the underlying instruments belonging to the principal credit indexes. The correlation is obtained from the quoted market prices of synthetic CDOs on the indexes, in particular from instruments hedging the various parts of the equity structure of these indexes.

A.4.3 Fair value ranking

Transfers between levels of fair value ranking

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

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

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

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

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

(€'000)

Financial assets/Liabilities measured at fair value	30/6/17			30/6/16		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	4,302,012	3,352,940	178,951	4,101,756	5,319,409	84,130
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	5,675,439	431,611	285,630	7,851,033	567,930	220,429
4. Hedge derivatives	—	462,300	—	—	933,434	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,977,451	4,246,851	464,581	11,952,789	6,820,773	304,559
1. Financial liabilities held for trading	(2,730,204)	(3,107,364)	(83,015)	(2,286,362)	(4,794,269)	(60,827)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(341,159)	—	—	(339,900)	—
Total	(2,730,204)	(3,448,523)	(83,015)	(2,286,362)	(5,134,169)	(60,827)

The level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, in an amount of €65.4m (30/6/16: €43.2m), plus €7.4m (€4.8m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets increased from €36.1m to €106.1m, after new deals worth €97.6m [7], disposals and redemptions totalling €21.2m, and other negative changes, including movements in fair value, amounting to €6.4m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds. During the year under review AFS assets rose from €220.4m to €285.63m, representing the balance between purchases of €100.7m, only in part offset by sales of €56.3m, plus other additions totalling €20.8m (profits and valuations).

[7] For further details see section A.5, "Information on day one profit loss".

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

(€'000)

	FINANCIAL ASSETS			
	Held for trading [1]	**Recognized at fair value**	**AFS** [2]	**Hedges**
1. Balance at start of period	36,139	—	220,424	—
2. Additions	104,865	—	130,559	—
2.1 Purchases	97,579	—	100,695	—
2.2 Profits recognized in:	7,279	—	29,864	—
2.2.1 profit and loss	7,279	—	1,544	—
- of which, gains	*638*	—	—	—
2.2.2 net equity	X	X	28,320	—
2.3 Transfers from other levels	—	—	—	—
2.4 Other additions	7	—	—	—
3. Reductions	34,865	—	65,357	—
3.1 Disposals	8,352	—	56,286	—
3.2 Redemptions	12,804	—	—	—
3.3 Losses recognized in:	13,436	—	7,542	—
3.3.1 profit and loss	13,436	—	5,981	—
- of which, losses	*13,436*	—	*3,079*	—
3.3.2 net equity	X	X	1,561	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other reductions	273	—	1,529	—
4. Balance at end of period	106,139	—	285,626	—

[1] Net of the market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) as well as options traded (€65.4m and €43.2m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments in unlisted companies valued on the basis of internal models.

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]	**Recognized at fair value**	**Hedges**
1. Balance at start of period	12,838	—	—
2. Additions	7,417	—	—
2.1 Issues	421	—	—
2.2 Losses recognized in:	6,702	—	—
2.2.1 profit and loss	6,702	—	—
- of which, losses	*6,702*	—	—
2.2.2 net equity	X	X	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	294	—	—
3. Reductions	10,050	—	—
3.1 Redemptions	7,306	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2,744	—	—
3.3.1 profit and loss	2,744	—	—
- of which, gains	*2,744*	—	—
3.3.2 net equity	X	X	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	—	—	—
4. Balance at end of period	10,205	—	—

[1] Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) as well as options traded (€65.4m and €43.2m respectively).

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	30/6/17				30/6/16			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Financial assets held to maturity	2,400,203	2,433,680	50,933	—	1,975,411	1,994,385	59,439	19,459
2. Due from banks	7,959,931	—	6,696,414	1,269,332	5,386,601	—	5,114,831	269,186
3. Due from customers	38,763,124	—	8,824,394	31,966,372	37,881,476	—	12,439,572	26,399,738
4. Tangible assets held for investment purposes	79,328	—	—	158,300	70,676	—	—	136,789
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	49,202,586	2,433,680	15,571,741	33,394,004	45,314,164	1,994,385	17,613,842	26,825,172
1. Due to banks	12,689,595	—	12,689,595	—	11,940,298	—	11,940,298	—
2. Due to customers	20,365,999	—	20,383,215	—	18,164,542	—	18,185,154	—
3. Debt securities in issue	20,108,721	1,526,064	18,855,280	31,583	21,813,134	1,649,708	20,585,608	19,159
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	53,164,315	1,526,064	51,928,090	31,583	51,917,974	1,649,708	50,711,060	19,159

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.

During the period under review this principle was applied by suspending 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. This difference was generated from the use of an internal model to value the unlisted instrument which, pursuant to paras. AG76 and AG76A of IAS39, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years).

Part B - Notes to Consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/17	30/6/16
a) Cash	70,734	54,651
b) Demand deposits with Central banks	1,259,490	101,691
Total	1,330,224	156,342

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

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition **

Items/Values	30/6/17			30/6/16		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities [1]	2,281,662	450,897	2,321	2,025,974	736,434	11,194
1.1 Structured securities	10,711	16,345	—	10,955	30,496	—
1.2 Others	2,270,951	434,552	2,321	2,015,019	705,938	11,194
2. Equity instruments [2]	1,453,540	—	88,071	1,286,344	—	—
3. Units in investment funds [2]	93,736	133,017	11,691	141,488	132,444	12,055
4. Loans	9,960	59,639	—	15,234	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	9,960	59,639	—	15,234	—	—
Total A	3,838,898	643,553	102,083	3,469,040	868,878	23,249
B. Derivative instruments						
1. Financial derivatives	463,114	2,532,927	76,862	632,716	4,258,512	60,670
1.1 Trading	463,114	2,229,591	69,444 [3]	632,716	3,790,656	55,764 [3]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	303,336	7,418 [4]	—	467,856	4,906 [4]
2. Credit derivatives	—	176,460	6	—	192,019	211
2.1 Trading	—	176,460	6	—	192,019	211
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	463,114	2,709,387	76,868	632,716	4,450,531	60,881
Total (A+B)	4,302,012	3,352,940	178,951	4,101,756	5,319,409	84,130

* 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] Debt securities as at 30/6/17 include €194.7m deriving from full control of Banca Esperia being acquired.

[2] Equities as at 30/6/17 include shares committed in securities lending transactions totalling €737,408,000 (30/6/16: €483,111,000).

[3] Respectively €65,407,000 and €43,185,000 by way of options traded, with the equivalent amount being recorded as trading liabilities

[4] Includes the market value of options (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) matching those associated with bond issues recorded among financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	30/6/17	30/6/16
A. FINANCIAL ASSETS (NON-DERIVATIVES)		
1. Debt securities	2,734,880	2,773,602
a) Governments and Central banks [1]	1,977,075	1,708,687
b) Other public-sector entities	15,160	11,990
c) Banks	330,239	501,702
d) Other issuers	412,406	551,223
2. Equity instruments	1,541,611	1,286,344
a) Banks	81,293	35,583
b) Other issuers:	1,460,318	1,250,761
- Insurance companies	54,142	53,537
- Financial companies	55,014	92,027
- Non-financial companies	1,351,162	1,094,629
- Other	—	10,568
3. Units in investment funds	238,444	285,987
4. Loans	69,599	15,234
a) Goverments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	59,639	—
d) Other issuers	9,960	15,234
Total A	4,584,534	4,361,167
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,077,748	2,990,546
- Fair Value	2,077,748	2,990,546
b) Customers	1,171,621	2,153,582
- Fair Value	1,171,621	2,153,582
Total B	3,249,369	5,144,128
Total (A+B)	7,833,903	9,505,295

[1] Debt securities as at 30/6/17 include €194.7m in Italian government securities deriving from full control of Banca Esperia being acquired.

SECTION 4

Heading 40: Available for sale (AFS) securities

*4.1 AFS securities: composition**

Items/Values	30/6/17			30/6/16		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 [1]
1. Debt securities	5,222,852	383,630	70	7,157,167	567,930	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	5,222,852	383,630	70	7,157,167	567,930	—
2. Equity instruments	400,572	—	33,745	642,407	—	39,606
2.1 Designated at fair value	400,572	—	33,745	642,407	—	39,554
2.2 Recognised at cost	—	—	—	—	—	52
3. Units in investment funds [2]	52,015	47,981	251,815	51,459	—	180,823
4. Loans	—	—	—	—	—	—
Total	5,675,439	431,611	285,630	7,851,033	567,930	220,429

* 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 shares in non-listed companies based on internal rating models.

[2] The heading "UCITS stock units" as at 30/6/17 includes €77.5m deriving from full control of Banca Esperia being acquired.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/17	30/6/16
1. Debt securities	5,606,552	7,725,097
a) Governments and Central banks	3,641,240	5,761,180
b) Other public-sector entities	214,203	229,297
c) Banks	1,005,114	880,226
d) Other entities	745,995	854,394
2. Equity instruments	434,317	682,013
a) Banks	2,423	722
b) Other issuers:	431,894	681,291
- Insurance companies	—	—
- Financial companies	22,873	13,372
- Non-financial companies	404,369	661,437
- Other	4,652	6,482
3. Units in investment funds (including Private Equity funds) [1]	351,811	232,282
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	6,392,680	8,639,392

[1] The heading "UCITS stock units" as at 30/6/17 includes €77.5m deriving from full control of Banca Esperia being acquired.

4.3 AFS securities: assets subject to specific hedging

	30/6/17	30/6/16
1. Financial instruments subject to fair value micro hedging	2,255,207	1,909,659
a) Interest rate risk	2,255,207	1,909,659
b) Currency rsk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Financial instruments subject to cash flow micro hedging	240,019	85,692
a) Interest rate risk	—	—
b) Currency rsk	—	—
c) Other	240,019	85,692
Total	2,495,226	1,995,351

SECTION 5

Heading 50: Financial assets held to maturity

*5.1 Financial assets held to maturity: composition **

	30/6/17				30/6/16			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	2,400,203	2,433,680	50,933	—	1,975,411	1,994,385	59,439	19,459
- structured	—	—	—	—	—	—	—	—
- other	2,400,203	2,433,680	50,933	—	1,975,411	1,994,385	59,439	19,459
2. Loans	—	—	—	—	—	—	—	—

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

5.2 Assets held to maturity: by borrower/issuer

	30/6/17	30/6/16
1. Debt securities	2,400,203	1,975,411
a) Government and Central banks	1,747,751	1,115,134
b) Other public-sector entities	—	—
c) Banks	256,405	265,196
d) Other issuers	396,047	595,081
2. Loans	—	—
a) Government and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	2,400,203	1,975,411
Total Fair Value	2,484,613	2,073,283

SECTION 6

Heading 60: Due from banks

*6.1 Due from banks: composition **

Type of transactions/Values	30/6/17				30/6/16			
	Fair Value	Fair value			Fair Value	Fair value		
		Level 2	Level 3	Level 3		Level 2	Level 3	Level 3
A. Loans to Central Banks	208,806	—	208,809	—	162,893	—	162,896	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	208,806	X	X	X	162,893	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	7,751,125	—	6,487,605	1,269,332	5,223,708	—	4,951,935	269,186
1. Loans[1]	7,751,125	—	6,487,605	1,269,332	5,223,708	—	4,951,935	269,186
1.1 Current accounts and demand deposits	1,276,888	X	X	X	1,087,313	X	X	X
1.2 Time deposits	51,223	X	X	X	48,528	X	X	X
1.3 Other loans	6,423,014	X	X	X	4,087,867	X	X	X
- Repos	5,315,656	X	X	X	2,628,164	X	X	X
- Finance leases	4,703	X	X	X	4,795	X	X	X
- Other	1,102,655	X	X	X	1,454,908	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	—	X	X	X	—	X	X	X
Total	7,959,931	—	6,696,414	1,269,332	5,386,601	—	5,114,831	269,186

* 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] As at 30/6/17 this item includes €79.2m deriving from acquisition of full control of Banca Esperia, and chiefly involves current accounts and untied deposits (€71.3m) as well as tied deposits in an amount of €6.1m.

6.2 Due from banks assets subject to specific hedging

	30/6/17	30/6/16
1. Receivables subject to specific hedging of fair value	1,921	—
a) Interest rate risk	1,921	—
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Receivables subject to specific hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
Total	1,921	—

*6.3 Financial leasing **

	30/6/17				
	Non performing exposures	Minmum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	—	285	46	331	—
Between 3 months and 1 year	—	873	117	990	3
Between 1 year and 5 years	—	2,696	253	2,949	—
Over 5 years	—	857	110	967	18
Unspecified	—	—	—	—	—
Total	—	4,711	526	5,237	21

* The table, based on the "Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers" published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

SECTION 7

Heading 70: Due from customers

*7.1 Due from customers: composition **

Type of transaction/Value	30/6/17						30/6/16					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Non performing		Level 1	Level 2	Level 3	Performing	Non performing		Level 1	Level 2	Level 3
		Purchased	Other					Purchased	Other			
Loans [1]	37,336,867	134,768	940,536	—	8,748,122	31,825,394	36,674,996	70,451	946,257	—	12,363,379	26,284,052
1. Current accounts	1,101,170	—	3,095	X	X	X	188,140	—	151	X	X	X
2. Repos	677,543	—	—	X	X	X	3,567,070	—	—	X	X	X
3. Mortgages [2]	19,286,249	—	558,796	X	X	X	17,916,862	—	527,343	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,158,017	118,129	159,801	X	X	X	8,727,568	70,451	145,291	X	X	X
5. Financial leases	2,098,886	16,639	167,023	X	X	X	2,258,599	—	227,840	X	X	X
6. Factoring	1,481,940	—	14,385	X	X	X	791,335	—	10,154	X	X	X
7. Other loans	3,533,062	—	37,436	X	X	X	3,225,422	—	35,478	X	X	X
Debt securities	350,953	—	—	—	76,272	276,649	189,772	—	—	—	79,193	115,686
8. Structured instruments	—	—	—	X	X	X	—	—	—	X	X	X
9. Others	350,953	—	—	X	X	X	189,772	—	—	X	X	X
Total	37,687,820	134,768	940,536	—	8,824,394	32,102,043	36,864,768	70,451	946,257	—	12,442,572	26,399,738

* 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] This item includes €930.1m in performing loans and €11.6m in non-performing items deriving from acquisition of 100% of Banca Esperia, chiefly involving current accounts and untied deposits and the sub-heading "Other loans and advances".

[2] This item includes €2,043.6m in performing loans deriving from the Barclays' acquisition plus €26.3m in non-performing items.

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/17			30/6/16		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by:	350,954	—	—	189,772	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	350,954	—	—	189,772	—	—
- Non-financial companies	74,064	—	—	—	—	—
- Financial companies	276,890	—	—	189,772	—	—
- Insurance companies	—	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	37,336,866	134,768	940,536	36,674,996	70,451	946,257
a) Governments	154,762	—	—	—	—	—
b) Other public-sector entities	14,152	—	13,421	441,253	—	14,648
c) Other entities	37,167,952	134,768	927,114	36,233,743	70,451	931,609
- Non-financial companies	12,480,296	21,823	528,739	14,365,068	1,074	582,478
- Financial companies	3,554,535	179	26,370	4,603,597	—	19,179
- Insurance companies	978,121	—	1	783,257	—	1
- Other [1]	20,155,000	112,766	372,005	16,481,821	69,377	329,951
Total	37,687,820	134,768	940,536	36,864,768	70,451	946,257

[1] This item includes €2,043.6m in performing loans deriving from the Barclays' acquisition and €930.1m deriving from the Banca Esperia acquisition; plus €26.3m in non-performing items from the Barclays' deal and €11.6m from the Banca Esperia deal.

7.3 Due from customers: assets subject to specific hedging

	30/6/17	30/6/16
1. Loans and receivables subject to micro-hedging of fair value	2,240,767	1,046,593
a) Interest rate risk	2,240,767	1,046,593
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risk	—	—
2. Loans and receivables subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Expected transaction	—	—
d) Other hedged activities	—	—
Total	2,240,767	1,046,593

*7.4 Financial leasing **

	30/6/17				
	Non performing exposures	Minimum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	43,843	113,776	17,700	188,716	2,627
Between 3 months and 1 year	1,389	291,050	38,287	339,002	9,434
Between 1 year and 5 years	121,791	1,005,251	143,452	1,270,497	99,531
Over 5 years	—	685,754	80,420	766,171	199,218
Unspecified	—	—	—	—	—
Total	167,023	2,095,831	279,859	2,564,386	310,810

* The table, based on the "Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers" published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	30/6/17				30/6/16			
	Fair value			Nominal value	Fair value			Nominal Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	462,300	—	7,803,389	—	933,434	—	9,622,800
1) Fair value	—	462,300	—	7,803,389	—	926,811	—	9,537,121
2) Cash flow	—	—	—	—	—	6,623	—	85,679
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	462,300	—	7,803,389	—	933,434	—	9,622,800

8.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction/Type of hedging	Fair value						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	—	—	—	X	—	X	—	X	X
3. Held-to-maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	—	—	—	—
1. Financial liabilities	462,300	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	462,300	—	—	X	—	—	—	—	X
1. Estimated transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under signficant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	13.0	13.0
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.37	25.37
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Milan	2	Mediobanca S.p.A.	22.13	22.13

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.

10.2 Equity investments: book values, fair values and dividends received

Company name	Book value	Fair Value *	Dividends received **
A. Entities under signficant influence			
1. Assicurazioni Generali S.p.A.	2,997,464	2,921,102	162,171
2. Istituto Europeo di Oncologia S.r.l.	39,029	n.a.	—
3. Burgo Group S.p.A.	—	n.a.	—
4. Others	48	n.a.	—
Total	3,036,541	—	—

* 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 2017, the book value of the "Equity investments" heading totalled €3,036.5m.

During the twelve months under review, the other 50% of Banca Esperia not already owned by Mediobanca was acquired from the Mediolanum for a consideration of €141m, with a premium being paid implicitly to the other party to acquire control. It is felt that the deal should generate substantial synergies in terms of keeping down costs and enabling the Group to reformulate its service offering.

Under the terms of IFRS 3 the deal constitutes a “step acquisition”, as via the transaction the company went from being a joint venture to becoming 100%-owned. In situations like this, the standard requires that the value of the investment already held must be recalculated at the acquisition date, assuming that the minority investment is sold at fair value immediately prior to the acquisition whereby control is achieved and bought back along with it immediately afterwards.

The book value of Banca Esperia has been calculated by adopting the minority approach as the methodology used to calculate fair value [1] and using the market approach. To calculate the value reference has been made to the stock market values of SGRs listed on European markets, selecting a sample of companies deemed to be comparable. The value for 100% of Banca Esperia (arrived at by using a value map [2]) is in line with its net equity at the PPA date. Thus a fair value emerged for 50% of the investment prior to control being acquired, which is equal to the pro rata share of net equity, i.e. €92.9m.

The addition of the Istituto Europeo di Oncologia investment should also be noted (book value: €39m) after the Group’s interest rose from 14.8% to 25.4% due to acquisitions of stakes from other shareholders.

Finally, amounts collected as a result of the Athena PE liquidation process (totalling €2.3m) meant that the condition of significant influence ceased to apply, hence the investment was transferred to the AFS portfolio in December 2016.

The equity investments subject to significant influence are valued 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.

[1] IFRS 3 provides for two alternative approaches: the minority approach (chosen by the Mediobanca Group on this occasion) and the majority approach.

[2] The value map is based on the fundamental relation between the market cap./AUM multiple and the return on AUM variables, subject to application of a straight line regression.

Impairment testing of equity investments

The value of the equity investments has been subjected to impairment testing, as required by IAS28, IAS36, IFRS10 and IFRS11, in order to ascertain whether or not there is objective evidence to suggest that the full book value at which the assets were recognized might not be able to be recovered.

For investments in associates and jointly-controlled enterprises, 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:

- 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 by more than two notches;
- Quantitative indicators: market capitalization below the company's net asset value, in cases where the securities are listed on active markets.

Where there are indicators of impairment, the recoverable value is calculated from the higher between fair value (net of sales costs) and net present value, and if the recoverable value is lower than the book value, impairment charges are recorded.

IAS 28, paragraph 41A states that:

- Impairment charges must be taken in respect of an asset if the book value is higher than the recoverable value defined by IAS 36 as the higher between the fair value (net of sales costs) and the net present value;
- To calculate fair value (as governed by IFRS 13), the methodologies that may be used are as follows:
  - Stock market prices, in cases where the investee company is listed on an active market;
  - Valuation models generally recognized by the market, including market multiples, for significant transactions in particular.

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

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

It should be noted that prudential factors have been used to value the equity investments, in the estimate of cash flows and the discount rates.

* * *

Accounting data for the investee companies accounted for using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2016.

10.3 Significant investments: accounting data

Company name	Entities under signficant influence Assicurazioni Generali S.p.A.
Cash and cash-convertible assets	X
Financial assets	480,962
Non-financial assets	32,689
Financial liabilities	60,966
Non-financial liabilities	434,550
Total revenues	86,103
Interest margin	X
Adjustments and reversals on tangible and intangible assets	X
Profit/(Loss) on ordinary activities before tax	3,157
Profit/(Loss) on ordinary activities after tax	2,239
Profit/(Loss) on held-for-sale assets after tax	—
Profir/(Loss) for the period (1)	2,239
Other profit/(loss) components after tax (2)	(69)
Total profit/(loss) for the period (3) = (1) + (2)	2,170

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

Company name	Aggregate net equity	Pro rata net equity	Differences arising upon consolidation [1]	Consolidated book value [2]
Companies under significant influence				
Assicurazioni Generali S.p.A.	23,080,132	3,000,214	(2,752)	2,997,463

[1] The differences arising on consolidation for Assicurazioni Generali refer to the Mediobanca shares owned by the company (worth €21.2m; pro rata €2.8m).

[2] The book value of the Assicurazioni Generali investment also reflects the dividend received in May 2017 (€162.2m).

As at 30 June 2017 the market value of the Assicurazioni Generali was €2,921.2m, i.e. lower than the book value of €2,997.5m. As required by IAS 28, then, and in accordance with the internal policy, an impairment test was carried out which involved establishing the investment's net present value, bearing in mind *inter alia* the following issues:

– Mediobanca has historically been the leading shareholder of the Assicurazioni Generali group with a share of 13% of the ordinary share capital;

– The book value of the investment is aligned with the Assicurazioni Generali group's net asset value (pro rata) and does therefore does not factor in any goodwill.

The excess capital version of the dividend discount model was used to determine the net present value. For purpose of the analysis, leading financial analysts' estimates for the 2017-19 period have been used, along with a cost of capital and growth rate considered to be consistent with the macroeconomic scenario prevailing as at 30 June 2017.

The flows used are also consistent with the targets disclosed by the company in May 2015 and confirmed in the presentation of the 2016 results. A sensitivity analysis has also been carried out on the results obtained to reflect changes in the valuation parameters.

The impairment testing process has confirmed that the recoverable value of the investment is higher than its book value; hence under the terms of IAS 28 paragraph 41A, the investment has passed the impairment test.

Furthermore, since the reporting date the stock market price has returned to levels above the book value at which the investment is recognized (€14.79 per share).

10.4 Non-significant investments: accounting data

(€m)

	B. Entities under signficant influence	
Company name	**Istituto Europeo di Oncologia S.r.l.**	**Burgo Group S.p.A**
Book value of equity interests	39	—
Total assets	255	1.644
Total liabilities	146	1.350
Total revenues	326	1.991
Profit/(Loss) on ordinary activities after tax	8	5
Profit/(Loss) for held-for-sale assets after tax	—	—
Profit/(Loss) for the period (1)	8	5
Other profit/(loss) components after tax (2)	—	—
Total profit/(loss) (3)=(1)+(2)	8	5

For details on the nature of the relationship, please see Section 10.1.

10.5 Equity investments: movements during the period

	30/6/17	30/6/16
A. Opening balance	3,193,345	3,411,361
B. Increases	51,671	23,406
B.1 Purchases	38,995	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	12,676	23,406
C. Decreases	208,475	241,422
C.1 Sales	95,179	61,363
C.2 Adjustments	—	—
C.3 Other changes	113,296	180,059
D. Closing balance	3,036,541	3,193,345
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible core assets stated at cost

Assets/Values	30/6/17	30/6/16
1. Assets owned by the Group	226,228	234,168
a) land	84,883	84,883
b) buildings	103,836	107,349
c) furniture	10,105	10,558
d) electronic equipment	11,293	11,466
e) other assets	16,111	19,912
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	226,228	234,168

12.2 Tangible assets held for investment purposes stated at cost : composition

Assets/Values	30/6/17				30/6/16			
	Book Value	Fair Value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Assets owned by the Group	79,328	—	—	158,300	70,676	—	—	136,789
a) land	30,224	—	—	85,205	27,401	—	—	79,542
b) buildings	49,104	—	—	73,095	43,275	—	—	57,247
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	79,328	—	—	158,300	70,676	—	—	136,789

12.5 Tangible core assets: movements during the period

Assets/Values	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	84,883	144,973	39,710	28,828	81,552	379,946
A.1 Total net reduction value	—	(37,624)	(29,152)	(17,362)	(61,640)	(145,778)
A.2 Net opening balance	84,883	107,349	10,558	11,466	19,912	234,168
B. Increases	—	764	3,654	2,752	7,849	15,019
B.1 Purchases	—	122	2,652	2,009	5,704	10,487
B.2 Capitalized expenditures on improvements	—	642	—	—	—	642
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
B.5 Exchange differences (+)	—	—	1	—	—	1
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	—	1,001	743	2,145	3,889
C. Decreases	—	4,277	4,107	2,925	11,650	22,959
C.1 Sales	—	—	881	517	1,455	2,853
C.2 Amortizations	—	4,276	3,061	2,133	6,221	15,691
C.3 Impairment losses allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.4 Negative changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.5 Exchange differences (+)	—	1	8	5	6	20
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	157	270	3,968	4,395
D. Net closing balance	84,883	103,836	10,105	11,293	16,111	226,228
D.1 Total net write-downs	—	(40,605)	(33,134)	(20,727)	(57,272)	(151,738)
D.2 Final gross balance	84,883	144,441	43,239	32,020	73,384	377,967
E. Carried at cost	—	—	—	—	—	—

12.6 Tangible assets held for investment purposes: movements during the period

	Total	
	Land	**Building**
A. Opening balance	27,401	43,275
B. Increases	2,987	8,209
B.1 Purchases	2,987	8,209
B.2 Capitalized expenditures on improvements	—	—
B.3 Increases in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange difference	—	—
B.6 Transfers from properties used in the business	—	—
B.7 Other changes	—	—
C. Reductions	164	2,380
C.1 Disposals	164	486
C.2 Depreciations	—	1,894
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C.5 Negative exchange differences	—	—
C.6 Transfers to:	—	—
a) properties used in the business	—	—
b) non-current assets classified as held-for-sale	—	—
C.7 Other changes	—	—
D. Closing balance	30,224	49,104
E. Measured at fair value	85,205	73,095

These consist of the following properties:

Properties	**SQU. m.**	**Book value (€'000)**	**Book value per SQU.m. (€'000)**
Rome	8,228	25,505	3.1
Lecce	21,024	19,639	0.9
Verona *	30,502	10,143	0.3
Bologna *	9,571	7,029	0.7
Brescia	3,848	2,004	0.5
Pavia	2,250	1,263	0.6
Other *	83,666	13,745	0.2
Total	159,089	79,328	

* Figures include both warehouses and buildings used as offices.

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets: composition

Assets/Values	30/6/17		30/6/16	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	483,557	X	416,740
A.1.1 Attributable to the Group	X	483,557	X	416,740
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	68,651	—	36,192	—
A.2.1 Assets valued at cost	47,002	—	36,192	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	47,002	—	36,192	—
A.2.2 Assets valued at fair value	21,649	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets1	21,649	—	—	—
Total	68,651	483,557	36,192	416,740

[1] Related to the client list from Barclays acquisition.

13.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other intangible assets		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	416,740	—	—	153,703	—	570,443
A.1 Total net reduction in value	—	—	—	(117,511)	—	(117,511)
A.2 Net opening balance	416,740	—	—	36,192	—	452,932
B. Increases	66,817	—	—	67,859	—	134,676
B.1 Purchases [1]	66,817	—	—	59,080	—	125,897
B.2 Increases in intangible assets generated internally	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Increases in fair value allocated to:	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other changes	—	—	—	8,779	—	8,779
C. Reduction	—	—	—	35,400	—	35,400
C.1 Disposals	—	—	—	—	—	—
C.2 Write-downs	—	—	—	27,035	—	27,035
- Amortization	X	—	—	27,035	—	27,035
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Reduction in fair value allocated to	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to non-current assets held-for-sale	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	1	—	1
C.6 Other changes	—	—	—	8,364	—	8,364
D. Net closing balance	483,557	—	—	68,651	—	552,208
D.1 Total net reduction in value	—	—	—	(138,641)	—	(138,641)
E. Closing balance	483,557	—	—	207,292	—	690,849
F. Carried at cost	—	—	—	—	—	—

[1] The heading "Purchases of intangible assets with time-limited life" includes €26m in customer relationships emerging from the purchase price allocation process in connection with the Barclays acquisition, and other intangible assets deriving from the recent acquisitions by Spafid and Spafid Connect in a total amount of €4.4m.

Information on intangible assets and goodwill

Intangible assets also include the effects of the acquisitions made by the Group in recent years, in particular the following acquisitions:

- In June 2008 Compass acquired of 100% of leading consumer credit company Linea (which in turn owned 100% of salary-backed finance operator Futuro);

– In August 2014 Spafid acquired the fiduciary business unit of the Istituto Fiduciario Italiano (IFID), and in June 2015 it acquired Spafid Connect (a company which provides corporate services in connection with the annual general meetings of listed companies);

– In December 2015 Mediobanca S.p.A. acquired a controlling interest in Cairn Capital Group Ltd, the London-based asset management and advisory company specializing in credit products;

– During the twelve months under review, Chebanca! acquired Barclays' Italian retail operations (August 2016); Compagnie Monégasque de Banque acquired a business unit consisting of existing accounts with a portfolio of clients resident chiefly in African Francophone countries and in Latin America from CMF Indosuez Wealth of the Crédit Agricole group (September 2016); Spafid Connect acquired the ISPS (Information Services Professional Solutions) division from the London Stock Exchange group to provide financial information services (February 2017); while Mediobanca S.p.A. itself acquired the other 50% of Banca Esperia which it did not already own from the Mediolanum group in April 2017.

Overall the above transactions contribute a total of €516.9m to the heading Intangible assets, €33.3m of which accounted for intangible assets with time-limited life after emerging from the purchase price allocation process (PPA) and €483.6m as goodwill. For the most recent acquisitions (Banca Esperia and division former Crédit Agricole) the PPA process has not yet been completed.

Table 1: Other intangible assets acquired through extraordinary transactions

Type	**Deal**	**30/6/17**	**30/6/16**
Customer relationship		25,884	600
	IFID	*408*	*600*
	Spafid	*699*	—
	ISPS	*3,129*	—
	Barclays	*21,648*	—
Brand	*ISPS*	983	—
Commercial agreements	Linea	1,370	2,740
Acquired software	Spafid Connect	5,077	3,088
Total		**33,314**	**6,428**

Table 2: Goodwill

Deal	30/6/17	30/6/16
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	3,831	—
Cairn Capital	42,225	44,924
Banca Esperia	59,061	—
CMB-division former Crédit Agricole	6,624	—
Total	**483,557**	**416,740**

For all the transactions referred to above, an overview of the main effects of the PPA process are set out below (table 3), with an indication of how the residual goodwill has been allocated between the individual cash-generating units (CGUs) (table 4).

Table 3: Summary of PPA effects

	Linea	IFID	Spafid Connect	Cairn	ISPS
Acquisition date	*27 June 2008*	*1 August 2014*	*18 June 2015*	*31 December 2015*	*28 February 2017*
Price paid	406,938	3,600	5,124	28,046	10,360
of which: ancillary charges	*2,000*	*200*	—	—	—
Liabilities	—	—	—	23,669	—
Intangible assets, defined life	44,200	700	3,250	—	4,319
no. of years amortization	*8*	*7*	*10*	—	—
Brands	6,300	—	—	—	—
Balance of other assets (liabilities)	2,659	(420)	466	9,490	2,210
Tax effects	(12,155)	(220)	(934)		
Goodwill	**365,934**	**3,540**	**2,342**	**42,225**	**3,831**

Table 4: Overview of cash-generating units

CGU	Deal	30/6/17	30/6/16
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
Corporate services	Spafid Connect	2,342	2,342
Corporate services	ISPS	3,831	—
Cairn Capital		42,225	44,924
CMB	ex-CA operations	6,624	—
Esperia		59,061	—
Total goodwill		**483,557**	**416,740**

The Linea acquisition (€407m) generated goodwill of €365.9m and specific intangible assets recorded separately and not booked to the accounts for a total of €50.5m, €6.3m of which in brands written off in the 2014 financial statements, and the remainder now virtually amortized in their entirety (amount outstanding at the reporting date: €1.4m). The deal has been allocated to three 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 totalling €700,000 (€500,000 outstanding at the reporting date). The deal has been allocated to the "services to private customers" CGU.

The Spafid Connect acquisition (€5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m (amount outstanding at the reporting date: €2.8m). The deal has been allocated to the "Services for Issuers" CGU.

The deal to acquire the Barclays' Italian business unit required Barclays to pay badwill of €240m, generating, in application of the purchase price allocation process, intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years.

The Cairn Capital acquisition (£23m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation process, from which no other intangible assets to be stripped out emerged. The goodwill is aligned with the current exchange rate. Cairn Capital Group has been treated as a single CGU.

The acquisition of the ISPS business unit (€10.4m) generated goodwill of €3.8m and intangible assets with time-limited life with an overall value of €4.3m and an average useful life of fifteen years (following the purchase price allocation process completed during the year under review). The unit acquired has been allocated to the "Services to Issuers" CGU.

The purchase price allocation process for the two deals executed during the year (former Credit Agricole business unit and Banca Esperia) has not yet been completed. According to IFRS 3 the process must be completed within twelve months of the acquisition date.

The former Credit Agricole business unit acquisition entails the payment of a consideration, to be established on the basis of the portfolio's profitability, equal to 75% of the market value of the AUM at the transfer date. The consideration is to be paid in two tranches, with a price adjustment scheduled for 30 November 2017 on the date of the first anniversary to take into account any client exits. Pending the conclusion of the PPA process, the entire acquisition value of €6.4m has been allocated as goodwill.

The acquisition of the other 50% di Banca Esperia, for a consideration of €141m, qualifies as a step acquisition. Application of IFRS 3 and valuation of the investment using the minority approach has established a new book value for 100% of the company of €233.9m, incorporating goodwill of €53.4m. The purchase price allocation will be completed by year-end 2017.

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 July 2016, governing the impairment testing process which incorporates the guidance issued jointly by the Bank of Italy, Consob, IVASS (document no. 4 dated 3 March 2010) and the *Organismo Italiano di Valutazione* (discussion paper no. 1/2012), as well as the recommendations made by Consob in its communication no. 3907 issued on 19 January 2015.

The recoverable value for goodwill has been estimated using the excess capital version of the dividend discount model methodology, which is commonly used for this purpose by financial institutions.

The cash flows have been projected over a time horizon of three-four years and reflect the assumptions on which the Group's strategic plan is based, as well as the most recent market scenarios.

To estimate the cost of capital, certain parameters common to all CGUs have been used, namely:

– The risk-free rate, identified as the 12-month average on ten-year BTPs in order to ensure the Italy country risk is factored in;
– The market risk premium, which reflects the average risk premium commonly accepted by valuation practice for Italy country risk, taking into consideration 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 [3];
– 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.

[3] For the ISPS deal a size premium was also factored in (an adjustment to the risk premium generally used for companies of small size).

Table 5: Cost of equity parameters common to all CGUs

	30/6/17 [1]	30/6/16
Risk-free rate	1.82%	1.63%
Risk premium	6.40%	6.75%
Estimated growth rate	1.50%	1.50%

[1] For the Cairn Capital group the parameters used were as follows: 1.08%; 5.50% and 2%.

However, all the individual CGUs show a different cost of equity, based on the difference in the systemic risk indicator (Beta) considered over a two-year time horizon based on market peers for each individual activity. The different costs of capital based on the Beta used are shown in the table below.

Table 6: Beta 2y e cost of equity per CGU

CGU	Beta 2Y 2017	Ke 2017	Ke 2016
Consumer credit	0.83	7.12%	7.55%
Credit cards	0.83	7.12%	7.55%
Salary-backed finance	0.83	7.12%	7.55%
Fiduciary services	1.05	8.56%	8.30%
Corporate services to issuers	0.34	9.02%	5.34%
Cairn Capital	1.19	7.63%	

All segments passed the impairment test, as the net present value was higher than the book value. A sensitivity analysis exercise was also performed, to ascertain the results in various scenarios, such as 0.25% increase or decrease in the cost of equity and/or a 0.50% increase or decrease in the growth rate.

SECTION 14

Asset heading 140 and Liability heading 80: Tax assets and liabilities

14.1 Advance tax assets: composition

	30/6/17	30/6/16
Balancing to the Profit and Loss	700,672	728,782
Balancing to the Net Equity	14,687	22,545
Total	715,359	751,327

14.2 Deferred tax liabilities: composition

	30/6/17	30/6/16
Balancing to the Profit and Loss	290,368	279,641
Balancing to the Net Equity	79,878	85,433
Total	370,246	365,074

14.3 Changes in advance tax during the period

	30/6/17	30/6/16
1. Opening balance	728,782	715,467
2. Increases	41,108	113,379
2.1 Deferred tax assets of the year	28,417	113,297
a) Relating to previous years	2,589	2,638
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	25,828	110,659
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	12,691	82
3. Decreases	69,218	100,064
3.1 Deferred tax assets derecognised in the year	59,422	97,951
a) Reversals of temporary differences	59,164	97,581
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	258	370
3.2 Reduction in tax rates	173	—
3.3 Other decreases	9,623	2,113
a) Conversion into tax credit under L. 214/2011	99	2,035
b) Other	9,524	78
4: Final amount	700,672	728,782

14.3.1 Changes in advance tax during the period (pursuant to Italian Law 214/2011) *

	30/6/17	30/6/16
1. Opening balance	647,526	627,793
2. Increases	3,415	103,073
3. Decreases	41,867	83,340
3.1 Reversals of temporary differences	40,243	80,945
3.2 Conversion on tax credit deriving from	—	2,035
a) year losses	—	—
b) tax losses	—	2,035
3.3 Other decreases	1,624	360
4. Final amount	609,074	647,526

* Mediobanca has elected to retain its right to take advantage of the possibility of converting DTAs into tax credits provided for by Italian decree law 59/16 on 29 April 2016, as amended by Italian decree law 237/16. The exercise of this option is effective for all companies included in the tax consolidation. Such companies are not required to make the annual 1.5% payment as the tax paid by the consolidating entity exceeds the increase in the DTAs at the reporting date since 30 June 2008.

14.4 Changes in deferred tax during the period (balancing to the profit and loss)

	30/6/17	30/6/16
1. Opening balance	279,641	282,899
2. Increases	20,704	640
2.1 Deferred tax liabilities of the year	18,810	404
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	18,810	404
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1,894	236
3. Decreases	9,977	3,898
3.1 Deferred tax liabilities derecognised in the year	6,637	930
a) Reversals of temporary differences	310	930
b) Due to change in accounting policies	—	—
c) Other	6,327	—
3.2 Reductions in tax rates	35	80
3.3 Other decreases	3,305	2,888
4. Final amount	290,368	279,641

14.5 Changes in advance tax during the period (balancing to the net equity) [1]

	30/6/17	30/6/16
1. Opening balance	22,545	20,185
2. Increases	28,039	38,347
2.1 Deferred tax assets of the year	25,091	37,637
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	25,091	37,637
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	2,948	710
3. Decreases	35,897	35,987
3.1 Deferred tax assets derecognised during the year	34,618	35,984
a) Reversals of temporary differences	31,221	35,968
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	3,397	16
3.2 Reduction in tax rates	1,261	—
3.3 Other decreases	18	3
4. Final amount	14,687	22,545

[1] Taxes on cash flow hedges and AFS securities valuations.

14.6 Changes in deferred tax during the period (balancing to the net equity) [1]

	30/6/17	30/6/16
1. Opening balance	85,433	82,169
2. Increases	313,559	324,426
2.1 Deferred tax liabilities of the year	310,367	323,499
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	310,367	323,499
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3,192	927
3. Decreases	319,114	321,162
3.1 Deferred tax liabilities derecognised in the year	317,724	321,092
a) Reversals of temporary differences	316,824	319,684
b) Due to change in accounting policies	—	—
c) Other	900	1,408
3.2 Reduction in tax rates	—	70
3.3 Other decreases	1,390	—
4. Final amount	79,878	85,433

[1] Taxes on cash flow hedges and AFS securities valuations.

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	30/6/17	30/6/16
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	15,370	7,510
3. Trade receivables or invoices to be issued	209,129	142,235
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	205,527	202,714
5. Other items	130,812	75,512
- bills for collection	30,246	7,748
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	23,827	24,810
- advance payments on deposit commissions	3,205	6,916
- other items in transit	40,225	20,761
- amounts due from staff	369	317
- sundry other items	30,286	12,095
- improvements on third parties' assets	2,654	2,865
Total	561,533	428,666

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	30/6/17	30/6/16
1. Deposits from Central Banks [1]	5,898,813	5,513,463
2. Deposits from banks	6,790,782	6,426,835
2.1 Other current accounts and demand deposits	484,662	620,291
2.2 Time deposits	13,172	18,024
2.3 Loans	6,118,109	5,783,605
2.3.1 Repos	2,797,931	1,597,598
2.3.2 Other	3,320,178	4,186,007
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	174,839	4,915
Total	12,689,595	11,940,298
Fair Value - Level 1	—	—
Fair Value - Level 2	12,689,595	11,940,298
Fair Value - Level 3	—	—
Total Fair Value	12,689,595	11,940,298

[1] As at 30/6/17 this item includes €251.3m deriving from acquisition of 100% of Banca Esperia consisting of securities on deposit with the Bank of Italy.

1.4 Due to banks: items subject to specific hedges

	30/6/17	30/6/16
1. Liability items subject to micro-hedging of fair value:	1,115,469	1,196,684
a) Interest rate risk	1,115,469	1,196,684
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows;	1,525,000	1,805,000
a) Interest rate risk	1,525,000	1,805,000
b) Currency risk	—	—
c) Other	—	—
Total	2,640,469	3,001,684

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	30/6/17	30/6/16
1. Current accounts and demand deposits [1]	13,976,774	9,240,571
2. Time deposits including saving deposits with maturity [2]	4,591,746	5,477,191
3. Loans	1,660,672	3,341,831
3.1 Repos	577,708	2,373,602
3.2 Other	1,082,964	968,229
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	136,807	104,949
Total	20,365,999	18,164,542
Fair Value - Level 1	—	—
Fair Value - Level 2	20,383,215	18,185,154
Fair Value - Level 3	—	—
Total Fair Value	20,383,215	18,185,154

[1] As at 30/6/17 this item includes €2,496.7m deriving from acquisition of the Barclays' business unit and €1,137m deriving from acquisition of 100% of Banca Esperia.

[2] As at 30/6/17 this item includes €157.9m deriving from acquisition of 100% of Banca Esperia.

2.4 Due to customers: items subject to specific hedges

	30/6/17	30/6/16
1. Liability items subject to micro-hedging of fair value:	129,724	164,919
a) Interest rate risk	129,724	164,919
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows:	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	129,724	164,919

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/ Values	30/6/17				30/6/16			
	Book Value	Fair Value *			Book Value	Fair Value *		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt certificates including bonds								
1. Bonds	19,345,948	1,526,064	18,124,091	—	20,645,320	1,649,708	19,436,953	—
1.1 structured	6,366,798	—	6,600,518	—	8,260,581	—	8,589,242	—
1.2 other	12,979,150	1,526,064	11,523,573	—	12,384,739	1,649,708	10,847,711	—
2. Other structured securities	762,773	—	731,189	31,583	1,167,814	—	1,148,655	19,159
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	762,773	—	731,189	31,583	1,167,814	—	1,148,655	19,159
Total	20,108,721	1,526,064	18,855,280	31,583	21,813,134	1,649,708	20,585,608	19,159

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2017 would show a gain of €216.4m (€305m).

Debt securities in issue declined from €20,645,320,000 to €19,345,948,000, on new issuance of €3bn, redemptions and buybacks of €4.2bn (generating losses of €16.8m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €105.6m.

3.2 Breakdown of heading 30 "Debt securities in issue": subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,479,907,000:

Issue	30/6/17		
	ISIN code	Nominal value	Book value
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Not included in calculation of regulatory capital)	XS0270002669	22,129	25,202
MB Subordinato Mar 29	XS1579416741	50,000	50,477
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	613,502	674,589
MB OPERA 3.75 2026	IT0005188351	298,666	284,382
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	395,636	397,120
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,701	506,989
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,691	541,148
Total subordinated securities		2,375,325	2,479,907

3.3 Breakdown of heading 30 “Debt securities in issue”: items

	30/6/17	30/6/16
1. Securities subject to micro-hedging of fair value:	12,440,986	13,545,111
a) Interest rate risk	12,440,986	13,545,111
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	4,622,065	4,724,559
a) Interest rate risk	4,622,065	4,724,559
b) Currency risk	—	—
c) Other	—	—
Total	17,063,051	18,269,670

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/ Values	30/6/17					30/6/16				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Financial liabilities										
1. Deposits from banks	1,456,852	1,710,400	182	—	1,710,582	771,649	825,840	53	—	825,893
2. Deposits from customers	445,006	522,452	55	—	522,507	747,165	799,638	51	—	799,689
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	1,901,858	2,232,852	237	—	2,233,089	1,518,814	1,625,478	104	—	1,625,582
B. Derivative instruments										
1. Financial derivatives	—	497,352	2,679,520	83,015	X	—	660,884	4,260,188	60,827	X
1.1 Trading	X	497,352	2,362,770	74,114 [1]	X	X	660,884	3,782,340	55,642 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	316,750	8,901 [2]	X	X	—	477,848	5,185 [2]	X
2. Credit derivatives	—	—	427,607	—	X	—	—	533,977	—	X
2.1 Trading	X	—	427,607	—	X	X	—	533,977	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total B	X	497,352	3,107,127	83,015	X	X	660,884	4,794,165	60,827	X
Total (A + B)	X	2,730,204	3,107,364	83,015	X	1,518,814	2,286,362	4,794,269	60,827	1,625,582

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

[1] Respectively €65,407,000 and €43,185,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€7.4m at 30/6/17 and €4.8m at 30/6/16) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of product/underlying asset

	30/6/17				30/6/16			
	Fair Value			Nominal value	Fair Value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	341,159	—	10,189,130	—	339,900	—	6,913,380
1) Fair value	—	298,764	—	9,259,111	—	330,691	—	6,863,380
2) Cash flow	—	42,395	—	930,019	—	9,209	—	50,000
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	341,159	—	10,189,130	—	339,900	—	6,913,380

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/Type of hedging	Fair Value						Cash flow		Non-Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	49,238	—	—	—	—	X	—	X	X
2. Loans and advances	84,302	—	—	X	—	X	—	X	X
3. Held to maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	133,540	—	—	—	—	—	—	—	—
1. Financial liabilities	165,224	—	—	X	—	X	6,824	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	165,224	—	—		—	—	6,824	—	—
1. Expected transactions	X	X	X	X	X	X	35,571	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80 – Deferred liabilities

Please see asset section 14.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/17	30/6/16
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	14,089	17,347
3. Working capital payables and invoices pending receipt [1]	409,300	234,112
4. Amounts due to revenue authorities	63,924	49,761
5. Amounts due to staff	178,861	160,135
6. Other items:	180,086	135,267
- bills for collection	25,583	26,440
- coupons and dividends pending collection	2,289	2,260
- available sums payable to third parties	24,506	30,724
- premiums, grants and other items in respect of lending transactions	31,767	33,352
- credit notes to be issued	—	—
- other [2]	95,941	42,491
7. Adjustments upon consolidation	—	—
Total	846,260	596,622

[1] The increase in this item is due to the Barclays' acquisition (€136m) and the contribution from Banca Esperia (€11.5m).

[2] Includes the liability in respect of the potential outlay to acquire the other 49% of Cairn Capital under the terms of the put-and-call agreements recognized at fair value at 31/12/16, the date on which the purchase price allocation was carried out, and translated based on the current exchange rate. The increase is chiefly due to some Banca Esperia transit accounts (€26m).

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	30/6/17	30/6/16
A. Initial amount	28,975	26,655
B. Increases	15,064	11,644
B.1 Provision of the year	10,658	10,001
B.2 Other increases	4,406	1,643
C. Reductions	14,260	9,324
C.1 Severance payments	2,502	1,131
C.2 Other decreases [1]	11,758	8,193
D. Closing balance	29,779	28,975
Total	29,779	28,975

[1] Includes €6,764,000 in transfers to external, defined contribution pension schemes (30/6/16: €7,305,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/17	30/6/16
1. Provision to retirement payments and similar	—	—
2. Other provisions	225,850	151,341
2.1 Staff expenses	5,611	3,399
2.2 Other [1]	220,239	147,942
Total	225,850	151,341

[1] The item "Other provisions: Other" includes €82m to cover the restructuring of CheBanca! following the Barclays acquisition and €21m to cover the Banca Esperia restructuring.

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 2017, the heading "Other provisions" totalled €225.8m, and comprises €5.6m in staff expenses (including incentives to take redundancy or early retirement) and €220.2m for litigation and other contingent liabilities, including in respect of integration of the Barclays' business unit and of Banca Esperia. The provisions chiefly involve Mediobanca (€96.8m), CheBanca! (€89.5m), Banca Esperia (€21m), Compagnie Monégasque de Banque (€4.7m), and SelmaBipiemme (€2.8m).

The most significant litigation still pending against Mediobanca is as follows:

– For the alleged failure to launch a full takeover bid for La Fondiaria in 2002, a total of sixteen claims had been made against Mediobanca and UnipolSai. Of this total just two are still pending, with total damages claimed jointly from the defendants (known as the petitum in Italian law), of approx. €1m (plus interest and expenses); Mediobanca's share of this amount is approx. €300,000 (plus interest and expenses).

The state of proceedings in these two claims is as follows:

- For one, the date of the hearing at the Court of Cassation has still to be set. The appeal was submitted by a former shareholder of Fondiaria S.p.A. against the ruling issued by the Court of Appeal in Milan which partly revised the first-degree ruling, reducing the amount of the damages to be refunded to the former shareholder; and
- For the other, the terms for submission of an appeal against the Court of Appeal in Milan's ruling against Mediobanca and Unipol to the Court of Cassation are still pending; but an agreement has now been reached with the plaintiff for out-of-court settlement;

– Claim for damages by Monte dei Paschi di Siena ("FMPS") against – inter alia – Mediobanca, in respect of participation with criminal intent by virtue of an alleged non-contractual liability, jointly with the other twelve lender banks, for alleged damages to FMPS in connection with the 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. The case is currently pending with the court of Florence. At the first hearing, the judge upheld the objection made by the former members of the administrative body and the former superintendent regarding the failure to obtain the necessary authorization from the Italian Ministry for the Economy and Finance to take action against them, and set a deadline of 15 November 2017 for the said authorization to be obtained. The judge's decision regarding the preliminary objection to non-Italian arbitration raised by the defendant banks is also still pending. The next hearing has been set for 30 November 2017.

With reference to the disputes outstanding with the Italian revenue authorities, as at 30 June 2017 the Mediobanca Group had cases pending in respect of higher tax worth a notified amount of €24.5m, plus interest and fines, down sharply on the €43.2m reported last year with no new addition save in respect of those for the Esperia group companies which totalled €1.7m (against a provision for risks and charges totalling €1.5m).

During the twelve months under review SelmaBipiemme chose to avail itself of the simplified procedure introduced pursuant to Italian decree law 193/16 to shorten the timescales for tax litigation, in respect of the yacht leasing disputes in which the company has been unsuccessful at both stages of the proceedings. This decision has enabled the company, in return for a payment of €24.9m,

€17.4m of which by way of tax, to settle its debts with the Italian revenue authority in respect of all the positions involved which amounted to a total risk (including fines, interest and collection charges) of €61.2m.

A total of fourteen disputes therefore remain outstanding:

– Nine claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €16.5m, €14.9m of which by way of VAT and €1.6m of direct or minor taxation; all nine refer to cases in which the company has been successful at both stages of the ruling process in respect of which appeals have been submitted by the Italian revenue authorities to the court of cassation;

– One claim regarding Mediobanca's alleged failure to apply withholding tax upon the disbursement of a medium-/long-term loan outside Italy, involving a higher notified amount of €0.4m. The Bank was successful in the second degree of ruling but the appeal submitted by the Italian tax authority to the Court of Cassation is still pending;

– Two claims regarding VAT being charged wrongly in intercompany loans between Banca Esperia and Duemme SGR, involving a higher notified amount of €0.7m. The companies were successful in the first degree of ruling but appeals submitted by the Italian revenue authorities are still pending;

– One claim regarding the alleged failure by Banca Esperia to declare the transfer of money outside Italy in its tax monitoring reporting, for which fines of €5.9m have been received. The company has been unsuccessful in both degrees of ruling and an appeal is now pending at the Court of Cassation;

– One claim regarding the alleged wrongful use of VAT credits by Duemme SGR real estate funds which were subsequently sold, involving a higher notified amount of €1m. The company was unsuccessful in the first degree of ruling.

Mediobanca believes that the provisions are adequate to cover any charges due in connection with all the cases that have been brought against the Bank itself and the other Group companies (for which no other significant litigation is pending) and any other contingent liabilities, of which, as permitted by IAS 37, paragraph 92, no precise indication has been given.

12.2 Provisions: movements during the period

Items	Charges relating to staff *	Other provisions	Total
A. Opening balance	3,399	147,942	151,341
B. Increases	4,000	119,046	123,046
B.1 Provision for the year [1]	4,000	42,691	46,691
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases [2]	—	76,355	76,355
C. Decreases	1,788	46,749	48,537
C.1 Use during the year	1,788	37,803	39,591
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	8,946	8,946
D. Closing balance	5,611	220,239	225,850

* Includes sums set aside in respect of staff exit incentivizations.

[1] This item includes other provisions totalling €23m to cover restructuring charges at CheBanca! in connection with the Barclays acquisition and €12.4m for the restructuring of Esperia.

[2] Includes contingent liability in connection with the restructuring process implemented following the acquisition of the Barclays business unit for a total of €59m and €17.1m due to the increase linked to the full acquisition of Banca Esperia.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	30/6/17	30/6/16
A. Non-life business:	—	165,974	165,974	147,861
A.1 Provision for unearned premiums	—	150,806	150,806	133,420
A.2 Provision for outstanding claims	—	15,168	15,168	14,441
A.3 Other provisions	—	—	—	—
B. Life business	—	—	—	—
B.1 Mathematical provisions	—	—	—	—
B.2 Provisions for amounts payable	—	—	—	—
B.3 Other insurance provisions	—	—	—	—
C. Insurance provisions when investments risk is borne by the insured party	—	—	—	—
C.1 Provision for policies where the performance is connected to investment funds and market indices	—	—	—	—
C.2 Provision for pension funds	—	—	—	—
D. Total insurance provisions	—	165,974	165,974	147,861

13.2 Technical reserves: movements during the year

	30/6/17	30/6/16
A. Non-life business		
Balance at start of period	147,861	127,894
Combinations involving group companies	—	—
Changes to reserves (+/-)	18,113	19,967
Other additions	—	—
Balance at end of period	165,974	147,861
B. Life business and other reserves		
Balance at start of period	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	165,974	147,861

SECTION 15

Headings 140, 160, 170, 180, 190, 200 and 220: Net equity

15.1 "Capital" and "treasury shares": composition

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

15.2 Share capital: changes in no. of shares in issue during the period

Item/type	Ordinary
A. Shares in issue at start of period	871,020,094
- entirely unrestricted	871,020,094
- with restrictions	—
A.1 Treasury shares (-)	(15,780,237)
A.2 Shares in issue: balance at start of period	855,239,857
B. Additions	10,214,290
B.1 New share issuance as a result of:	10,192,564
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	10,192,564
- to staff members	10,192,564
- to Board members	—
- others	—
B.2 Treasury share disposals	21,726
B.3 Other additions	—
C. Reductions	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	865,454,147
D.1 Add: treasury shares	(15,758,511)
D.2 Shares in issue at end of period	881,212,658
- entirely unrestricted	881,212,658
- with restrictions	—

15.3 Other information

A total of 21,726 treasury shares were awarded to staff in the course of the financial year under review, in connection with the performance share scheme; as at 30 June 2017, 21,725 treasury shares are still reserved for such awards.

15.4 Profit reserves: other information

Item	**30/6/17**	**30/6/16**
Legal reserve	87,102	86,720
Statutory reserve	1,288,162	1,233,655
Treasury shares	197,709	197,982
Others	3,483,892	3,174,372
Total	5,056,865	4,692,729

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Heading 210, net equity attributable to minorities: composition

Company name	**30/6/17**	**30/6/16**
1. SelmaBipiemme S.p.A.	82,722	89,202
2. Other minors	11	16
Total	82,733	89,218

Other information

1. Guarantees and commitments

Operations	**30/6/17**	**30/6/16**
1) Financial guarantees given to	890,885	634,139
a) Banks	198,636	159,246
b) Customers	692,249	474,893
2) Commercial guarantees given to	32,532	295
a) Banks	392	286
b) Customers	32,140	9
3) Irrevocable commitments to disburse funds	6,948,659	9,408,106
a) Banks	144,384	76,687
i) usage certain	136,496	46,687
ii) usage uncertain	7,888	30,000
b) Customers	6,804,275	9,331,419
i) usage certain	6,369,612	9,048,587
ii) usage uncertain	434,663	282,832
4) Commitments underlying credit derivatives protection sales [1]	11,782,148	10,360,369
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	3,468,325	2,362,873
Total	23,122,549	22,765,782

[1] Includes transactions fully matched by hedge buys (€4,997,186,000 and €5,694,003,000 respectively).

2. Assets pledged as collateral for own liabilities and commitments

Portfolio	**30/6/17**	**30/6/16**
1. Financial instruments held for trading	2,465,649	1,551,244
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	2,182,786	2,846,703
4. Financial instruments held to maturity	1,053,482	476,014
5. Loans and receivables with banks	422,844	373,163
6. Loans and receivables with customers	12,867,975	13,052,604
7. Property, plant and equipment	—	—

5. Assets managed and traded on behalf of customers

Type of service	30/6/17	30/6/16
1. Orders execution on behalf of customers	29,743,503	36,804,577
a) purchases	14,901,757	18,671,049
1. settled	14,756,642	18,550,202
2. unsettled	145,115	120,847
b) sales	14,841,746	18,133,528
1. settled	14,696,631	18,012,681
2. unsettled	145,115	120,847
2. Portfolio management [1]	15,668,947	2,780,146
a) Individual	6,010,445	1,171,000
b) Collective	9,658,502	1,609,146
3. Custody and administration of securities [2]	50,162,636	40,124,680
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	9,682,059	7,800,519
1. securities issued by companies included in area of consolidation	297,405	399,104
2. other securities	9,384,654	7,401,415
b) Third-party securities held in deposits (excluding segregating accounts): other	13,947,083	8,347,820
1. securities issued by companies included in area of consolidation	151,496	34
2. other securities	13,795,587	8,347,786
c) securities of third deposited to third	16,453,997	10,713,138
d) property securities deposited to third	10,079,497	13,263,203
4. Other operations [3]	572,029	—

[1] Includes €12.1bn deriving from acquisition of 100% of Banca Esperia.

[2] Includes €7.8bn deriving from acquisition of 100% of Banca Esperia.

[3] Attributable entirely to Banca Esperia.

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

Instrument type	Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet value of financial assets (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount 30/6/17	Net amount 30/6/16
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	2,953,042	—	2,953,042	2,150,928	337,038	465,076	330,469
2. Repos	5,993,199	—	5,993,199	5,993,199	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/17	8,946,241	—	8,946,241	8,144,127	337,038	465,076	X
Total 30/6/16	10,562,921	—	10,562,921	9,859,116	373,336	X	330,469

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

Instrument type	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet value of financial liabilities (c=a-b)	Related amount not recognised in Balance Sheet		Net amount 30/6/17	Net amount 30/6/16
				Financial instruments (d)	Cash collateral pledged (e)		
1. Derivatives	3,011,758	38,687	2,973,071	2,144,810	449,896	378,365	127,631
2. Repos	3,375,639	—	3,375,639	3,375,639	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/17	6,387,397	38,687	6,348,710	5,520,449	449,896	378,365	X
Total 30/6/16	8,383,814	116,191	8,267,623	7,621,778	518,214	X	127,631

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: composition

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Financial assets held for trading	38,331	568	—	38,899	49,223
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	84,451	—	—	84,451	112,516
4. Held to maturity investments	44,656	—	—	44,656	57,238
5. Loans and receivables with banks	—	25,112	—	25,112	34,163
6. Loans and receivables with customers	5,561	1,572,532	—	1,578,093	1,494,441
7. Hedging derivatives	X	X	134,371	134,371	157,345
8. Other assets	X	X	10,830	10,830	1,630
Total	172,999	1,598,212	145,201	1,916,412	1,906,556

1.2 Interest and similar income: differences arising on hedging transactions

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Positive differentials related to hedging operations	332,915	339,663
B. Negative differentials related to hedging operations	(198,544)	(180,183)
C. Net differentials (A-B)	134,371	159,480

1.3 Interest and similar income: other information

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
Interest income from currency assets	215,149	209,287
Interest income from leasing	61,144	72,047
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	276,293	281,334

1.4 Interest expense and similar charges: composition

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Deposits from central banks	(1,773)	X	—	(1,773)	(3,365)
2. Deposits from banks	(19,554)	X	—	(19,554)	(35,633)
3. Deposits from customers	(96,525)	X	—	(96,525)	(117,094)
4. Debt securities in issue	X	(513,917)	—	(513,917)	(549,947)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(7,115)	(7,115)	(12)
8. Hedging derivatives	X	X	—	—	—
Total	(117,852)	(513,917)	(7,115)	(638,884)	(706,051)

1.6 Interest expense and similar charges: other information

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
Interest expense on liabilities held in foreign currency	(71,369)	(61,398)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(71,369)	(61,398)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition

Total	12 mths ended 30/6/17	12 mths ended 30/6/16
a) guarantees given	306	3,350
b) credit derivatives	—	—
c) management, brokerage and consultancy incomes:	294,997	216,639
1. securities trading	13,435	14,179
2. currency trading	90	—
3. portfolio management	43,306	15,315
3.1 individual	20,189	8,718
3.2 collective	23,117	6,597
4. custody and administration of securities	13,440	11,499
5. custodian bank	7,458	7,458
6. placement of securities	113,652	79,740
7. reception and transmission of orders	13,598	10,309
8. advisory services	8,229	2,292
8.1 related to investments	8,229	2,292
8.2 related to financial structure	—	—
9. distribution of third parties services	81,789	75,847
9.1 portfolio management	24,126	20,707
9.1.1 individual	24,126	20,707
9.1.2 collective	—	—
9.2 insurance products	53,287	53,321
9.3 other products	4,376	1,819
d) collection and payment services	20,315	17,324
e) securitization servicing	—	2
f) factoring services	4,115	2,763
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current accounts	5,113	3,035
j) other services	157,670	163,645
Total	482,516	406,758

The heading "Fee and commission income" includes €23.2m deriving from acquisition of the Barclays' business unit, chiefly in relation to securities placement activity (€12.4m) and distribution of third-party services (€5.6m). The heading also includes €21.4m deriving from full consolidation of Banca Esperia, chiefly relating to portfolio management activity (€15m) and securities placement activity (€2.3m).

2.2 Fee and commission expense: composition

Services/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
a) guarantees received	(13)	—
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(14,074)	(11,757)
1. trading in financial instruments	(7,303)	(7,934)
2. currency trading	—	—
3. portfolio management	(2,197)	—
3.1 own portfolio	(94)	—
3.2 third parties portfolio	(2,103)	—
4. custody and administration securities	(3,111)	(3,185)
5. financial instruments placement	(1,463)	(638)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(10,846)	(9,055)
e) other services	(79,656)	(63,229)
Total	(104,589)	(84,041)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: composition

Items/Income	12 mths ended 30/6/17		12 mths ended 30/6/16	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	63,602	777	50,231	920
b) Available for sale financial assets	14,086	2,916	20,871	8,498
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	77,688	3,693	71,102	9,418

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: composition

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses ©	Realized losses (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	141,911	392,155	(82,006)	(84,244)	367,816
1.1 Debt securities	49,654	59,658	(41,634)	(25,661)	42,017
1.2 Equity	85,960	328,419	(40,228)	(57,711)	316,440
1.3 Units in investment funds	5,984	4,078	(144)	(845)	9,073
1.4 Loans	313	—	—	(27)	286
1.5 Other	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	12,918
4. Derivatives	2,748,221	782,723	(2,796,321)	(1,065,339)	(346,489)
4.1 Financial derivatives	2,523,235	504,251	(2,543,623)	(799,750)	(331,660)
- on debt securities and interest rates [1]	1,804,457	342,065	(1,777,270)	(401,249)	(31,997)
- on equity securities and shares' indexes	718,778	111,380	(766,353)	(398,501)	(334,696)
- on currencies and gold	X	X	X	X	(15,773)
- other [2]	—	50,806	—	—	50,806
4.2 Credit derivatives	224,986	278,472	(252,698)	(265,589)	(14,829)
Total	2,890,132	1,174,878	(2,878,327)	(1,149,583)	34,245

[1] Of which minus €1,927,000 in positive margins on interest rate derivatives (30/6/16: €2,082,000).

[2] Equity swap contracts have been classified as equity derivatives.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Incomes from:		
A.1 Fair value hedging instruments	171,976	367,193
A.2 Hedged asset items (in fair value hedge relationships)	22,995	87,624
A.3 Hedged liability items (in fair value hedge relationship)	473,221	94,939
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	5	141
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	668,197	549,897
B. Losses on:		
B.1 Fair value hedging instruments	(480,864)	(129,301)
B.2 Hedged asset items (in fair value hedge relationships)	(62,531)	(4,893)
B.3 Hedged liability items (in fair value hedge relationship)	(109,019)	(407,382)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(1)	—
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(652,415)	(541,576)
C. Net profit from hedging activities (A-B)	15,782	8,321

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Items/Income	12 mths ended 30/6/17			12 mths ended 30/6/16		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	—	(469)	(469)	—	—	—
2. Loans and receivables with customers	1,681	(12,344)	(10,663)	25,023	(40,982)	(15,959)
3. Financial assets available for sale	203,826	(20,488)	183,338	125,305	(9,517)	115,788
3.1 Debt securities	27,981	(20,452)	7,529	21,087	(9,517)	11,570
3.2 Equity instruments	175,083	(21)	175,062	103,660	—	103,660
3.3 Units in investment funds	762	(15)	747	558	—	558
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	3,522	(1,432)	2,090	620	(2)	618
Total assets	209,029	(34,733)	174,296	150,948	(50,501)	100,447
Financial liabilities						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	(59)	(17,827)	(17,886)	—	(4,146)	(4,146)
Total liabilities	(59)	(17,827)	(17,886)	—	(4,146)	(4,146)

SECTION 8

Heading 130: Adjustments for impairment

8.1 Net value adjustments for impairment: composition

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(537)	—	—	—	60	(477)	187
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(7,638)	(9,717)	X	—	19,738 [1]	X	X	2,383	(21,136)
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(61,135)	(266,962)	(214,301)	3,852	120,735	—	131,265	(286,546)	(377,749)
- Debt receivables	—	—	(1,183)	—	—	—	—	(1,183)	(16)
C. Total	(68,773)	(276,679)	(216,021)	3,852	140,473	—	131,325	(285,823)	(398,714)

[1] Writebacks to non-performing items acquired include amounts collected in excess of the individual positions' book items.

Legend
A = interest
B = other amounts recovered.

8.2 Net value adjustments for impairment to AFS securities: composition

Transactions/Income	Adjustments		Reversals of impairment losses		12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(3,026)	X	X	(3,026)	(14,340)
C. Units in investment funds	—	(53)	X	—	(53)	(3,650)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(3,079)	—	—	(3,079)	(17,990)

Legend
A = interest
B = other amounts recovered.

8.3 Net value adjustments for impairment to financial assets held to maturity: composition

Transactions/Income	Writedowns			Writeback				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Debt securities	—	—	(3,185)	—	—	—	321	(2,864)	(1,045)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	(3,185)	—	—	—	321	(2,864)	(1,045)

Legend

A = interest

B = other amounts recovered

8.4 Net value adjustments for impairment to other financial transactions: composition

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees given	—	—	(215)	—	—	—	—	(215)	(1,278)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(1,623)	(3,278)	—	—	—	8,390	3,489	1,653
D. Other transactions	(1,772)	(3,409)	—	—	—	—	—	(5,181)	—
E. Total	(1,772)	(5,032)	(3,493)	—	—	—	8,390	(1,907)	375

Legend
A = interest
B = other amounts recovered

SECTION 9

Heading 150: Administrative expenses

9.1 Net premium income: composition

Premium for insurance	Direct business	Indirect business	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums written (+)	—	69,709	69,709	66,185
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(17,385)	(17,385)	(19,404)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	52,324	52,324	46,781
C. Total net premiums	—	52,324	52,324	46,781

SECTION 10

Heading 160: Other net income (expense) from insurance operations

10.1 Other net income (expense) from insurance operations: composition

	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year	(7,753)	(9,623)
3. Other income and expense (net) from insurance business	(6,674)	(5,944)
Total	(14,427)	(15,567)

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

Changes for claims	12 mths ended 30/6/17	12 mths ended 30/6/16
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(7,026)	(9,060)
C.1 Gross annual amount	(7,026)	(9,060)
C.2 Amount attributable to reinsurers	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	(727)	(563)
E.1 Gross annual amount	(727)	(563)
E.2 Amount attributable to reinsurers	—	—
Total non-life business claims	(7,753)	(9,623)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel costs: composition

Type of expense/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
1) Employees	(512,385)	(423,869)
a) wages and salaries	(360,464)	(301,670)
b) social security contributions	(82,350)	(70,587)
c) Severance pay (only for Italian legal entities)	(1,892)	(1,484)
d) social security costs	—	—
e) allocation to employees severance pay provision	(10,438)	(8,230)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(14,257)	(13,504)
- defined contribution	(14,257)	(13,504)
- defined benefits	—	—
h) expenses resulting from share-based payments	(12,081)	(10,910)
i) other employees' benefits	(30,903)	(17,484)
2) Other staff	(4,773)	(4,373)
3) Directors and Statutory Auditors	(8,282)	(8,309)
4) Early retirement costs	(6,507)	(6,735)
Total	(531,947)	(443,286)

The increase in this item is due chiefly to the acquisition of the Barclays' business unit and to 100% control of Banca Esperia, both of which entailed increases in headcount (with 494 new staff from Barclays and 280 new staff from Banca Esperia) and a respective rise in costs.

11.2 Average number of staff by category

	12 mths ended 30/6/17	12 mths ended 30/6/16
Employees:		
a) Senior executives	330	253
b) Executives	1,608	1,347
c) Other employees	2,433	2,280
Other staff	205	187
Total	4,576	4,067

11.5 Other administrative expenses: composition

Type of expense/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(91,525)	(55,251)
– loan recovery activity	(52,623)	(51,943)
– marketing and communications	(51,390)	(51,193)
– property	(54,616)	(38,786)
– EDP	(79,926)	(67,906)
– info-provider	(34,633)	(30,006)
– bank charges, collection and payment fees	(17,455)	(17,485)
– operating expenses	(79,389)	(52,589)
– other staff expenses	(21,977)	(20,697)
– other costs [1]	(131,500)	(105,936)
– indirect and other taxes	(71,023)	(65,566)
Total other administrative expenses	(686,057)	(557,358)

[1] Includes €87,973,000 (30/6/16: €91,900,000) transfer to Single Resolution Fund (SRF).

This item includes restructuring costs in connection with the acquisition of the Barclays' business unit (€55.9m) and the contribution from Banca Esperia, following acquisition of 100% of the company and referring to Q4 only, in an amount of €10m.

SECTION 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: composition

	12 mths ended 30/6/17	12 mths ended 30/6/16
Net transfers to provisions for risks and charges - legal expenses	(300)	(324)
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments [1]	(16.087)	(4.687)
Total transfers to provisions for risks and charges	(16.387)	(5.011)

[1] Includes the effect of discounting such items.

The item "Transfers to provisions for certain or probably risks and commitments" includes €23m to cover the restructuring of CheBanca! in connection with the Barclays' acquisition, and €12.4m for the Banca Esperia restructuring, net of €15m in writebacks to cover the cost of settling the yacht leasing tax disputes.

SECTION 13

Heading 200: Net adjustments to tangible assets

13.1 Net adjustments to tangible assets: composition

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, equipment and investment properties				
A.1 Owned	(17,585)	—	—	(17,585)
- For operational use	(15,691)	—	—	(15,691)
- For investment	(1,894)	—	—	(1,894)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(17,585)	—	—	(17,585)

SECTION 14

Heading 210: Net adjustments to intangible assets

14.1 Net adjustments to intangible assets: composition

Asset/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(27,035)	—	—	(27,035)
- Software	(6,273)	—	—	(6,273)
- Other	(20,762)	—	—	(20,762)
A.2 Acquired through finance lease	—	—	—	—
Total	(27,035)	—	—	(27,035)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expense: composition

Income-based components/Values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) Leasing activity	(14,861)	(15,878)
b) Sundry costs and expenses [1]	(149,324)	(5,187)
Total	(164,185)	(21,065)

[1] The item includes €141,690,000 in relation to the purchase price allocation process for the Barclays business unit.

15.2 Other operating income: composition

Income-based components/Values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) Amounts recovered from customers	60,883	55,111
b) Leasing activity	11,363	14,269
c) Other income [1]	335,242	96,529
Total	407,488	165,909

[1] The item includes €240,000,000 in badwill collected as part of the Barclays' acquisition.

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: composition

Income/Value	12 mths ended 30/6/17	12 mths ended 30/6/16
1) Joint venture		
A. Incomes	238	1,771
1. Revaluation	238	1,771
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	238	1,771
2) Companies subject to significant influence		
A. Incomes	263,636	274,990
1. Revaluation	263,636	255,004
2. Gains on disposal	—	19,986
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(422)	(53)
1. Writedowns	—	(53)
2. Impairment losses	(422)	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	263,214	274,937
Total	263,452	276,708

SECTION 19

Heading 270: Net gains (losses) upon disposal of investments

19.1 Net gains (losses) upon disposal of investments: composition

Income/Value	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	(1,254)	(18)
- Gains on disposal	1	—
- Losses on disposal	(1,255)	(18)
Net result	(1,254)	(18)

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: composition

Income components/Sectors	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Current tax expense (-)	(132,899)	(136,156)
2. Changes of current tax expense of previous years (+/-)	765	(11,335)
3. Reduction in current tax expense for the period (+)	—	—
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	—	1,252
4. Changes of deferred tax assets (+-)	(28,488)	14,053
5. Changes of deferred tax liabilities (-)	(11,116)	3,534
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(171,738)	(128,652)

20.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/17	
	Amounts %	**Absolute value**
Total profit or loss before tax from current operations	100.00%	921,938
Theoretical tax rate	27.50%	253,533
Dividends (-)	-5.03%	(46,395)
Gains on disposals of equity investments (PEX) (-)	-4.61%	(42,487)
Gains on equity-accounted investments (-)	-8.08%	(74,499)
Changes in deferred tax for previous years (-)	-0.01%	(81)
Other taxes (non-Italian companies) (-)	-0.43%	(3,994)
Non-taxable income 10% IRAP (-)	-0.09%	(869)
Interest on exempt securities (-)	—	(10)
Tax losses (-)	—	—
Tax sparing credit	-0.08%	(764)
Non-deductible interest expense 4% (+)	1.26%	11,609
Benefit from tax consolidation (-)	-0.51%	(4,704)
Impairment (+/–)	-0.24%	(2,174)
Extraordinary items (IRES surtax)	-0.71%	(6,590)
Other differences	5.74%	52,891
TOTAL IRES	14.69%	135,466
IRAP	3.93%	36,272
TOTAL HEADING [1]	18.63%	171,738

[1] Compared with a tax rate of 17.47% last year.

SECTION 22

Heading 330: Net profit (loss) attributable to minorities

22.1 Breakdown of Heading 330, "Net profit (loss) for the year attributable to minorities"

Company name	12 mths ended 30/6/17	12 mths ended 30/6/16
1. SelmaBipiemme S.p.A.	(7,935)	3,070
2. Others	(16)	(4)
Total	(7,951)	3,066

SECTION 24

Earnings per share

24.1Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/17	12 mths ended 30/6/16
Net profit	750,200	604,550
Avg. no. of shares in issue	854,445,929	849,895,132
Avg. no. if potentially diluted shares	9,508,213	17,545,396
Avg. no. of diluted shares	863,954,142	867,440,528
Earnings per share	0.88	0.71
Earnings per share, diluted	0.87	0.70

Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

Items	Before tax effect	Tax effect	After tax effect
10. Net profit (loss)	**X**	**X**	**742,249**
Other income items not passing through P&L			
20. Property, plant and equipment	—	—	—
30. Intangible assets	—	—	—
40. Defined benefits plans	1,593	(450)	1,143
50. Non-current assets classified as held for sale	—	—	—
60. Valuation reserves from equity-accounted investments:	2,751	—	2,751
Other income items passing through P&L			
70. Hedges of non-Italian investments:	**—**	**—**	**—**
a) changes in fair value:	—	—	—
b) reclassifications through profit or loss account	—	—	—
c) other variations	—	—	—
80. Exchange differences:	**(2,697)**	**—**	**(2,697)**
a) changes in fair value:	—	—	—
b) reclassifications through profit or loss account	—	—	—
c) other variations	(2,697)	—	(2,697)
90. Cash flow hedges:	**(28,825)**	**2,367**	**(26,458)**
a) changes in fair value:	(28,825)	2,367	(26,458)
b) reclassifications through profit or loss account	—	—	—
c) other variations	—	—	—
100. AFS securities:	**(64,372)**	**829**	**(63,543)**
a) changes in fair value:	113,289	(19,129)	94,160
b) reclassifications through profit or loss account	(177,661)	19,958	(157,703)
- due to impairment	—	—	—
- gain/losses on disposals	(177,661)	19,958	(157,703)
c) other variations	—	—	—
110. Non-current assets classified as held for sale:	**—**	**—**	**—**
a) changes in fair value:	—	—	—
b) reclassifications through profit or loss account	—	—	—
c) other variations	—	—	—
120. Valuation reserves from equity-accounted investments:	**(183,345)**	**—**	**(183,345)**
130. Total other comprehensive income	**(274,895)**	**2,746**	**(272,149)**
140. Comprehensive income after tax (10 + 130)	**X**	**X**	**470,100**
150. Consolidated comprehensive income attributable to minorities	X	X	(6,495)
160. Consolidated comprehensive income attributable to parent company	**X**	**X**	**476,595**

Part E - Information on risks and related hedging policies

SECTION 1

Banking Group Risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Description of risk governance organization

The Mediobanca Group has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guaranteeing that all forms of operations are consistent with their own propensity to risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the Risk Appetite Framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme 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, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and Operational 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; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions.

Although risk management is under the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF, monitoring risks and ascertaining that the various limits established for the various business lines are complied with.

The risk management process, which is supervised by the Chief Risk Officer, reporting directly to the Chief Executive Officer, is implemented by the following units: i) Enterprise Risk Management, which helps to develop risk management policies at Group level, and is responsible for integrated Group risks and RAF and Recovery Plan indicators monitoring, ICAAP reporting and internal risk measurement system validation; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator (LGD); iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Quantitative Risk Methodologies, responsible for developing quantitative analysis and credit and market risk management methodologies; v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; and vi) Group Risk Management, responsible for co-ordinating relations with the supervisors and for providing operating guidance on Group and parent company activities and projects.

Establishment of risk propensity and process for managing relevant risks

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.

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.

Credit risk

With reference to the authorization process to use internal models in order to calculate the regulatory capital requirements for credit risk, the Group has passed the pre-validation and validation phases performed by the regulatory authorities on the Mediobanca and Mediobanca International Corporates rating system (Probability of Default and Loss Given Default); the European Central Bank's final decision is expected by end-2017.

An integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013), the Group has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme").

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks, Insurances ((customers mostly targeted by Mediobanca S.p.A.), Mid-corporate and Small businesses (customers targeted mostly by the leasing companies), and Private individuals (targeted by Compass for consumer credit, CheBanca! for mortgage lending, and MBFacta for instalment factoring).

In accordance with Bank of Italy circular 272/08, seventh update, Mediobanca has adopted the new definitions of non-performing credit exposures, now subdivided into three separate categories: non-performing, probable default and past due, plus the category of exposures subject to various kinds of tolerance measures, known as “forborne” exposures, applied to any asset (i.e. performing or non-performing).

In particular, 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”).

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of 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, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Corporate lending (Mediobanca)

The Group’s internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower’s business, assets and management, as well as the macro-economic framework in which it operates. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower’s credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval to the Lending & Underwriting Committee or to the Executive Committee, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

The Credit Risk Management unit 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 at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

Any deterioration in the risk profile of either the loan or the borrower's rating are brought swiftly to the attention of the management and the aforementioned committees.

In terms of monitoring the performance of individual credit exposures, Mediobanca adopts an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (green, 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 also includes all forborne positions, which are therefore 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 calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Leasing

Individual applications are processed using similar methods to those described above for corporate banking. Applications for leases below a predetermined limit received via banks with which Mediobanca has agreements in place are approved by the banks themselves, against written guarantees from them covering a portion of the risk.

Applications for smaller amounts are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty's legal status (type of company).

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.

Provisions for non-performing accounts are tested analytically to establish the relative estimated loss against the value of the security provided taken from the results of valuations updated regularly and revised downwards on a prudential basis, and/or any other form of real guarantees issued. Other performing accounts are measured individually on a collective basis according to internal PD ratings and LGD parameters distinguished by product type (vehicle leasing, core goods – including yachts – and property). Accounts which are classified as forborne (performing and non-performing) and entered in the watchlist are subject to regular monitoring by the relevant company units.

Consumer credit (Compass)

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, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Applications for finance above a certain limit are approved by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, or legal recovery action). After six unpaid instalments (or four unpaid instalments in particular cases, such as credit cards), accounts are held to be officially in default, and the client is deemed to have lapsed from the time benefit allowed under Article 1186 of the Italian Civil Code. As from the six months after such lapse has been ascertained, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies (including MB Credit Solutions), for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of historical PD and LGD values distinguished by product and state of impairment. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last three years. The LGD values are based on data for amounts recovered and written off in the last five years. To calculate the provisions for the performing portfolio, losses defined as "incurred but not reported" are quantified by using the internal models which assign PD values to each specific rating class based on acquisition date and repayment data (including forbearance, if any).

Factoring (MBFacta)

Factoring includes both traditional factoring (loans with very short-term disbursements, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by the original borrower, who 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 non-recourse factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, changes and margins.

Provisioning for instalment-based factoring is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last fifteen months, beyond which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

NPL business (MB Credit Solutions)

MB Credit Solutions 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 arrived at by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections in terms of the amounts recovered, expenses and margins anticipated. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value due to the future cash flows being overestimated, the flows are recalculated and adjustments charged based on the 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 (Banca Esperia and CMB)

Private banking operations include granting loans as a complementary activity in serving private and institutional clients, with the aim of providing them with wealth management and asset management services. Lending to 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, mortgages and credit limits on credit cards and endorsements.

Loans themselves are normally guaranteed, as they are backed by endorsements or real guarantees (pledges over 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 type, size and guarantees of the loans themselves.

Provisioning for non-performing items is made on an individual basis, and takes into account the value of the guarantees provided. For Banca Esperia, any 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.

Mortgage lending (CheBanca!)

Mortgage applications are processed and approved 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.

Accounts, both regular and irregular, are monitored through a reporting system which allows system operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter risk positions, 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 in solvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyer. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) or cases with persistent irregularities or interest suspended at the legal rate are designated as probable default accounts, and generally after the tenth unpaid instalment become non-performing.

Exposures for which concessions have been granted are defined as forborne exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which the Bank grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly.

Provisioning is determined analytically for non-performing items and collectively for probable default, other overdue and performing accounts. For the analytical provisions for the non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. For the performing accounts in the Italian loan book, the Bank uses risk parameters (PD and LGD), which are estimated via the internal rating model, to determine the collective risk provisions, distinguished in order to take into account any indicators of previous difficulties (including forbearance measures).

QUANTITATIVE INFORMATION

A. Credit quality *

A.1 Impaired and performing accounts: amounts, value adjustments, trends, segmentation by performance and geography

A.1.1 Credit exposures by portfolio and credit quality (book value)

Asset portfolio/quality	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Overdue exposures (performing) [1]	Other exposures (performing)	Total
1. AFS securities	—	—	—	—	5,491,759	5,491,759
2. Financial assets held to maturity	—	—	—	—	2,400,203	2,400,203
3. Due from banks	—	—	—	—	7,880,559	7,880,559
4. Due from customers [2]	291,596	727,685	56,033	465,898	37,205,918	38,747,130
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/17	291,596	727,685	56,033	465,898	52,978,439	54,519,651
Total 30/6/16	255,919	710,651	53,632	343,592	52,110,695	53,474,489

[1] Regards the net exposure to unpaid instalments (totalling €129.4m), of which €75.9m is attributable to leasing (3.6% of the performing loans in this segment), €90.6m to consumer credit (0.8%), €153.5m to CheBanca! mortgage loans (2.1%), €129.7m to private banking (6%) and €16.1m to factoring (1.1%). Gross exposures being renegotiated under the terms of collective agreements amount to €53.2m, virtually all of which attributable to mortgage loans granted by CheBanca!.

[2] The item includes €2,076.2m in receivables from the Barclays' business unit, €2,049.8m of which are performing and €26.4m of which non-performing.

* Banca Esperia has been fully consolidated since 30/6/17 after 100% of the company was acquired, rather than consolidated pro rata at 50% as was the case in previous years.

A.1.2 Credit exposures by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans			Performing loans			Total net exposure
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. AFS securities	—	—	—	5,491,759	—	5,491,759	5,491,759
2. Financial assets held to maturity	—	—	—	2,410,023	(9,820)	2,400,203	2,400,203
3. Due from banks	—	—	—	7,882,996	(2,437)	7,880,559	7,880,559
4. Due from customers [1]	2,207,014	(1,131,700)	1,075,314	38,081,980	(410,164)	37,671,816	38,747,130
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/17	2,207,014	(1,131,700)	1,075,314	53,866,758	(422,421)	53,444,337	54,519,651
Total 30/6/16	2,143,566	(1,123,364)	1,020,202	52,791,315	(337,028)	52,454,287	53,474,489

[1] The item includes €2,076.2m in receivables from the Barclays' business unit, €2,049.8m of which are performing and €26.4m of which non-performing.

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	9,268	5,830,850
2. Hedge derivatives	—	—	461,040
Total 30/6/17	—	9,268	6,291,890
Total 30/6/16	—	9,562	9,094,109

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	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(162,197)	(162,197)
Italy	—	—	—	—	X	X	138,081	138,081
Germany	—	—	—	—	X	X	(40,561)	(40,561)
France	—	—	—	—	X	X	(232,142)	(232,142)
Others	—	—	—	—	X	X	(27,575)	(27,575)
2. AFS securities	—	—	—	—	3,855,148	—	3,855,148	3,855,148
Italy	—	—	—	—	2,179,884	—	2,179,884	2,179,884
Germany	—	—	—	—	930,151	—	930,151	930,151
France	—	—	—	—	319,891	—	319,891	319,891
United States	—	—	—	—	274,528	—	274,528	274,528
Spain	—	—	—	—	150,694	—	150,694	150,694
3. Financial assets held to maturity	—	—	—	—	1,747,750	—	1,747,750	1,747,750
Italy	—	—	—	—	1,139,076	—	1,139,076	1,139,076
France	—	—	—	—	354,080	—	354,080	354,080
Spain	—	—	—	—	203,356	—	203,356	203,356
Germany	—	—	—	—	50,539	—	50,539	50,539
Others	—	—	—	—	699	—	699	699
Total 30/6/17	—	—	—	—	5,602,898	—	5,440,701	5,440,701

* 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 €27.7m.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	143,935	138,081	4,04	3,210,252	3,318,960	3,331,825	2,54
Germany	(39,848)	(40,561)	3,83	925,000	980,690	980,867	5,02
France	(200,000)	(232,142)	3,82	667,925	673,971	675,156	3,78
Spain	—	—	—	350,000	354,050	356,121	4,34
United States	—	—	—	280,407	274,528	274,528	5,37
Others	(412,343)	(27,575)	—	8,843	699	12,076	—
Total 30/6/17	(508,256)	(162,197)		5,442,427	5,602,898	5,630,573	

[1] Does not include sales of €25m on Bund/Bobl/Schatz futures (Germany), with a fair value of €1m; or sales of €23.5m on the BPT future (Italy) with a fair value of €0.2m. Net hedge buys of €207m (€200m of which on France country risk and €7m on Italy country risk) have also not been included.

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.3m.

A.1.3 Banking Group - Cash and off-balance-sheet exposures to banks: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	9,458,428	X	(3,962)	9,454,466
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	9,458,428	—	(3,962)	9,454,466
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	30,042,672	X	(137)	30,042,535
Total B	—	—	—	—	30,042,672	—	(137)	30,042,535
Total (A+B)	—	—	—	—	39,501,100	—	(4,099)	39,497,001

[1] Balance as at 30/6/16 includes trades worth €4,997,186,000, fully matched by hedge buys.

A.1.6 Banking Group - Cash and off-balance-sheet exposures to customers: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES [1]								
a) Bad loans	13,782	647	10,380	636,864	X	(370,076)	X	291,597
- of which: forborne exposures	*5,383*	*292*	*2,326*	*77,770*	*X*	*(69,124)*	*X*	*16,647*
b) Unlikely to pay	772,110	61,522	192,243	368,162	X	(666,352)	X	727,685
- of which: forborne exposures	*717,675*	*28,578*	*65,134*	*261,365*	*X*	*(500,089)*	*X*	*572,663*
c) Overdue exposures (NPLs)	24,530	98,147	14,119	14,508	X	(95,272)	X	56,032
- of which: forborne exposures	*6,670*	*28,407*	*121*	*542*	*X*	*(26,695)*	*X*	*9,045*
d) Overdue exposures (performing)	X	X	X	X	537,328	X	(71,432)	465,896
- of which: forborne exposures	*X*	*X*	*X*	*X*	*90,989*	*X*	*(21,275)*	*69,714*
e) Other exposures (performing)	X	X	X	X	46,675,478	X	(347,029)	46,328,449
- of which: forborne exposures	*X*	*X*	*X*	*X*	*616,509*	*X*	*(43,334)*	*573,175*
Total A	810,422	160,316	216,742	1,019,534	47,212,806	(1,131,700)	(418,461)	47,869,659
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	20,674	1,580	—	—	X	(3,743)	X	18,511
b) Performing	X	X	X	X	21,317,245	X	(8,547)	21,308,698
Total B	20,674	1,580	—	—	21,317,245	(3,743)	(8,547)	21,327,209
Total (A+B)	831,096	161,896	216,742	1,019,534	68,530,051	(1,135,443)	(427,008)	69,196,868

[1] The item includes €2,076.2m in receivables from the Barclays' business unit, €2,049.8m of which are performing and €26.4m of which non-performing.

The non-performing items include €134.8m attributable to MB Credit Solutions, i.e. acquisitions of non-performing loans with a nominal value of €2.8bn. Of these items, €13m (with a nominal book value of €619.1m) involve assets acquired from other Group companies, mostly those involved in consumer credit activities.

A.1.7 Banking Group - Cash exposures to customers: trends in gross impaired positions

Descriptions/categories	Bad loans	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at start of period	624,533	1,373,945	145,088
- of which: exposures sold but not derecognized	*2,222*	*31,333*	*28,930*
B. Additions	326,988	606,848	411,511
B.1 transferred from performing exposures	3,646	167,732	354,695
B.2 transferred from other categories of non-performing exposure	220,555	325,330	31,326
B.3 other additions	102,787	113,786	25,490
C. Reductions	289,848	586,756	405,295
C.1 transferred to performing exposures	3,731	91,083	31,338
C.2 writeoffs	53,640	14,983	2,066
C.3 collections	84,315	131,932	43,487
C.4 amounts realized on disposals	12,168	6,005	1,028
C.5 losses incurred on disposals	111,091	62,548	4,251
C.6 transferred to other categories of non-performing exposure	14,155	246,919	316,137
C.7 other reductions	10,748	33,286	6,988
D. Gross exposure at end of period	661,673	1,394,037	151,304
- of which: exposures sold but not derecognized	*23,640*	*93,584*	*48,959*

A.1.7bis Banking Group - On-balance sheet credit exposures with customers: gross changes by credit quality in forborne exposures

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at start of period	1,203,395	461,718
- of which: exposures sold but not derecognized	*6,078*	*27,034*
B. Additions	380,029	687,279
B.1 transferred from performing exposures for which no concessions have been made	22,862	527,554
B.2 transferred from performing exposures for which concessions have been made	124,251	X
B.3 transferred from non-performing exposures for which concessions have been made	X	60,634
B.4 other additions	232,916	99,091
C. Reductions	389,161	441,499
C.1 transferred to performing exposures for which no concessions have been made	X	162,666
C.2 transferred to performing exposures for which concessions have been made	60,634	X
C.3 transferred to non-performing exposures for which concessions have been made	X	124,251
C.4 writeoffs	10,514	18,510
C.5 collections	95,099	122,173
C.6 amounts realized on disposals	5,606	—
C.7 losses incurred on disposals	82,664	—
C.8 other reductions	134,644	13,899
D. Gross exposure at end of period	1,194,263	707,498
- of which: exposures sold but not derecognized	*36,646*	*84,315*

A.1.8 Banking Group - Cash exposures to non-performing customers: trends in collective value adjustments

Descriptions/categories	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	Of which: forborne	Total	Of which: forborne	Total	Of which: forborne
A. Overall adjustments at start of period	368,614	72,900	663,294	506,450	91,456	28,162
- of which: exposures sold but not derecognized	*1,966*	*84*	*21,826*	*2,438*	*22,535*	*2,177*
B. Additions	291,011	88,653	376,419	184,830	184,570	95,541
B.1 value adjustments	65,588	11,966	151,273	67,187	75,190	36,814
B.2 losses incurred on disposals	111,091	37,030	62,548	43,133	4,251	2,501
B.3 transferred from other categories of non-performing exposure	95,097	35,227	51,605	17,027	7,010	3,285
B.4 other additions	19,235	4,430	110,993	57,483	98,119	52,941
C. Reductions	289,549	92,429	373,361	191,191	180,754	97,008
C.1 amounts reversed following changes in valuation	11,243	2,429	38,892	19,642	4,618	1,747
C.2 amounts reversed following collections	10,511	1,392	11,644	8,262	1,451	707
C.3 gains realized on disposals	3,035	1,012	1,333	741	15	9
C.4 writeoffs	134,255	46,886	69,606	34,141	2,328	1,054
C.5 transferred to other categories of non-performing exposure	11,023	1,122	98,036	40,030	44,653	17,031
C.6 other reductions	119,482	39,588	153,850	88,375	127,689	76,460
D. Overall adjustments at end of period	370,076	69,124	666,352	500,089	95,272	26,695
- of which: exposures sold but not derecognized	*22,447*	*2,774*	*65,996*	*15,672*	*37,359*	*8,240*

As at 30 June 2017 non-performing loans net of forborne exposures amounted to €599m, with a coverage ratio of 50%, while performing loans qualifying as forborne amounted to €643m with a coverage ratio of 9%. Overall the non-performing forborne positions represent 1.54% of the total customer loan book, and the performing forborne exposures 1.66%.

A.2 Exposures by internal and external ratings

A.2.1 Banking Group - Cash and off-balance-sheet exposures by external rating category

Exposures	External rating classes						Without rating	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. On-balance-sheet credit exposures	3.035.624	2.791.682	9.545.489	2.493.419	193.956	10.041	39.253.848	57.324.059
B. Derivative contracts	235.177	21.335.372	8.059.972	1.015.935	935.028	—	11.766.629	43.348.113
B.1 Financial derivative contracts	235.177	15.829.586	4.112.666	1.015.935	935.028	—	10.630.231	32.758.623
B.2 Credit derivatives	—	5.505.786	3.947.306	—	—	—	1.136.398	10.589.490
C. Guarantees given	—	—	10.708	68.898	—	—	753.875	833.481
D. Other commitments to disburse funds	3.061	174.848	3.038.057	928.544	141.092	—	2.858.360	7.143.962
E. Others [1]	—	—	—	—	—	—	43.521	43.521
Total	3.273.862	24.301.902	20.654.226	4.506.796	1.270.076	10.041	54.676.233	108.693.136

[1] Balance as at 30/6/17 includes trades worth €4,997,186,000, fully matched by hedge buys.

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

A.2.2 Banking Group - Cash and off-balance-sheet exposures by internal rating category

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. On-balance-sheet exposures	2,804,195	2,582,205	16,409,087	15,255,696	7,409,576	764,580	1,075,313	11,023,407	57,324,059
B. Derivative contracts	1,451,526	17,495,267	13,106,628	2,804,109	3,776,679	—	—	4,713,904	43,348,113
B.1 Financial derivative contracts	1,096,686	14,109,669	7,314,774	2,804,109	3,776,679	—	—	3,656,706	32,758,623
B.2 Credit derivatives	354,840	3,385,598	5,791,854	—	—	—	—	1,057,198	10,589,490
C. Guarantees given	—	—	106,086	472,073	23,436	—	—	231,886	833,481
D. Other commitments to disburse funds	154,132	351,254	3,537,441	2,273,555	232,244	644	16,965	577,726	7,143,961
E. Others	—	—	—	—	—	—	—	43,522	43,522
Total	4,409,853	20,428,726	33,159,242	20,805,433	11,441,935	765,224	1,092,278	16,590,445	108,693,136

Mediobanca uses the models developed internally in the process of managing credit risk to assign counterparties ratings.

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 Secured exposures by type of security

A.3.1 Banking Group - Secured cash exposures to banks

	Net exposures	Collaterals [1]				Guarantees [2]									Total (1)+(2)
		Property, Mortgages	Financial leasing property	Securities	Other guarantees	Credit derivatives					Signature loans				
						CLN	Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	2,133,290	116,459	1,230	2,009,507	3,442	—	—	—	—	—	1,920	—	—	31	2,132,589
1.1 totally secured	2,123,173	116,459	1,230	2,000,091	3,442	—	—	—	—	—	1,920	—	—	31	2,123,173
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	10,117	—	—	9,416	—	—	—	—	—	—	—	—	—	—	9,416
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Banking Group - Secured cash exposures to customers

	Net exposures [1]	Collaterals (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature loans				
		Property, Mortgages [2]	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	22,906,378	8,430,671	674,247	6,122,294	1,378,754	—	—	—	9,960	—	110,359	217,043	98,418	1,611,799	18,653,545
1.1 totally secured	15,834,384	8,044,553	674,247	3,541,694	1,012,734	—	—	—	9,960	—	110,359	217,043	98,418	1,606,703	15,315,711
- of which impaired	*486,879*	*253,354*	*45,376*	*811*	*17,795*	—	—	—	—	—	*342*	—	*57,329*	*111,872*	*486,879*
1.2 partially secured	7,071,994	386,118	—	2,580,600	366,020	—	—	—	—	—	—	—	—	5,096	3,337,834
- of which impaired	*267,789*	*2,203*	—	*8,087*	*11,415*	—	—	—	—	—	—	—	—	—	*21,705*
2. Secured off-balance sheet credit exposures	2,091,115	65,272	—	77,801	110,131	—	—	—	—	—	4,576	—	—	573,350	831,130
2.1 totally secured	970,955	44,690	—	54,022	79,580	—	—	—	—	—	4,576	—	—	573,350	756,218
- of which impaired	*5,480*	*322*	—	*540*	—	—	—	—	—	—	—	—	*2,433*	*2,185*	*5,480*
2.2 partially secured	1,120,160	20,582	—	23,779	30,551	—	—	—	—	—	—	—	—	—	74,912
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

[1] The item includes €2,076.2m in receivables from the Barclays' business unit, €2,049.8m of which are performing and €26.4m of which non-performing.

[2] The item includes €2,956.8m in receivables from the Barclays' business unit, €2,930.5m of which are performing and €26.3m of which non-performing.

B. Exposures distribution and concentration

B.1 Banking Group - Cash and off-balance-sheet exposures to customers by sector (book value)

Exposure / counterparties	Governments			Other public entities			Financial companies			Insurances			Non-financial companies			Other parties		
	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments
A. Cash exposures																		
A.1 NPLs	—	—	X	—	—	X	638	(1,661)	X	—	—	X	57,994	(48,678)	X	232,965	(319,737)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*23,396*	*(32,270)*	*X*	*5,659*	*(58,527)*	*X*
A.2 Probable default	—	—	X	12,121	(2,234)	X	25,761	(17,992)	X	—	—	X	482,232	(395,514)	X	207,571	(250,612)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	*15,298*	*(2,204)*	*X*	—	—	*X*	*443,098*	*(338,390)*	*X*	*113,522*	*(109,634)*	*X*
A.3 Bad debts past due	—	—	X	1,300	(30)	X	159	(73)	X	1	(1)	X	10,337	(2,926)	X	44,235	(92,242)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*718*	*(184)*	*X*	*8,327*	*(26,511)*	*X*
A.4 Performing exposures	7,446,060	X	(3,179)	341,115	X	(38)	3,802,869	X	(16,646)	1,292,609	X	(2,168)	13,286,479	X	(54,988)	20,625,213	X	(341,442)
- of which forborne exposures	—	*X*	—	—	*X*	—	*225,967*	*X*	*(10,455)*	—	*X*	—	*120,621*	*X*	*(4,151)*	*285,253*	*X*	*(50,002)*
Total A	7,446,060	—	(3,179)	354,536	(2,264)	(38)	3,829,427	(19,726)	(16,646)	1,292,610	(1)	(2,168)	13,837,042	(447,118)	(54,988)	21,109,984	(662,591)	(341,442)
B. Off-balance-sheet exposures																		
B.1 NPLs	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.2 Probable default	—	—	X	—	—	X	2,185	(314)	X	—	—	X	14,762	(3,121)	X	277	—	X
B.3 Other bad debts	—	—	X	—	—	X	—	—	X	—	—	X	232	(308)	X	1,055	—	X
B.4 Performing exposures	738,263	X	—	63,284	X	—	8,341,187	X	(1,332)	758,749	X	(278)	11,023,300	X	(5,363)	383,915	X	(1,574)
Total B	738,263	—	—	63,284	—	—	8,343,372	(314)	(1,332)	758,749	—	(278)	11,038,294	(3,429)	(5,363)	385,247	—	(1,574)
Total (A+B) 30/6/17	8,184,323	—	(3,179)	417,820	(2,264)	(38)	12,172,799	(20,040)	(17,978)	2,051,359	(1)	(2,446)	24,875,336	(450,547)	(60,351)	21,495,231	(662,591)	(343,016)
Total (A+B) 30/6/16	12,110,970	—	(3,120)	792,793	(1,614)	(279)	10,696,733	(17,159)	(18,778)	1,858,763	(1)	(2,231)	26,259,308	(471,716)	(74,950)	17,488,076	(635,010)	(250,702)

B.2 Banking Group - Cash and off-balance-sheet exposures to customers by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	**Collective value adjustments**	**Net exposure**	**Collective value adjustments**	**Net exposure**	**Collective value adjustments**	**Net exposure**	**Collective value adjustments**	**Net exposure**	**Collective value adjustments**
A. Cash exposures										
A.1 NPLs	284,229	(358,206)	7,218	(10,797)	150	(98)	—	—	—	(975)
A.2 Probable default	718,738	(612,958)	8,272	(53,108)	450	(190)	225	(96)	—	—
A.3 Bad debts past due	53,201	(95,237)	2,472	(21)	35	(10)	11	(4)	313	—
A.4 Performing exposures	35,099,374	(386,870)	9,967,922	(28,033)	1,474,066	(3,446)	33,380	(89)	219,603	(23)
Total A	36,155,542	(1,453,271)	9,985,884	(91,959)	1,474,701	(3,744)	33,616	(189)	219,916	(998)
B. Off-balance-sheet exposures										
B.1 NPLs	—	—	—	—	—	—	—	—	—	—
B.2 Probable default	7,008	(2,209)	9,908	(1,534)	—	—	—	—	—	—
B.3 Other bad debts	1,595	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	8,695,808	(4,514)	12,443,372	(3,866)	114,948	(167)	3,351	—	51,219	—
Total B	8,704,411	(6,723)	12,453,280	(5,400)	114,948	(167)	3,351	—	51,219	—
Total A+B 30/6/17	44,859,953	(1,459,994)	22,439,164	(97,359)	1,589,649	(3,911)	36,967	(189)	271,135	(998)
Total A+B 30/6/16	47,303,925	(1,359,306)	19,733,312	(106,261)	2,028,388	(8,979)	23,254	(33)	117,765	(980)

B.3 Banking Group - Cash and off-balance-sheet exposures to banks by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 NPLs	—	—	—	—	—	—	—	—	—	—
A.2 Probable default	—	—	—	—	—	—	—	—	—	—
A.3 Bad debts past due	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	4,364,779	(2,898)	4,975,713	(1,049)	109,078	(13)	1,755	—	3,143	(2)
Total A	4,364,779	(2,898)	4,975,713	(1,049)	109,078	(13)	1,755	—	3,143	(2)
B. Off-balance-sheet exposures										
B.1 NPLs	—	—	—	—	—	—	—	—	—	—
B.2 Probable default	—	—	—	—	—	—	—	—	—	—
B.3 Other bad debts	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	6,729,656	(137)	23,312,666	—	213	—	—	—	—	—
Total B	6,729,656	(137)	23,312,666	—	213	—	—	—	—	—
Total A+B 30/6/17	11,094,435	(3,035)	28,288,379	(1,049)	109,291	(13)	1,755	—	3,143	(2)
Total A+B 30/6/16	6,385,686	(1,713)	22,091,119	(475)	908,155	(12)	14,139	(23)	36,985	1

B.4a Credit risk indicators

	30/6/17	30/6/16
a) Gross bad loans/total loans	1.37%	1.39%
b) NPLs/cash exposures	4.13%	4.01%
c) Net bad loans/regulatory capital	3.28%	3.11%

B.4 Large risks

	30/6/17	30/6/16
a) Book value	10,647,251	7,302,743
b) Weighted value	7,421,973	5,297,734
c) No. of exposures	7	6

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients were in excess of 10% of the regulatory capital, one more than at end-June 2016, for a gross exposure of €10.6bn (€7.4bn taking into account guarantees and weightings), substantially higher than twelve months previously when the figures were €7.3bn and €5.3bn respectively, due to an increase in short-term treasury operations (secured financing) with other regulated intermediaries. In detail the seven exposures are to one industrial group, one insurer and five banking groups.

C. Securitizations and asset disposals

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €314.3m (almost entirely part of the banking book), higher than the €204.5m reported last year, following new acquisitions of €227.4m and disposals and redemptions totalling €120.6m.

Some 90% of the portfolio consists of senior-ranking securities; three mezzanine deals are also featured, with a book value of €24.8m, the most significant of which involves a transaction originated by the Intesa group with from salary-backed finance products receivables as the underlying instrument, and two junior-ranking securities carried at €4.6m, including a new €3.7m issue in connection with the Bank's role as sponsor (cf. below).

The balance of trading securities declined during the twelve months, from €43.2m to €2.3m, and involves only three issues; all the other positions have been disposed of at fair value (either sold on the market or transferred to the banking book), generating gains of approx. €1m.

Conversely, the banking book increased in value from €161.3m to €312m, chiefly as a result of the addition of three bilateral deals worth a total of €194.7m, with non-performing Italian and Spanish mortgage loans as the underlying instrument. The main deal featured, with an investment of approx. €100m, involves the securitization of Banca Intesa group non-performing loans, in which Mediobanca acted as sponsor alongside various international funds in structuring the transaction and recognizing a 5% retention stake as an asset on its balance sheet (including the junior note). The twelve months under review also featured the early redemption of the only synthetic instrument held on the books (ELM).

The rest of the Group's portfolio remains concentrated on domestic collateralized securities deriving from mortgage receivables (€32.7m; Vela and Claab) and state-owned properties (€65.2m; Fip).

Mediobanca invested €12.2m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Atlante II, [1] so far drawn as

[1] Closed, alternative investment fund (FIA) incorporated under Italian law and managed by Quaestio Capital.

to €10.8m in respect of deals involving NPLs of the Etruria, Chieti, Marche and Ferrara savings banks (also known as the four "good" banks).

QUANTITATIVE INFORMATION

C.2 Banking Group - Exposures deriving from principal third-party securitizations by underlying asset and type of exposure

Type of securitized assets/ Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	93,808	59	3,223	77	920	26
B. Italy NPLs	96,847	—	—	—	3,666	—
C. Spain NPLs (residential mortgages and real estates)	94,261	—	—	—	—	—
D. Other receivables	—	—	21,573	365	—	—
Total 30/6/17	284,916	59	24,796	442	4,586	26
Total 30/6/16	179,353	166	24,229	(647)	894	(15)

C.3 Banking Group - Securitization SPVs

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 5 - Quarzo S.r.l.	Milan	Accounting	2,040,682	—	171,561	1,694,000	—	517,000
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,057,520	—	256,194	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,416,361	—	90,040	1,215,000	—	290,900
Quarzo CQS S.r.l.	Milan	Accounting	418,000	—	65,000	361,000	—	82,000

C.4 Securitization SPVs not consolidated

In the second half of the financial year, the Mediobanca Group took part as arranger and sponsor in the structuring of a securitization in which the Intesa SanPaolo Group was the originator and which involved the sale of a portfolio of performing loans worth a nominal €2.02bn to the newly-incorporated vehicle company (SPV Project 1702 Srl. Under the terms of the transaction, a senior tranche in an amount of €97.9m and a junior tranche in an amount of €73.9m will be issued for a total of €170.8m invested by the SPV to acquire the underlying portfolio.

To ensure the net economic interest in the securitization does not fall below 5% (as required by Article 405 of Regulation (EU) 575/2013 on prudential requirements for credit institutions), Mediobanca has invested in 100% of the senior tranche (€97.9m) and 5% of the junior tranche (€3.69m). The other 95% of the junior tranche has been placed with specialist funds.

C.5 Banking Group: servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets 30/06/17		Receivables collected during the year		Percentage share of securities repaid 30/06/17					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
SelmaBPM	Quarzo Lease	—	—	—	—	—	—	—	—	—	—
Futuro	Quarzo CQS	8,997	436,644	7,429	214,812	—	51.03	—	—	—	—
Compass	Quarzo Srl	156,029	6,658,874	6,470	3,652,912	—	—	—	—	—	—

C.6 Banking Group – SPVs consolidated

Quarzo MB S.r.l. (Mediobanca)

This SPV was incorporated in June 2017 and is not yet operative.

Quarzo Lease S.r.l. (SelmaBipiemme Leasing)

This SPV currently has no securitizations outstanding.

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, subscribed for directly by Group companies with the aim of broadening the sources of funding by taking advantage of the possibility to refinance the senior bonds with the European Central Bank:

– The first securitization, completed on 22 July 2015 with the issue of €1,694m in senior notes and €506m in junior notes against performing receivables in a total amount of €2,200m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €1,104m were ceded.

– The second, completed on 25 February 2016 with the issue of €2,640m in senior notes and €660m in junior notes against performing receivables in a total amount of €3,300m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €1,782m were ceded.

– The third, completed on 15 February 2017 with the issue of €1,215m in senior notes and €285m in junior notes against performing receivables in a total amount of €1,500m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €173m were ceded.

Quarzo CQS S.r.l. (Futuro)

Quarzo CQS S.r.l. has one securitization outstanding, initially with €820m in performing Futuro receivables as the underlying instrument, and expiring in November 2021 The securitization involves a junior tranche of €82m (subscribed for by Futuro) and senior notes in an amount of €738m listed on the Dublin stock market, and being mostly sold on the market (as at 30 June 2017 the senior notes in issue were worth €361.4m, of which €97.9m held by Group Treasury).

Accounts between the originator and the SPV during the year under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	222.2	0.7	1.5	39.9
Quarzo S.r.l.	4,558.8	3,659.4	11.1	47.3	353.4

D. Disclosure on structured entities

In accordance with the provisions of IFRS 12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing close restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore normally structured to ensure that the voting rights (o 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).

D.1 Consolidated structured entities

The four securitization SPVs are included in the Group's area of consolidation, as described in Part A – Section 3 of the Notes to the Accounts pursuant to Italian law 130/99: Quarzo S.r.l., Quarzo Lease S.r.l., Quarzo CQS S.r.l, Quarzo MB S.r.l. (90%-owned by Mediobanca S.p.A., with the other 10% owned by SPV Holding), plus the newly-established company incorporated under Luxembourg law MB Funding Lux S.A. (100%-owned by Mediobanca S.p.A.).

D.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 (stated in Part B, Assets, tables 2.1 and 4.1) in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Banca Esperia and Cairn Capital) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital and Duemme SGR).

D.2.1. Structured entities consolidated for regulatory purposes

As at 30 June 2017 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

D.2.2. Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are mainly carried out through vehicle companies, in particular as follows:

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, an authorized company incorporated under Luxembourg law. Of the five segments, one involves debt securities, one equities, and the other three target volatility funds of funds. The SICAV is managed by fund management company Duemme

International Luxembourg (which the Group owns through Banca Esperia), while the three funds of funds are managed by BlackRock and the other funds by Duemme Sgr (which too belongs to Banca Esperia). As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments which were still outstanding at 30 June 2017; these total 203.461, and have a NAV of approx. €20.1m; commissions of €0.2m were collected during the twelve months under review.

Compagnie Monégasque de Banque has sold to its clients the four fund segments operated by CMB Global Lux, a company authorized under Luxembourg law, two of which are bond funds (CMB Global Lux Expansion and CMB Global Lux Corporate) and two equity funds (CMB Global Lux High Yield Equity and CMB Global Lux Emerging Markets). The SICAV itself is managed directly by Compagnie Monégasque de Banque, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestione and by CACEIS Luxembourg respectively. As at 30 June 2017 the bond segment CMB Global Lux Expansion (€4.9m) and the equity segment CMB Global Lux High Yield Equity (€3.9m) were still featured in the portfolio. Commissions from management of the funds subscribed to totalled €2.3m. In addition there was also the investment in Monaction High Dividend Yield €8.6m, a fund managed by subsidiary Compagnie Monégasque de Gestion.

As part of its alternative funds activity, Cairn Capital Ltd manages five funds which it has promoted: a real estate bond fund (Cairn European Commercial Mortgage Fund), a balanced absolute return fund (Cairn Special Opportunities Credit Fund), a subordinated bond fund (Cairn Subordinated Financials Fund II), a multi-asset fund (Cairn Strata Credit Fund), and the recently incorporated Cairn European Loan Fund. Cairn itself has subscribed to the Cairn Special Opportunities Credit Fund, Cairn Strata Credit Fund and the SPE Cairn Loan Investment for a total amount of €1.6m, plus Mediobanca's share of the seed capital amounting to €112.2m invested in the Cairn European Commercial Mortgage Fund (€50m), Cairn European Loan Fund (€50m) and the SPE Cairn Loan Investments LLP (€12.2m).

In the fourth quarter, with the full consolidation of Banca Esperia, Duemme SGR and Duemme International have also become part of the Mediobanca Group. These are split between philanthropic funds, which ensure that the charitable institution receives a recurring flow of income over time at low risk (balanced bond funds) and daily liquidity (Duemme San Patrignano, Comitato

Maria Letizia Verga, Cometa, Banco Alimentare Mission Bambini and Amref Health Africa), open-end investment funds (Duemme Global Financial) and funds for which investment is concentrated in contingent convertible capital bonds and UCITs (Duemme CoCo Credit Fund), closed-end investment funds aimed at financing companies through investments in minibonds (Duemme per le imprese 1 and 2), and medium-/long-term return funds featuring investments in equities, convertible bonds and derivatives (Duemme Alkimis Absolute, Alkimis Special Values and C-Quadrat Efficient). Direct investments in these funds total €49.4m, €15.7m of which subscribed for directly by Banca Esperia as part of its activity in supporting the sale of the philanthropic funds, and €33.8m in treasury investments by Mediobanca S.p.A., up €1.2m during the year under review due to new purchases.

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates, mean that the ability to impact on returns stipulated by IFRS10 as a precondition for establishing control, does not apply in this case; hence Mediobanca does not have direct control.

Asset Backed Securities

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 depend 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 such activity does not constitute acting as sponsor.

The lending transactions, recorded under asset heading 70, in which the Group is the sole lender involve an amount of €580.4m, plus €57.1m in notes held as available for sale.

QUANTITATIVE INFORMATION

Accounted for under asset heading	Balance-sheet item/SPE type	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
AFS financial assets	Yellow Fund Sicav	20,072	—	—	20,072	20,072	—
AFS financial assets	CMB Global Lux	8,815	—	—	8,815	8,815	—
AFS financial assets	CMG Funds	8,634			8,634	8,634	—
AFS financial assets	Cairn European Commercial Morgage Fund	54,823	—	—	54,823	54,823	—
AFS financial assets	Cairn European Loan Fund	51,548	—	—	51,548	51,548	—
AFS financial assets	Cairn Loan Investments	15,426	—	—	15,426	15,426	—
HFT financial assets	Duemme Funds	27,350			27,350	27,350	—
AFS financial assets	Duemme Funds	23,118	—	—	23,118	23,118	—
AFS financial assets	Other funds	754	—	—	754	754	—
Loans and receivables	Asset Backed	580,400	—	—	580,400	580,400	—
AFS financial assets	Asset Backed	57,063	—	—	57,063	57,063	—

D.3 Leveraged finance transactions

The definition of leveraged finance transactions has been revised in accordance with the first comments received in the Thematic Review performed by the Single Supervisory Mechanism of the European Banking System. The new definition comprises transactions which are 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.

As at 30 June 2017, the Group's exposure to this type of transaction amounted to €1,211m[2], slightly higher than the €1,182.7m reported on year previously, and accounting for just under 9% of the corporate loan book. Of this total, 17% relates to domestic transactions, with the rest remaining within the confines of the EU. The leveraged finance market regained buoyancy during the twelve months: against repayments totalling €566m (with seven deals being closed), increases of €595m were recorded (including ten new deals).

[2] Plus off-balance-sheet exposures (commitments and derivatives) totalling €89.9m (30/6/16: €162.9m).

E. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Banking Group - Financial assets sold but not derecognized: book value and full value**

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	
							30/6/17	30/6/16
A. Balance sheet assets	1,840,174	—	699,906	395,168	—	1,314,222	4,249,470	4,400,045
1. Debt securities	1,550,333	—	699,906	395,168	—	—	2,645,407	2,543,619
2. Equity securities	289,841	—	—	X	X	X	289,841	617,827
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,314,222	1,314,222	1,238,599
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/17	1,840,174	—	699,906	395,168	—	1,314,222	4,249,470	X
of which: impaired	—	—	—	—	—	*40,382*	*40,382*	*X*
Total 30/6/16	1,391,103	—	1,413,659	356,684	—	1,238,599	X	4,400,045
of which: impaired	—	—	—	—	—	*17,749*	*X*	*17,749*

* Includes only sold financial assets which are still fully recognized.

E.2 Banking Group - Financial liabilities in respect of financial assets sold but not derecognized: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	114,952	—	146,087	280,293	—	—	541,332
a) Related to fully recognized assets	114,952	—	146,087	280,293	—	—	541,332
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	1,962,812	—	552,852	118,785	—	220,947	2,855,396
a) Related to fully recognized assets	1,962,812	—	552,852	118,785	—	220,947	2,855,396
b) Related to partially recognized assets	—	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	263,447	263,447
a) Related to fully recognized assets	—	—	—	—	—	263,447	263,447
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/17	2,077,764	—	698,939	399,078	—	484,394	3,660,175
Total 30/6/16	1,107,652	—	766,828	183,356	—	1,542,653	3,600,489

E.3 Banking Group - Disposals with liabilities referring exclusively to assets sold: fair value [1]

Instruments/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments (fair value)	Due from banks (fair value)	Due from customers (fair value)	Total	
							30/6/17	30/6/16
A. Cash assets	1,840,174	—	699,906	402,419	—	1,374,880	4,317,379	4,505,713
1. Debt securities	1,550,333	—	699,906	402,419	—	—	2,652,658	2,548,248
2. Equities	289,841	—	—	X	X	X	289,841	617,827
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,374,880	1,374,880	1,339,638
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	1,840,174	—	699,906	402,419	—	1,374,880	4,317,379	4,505,713
C. Associated liabilities	2,082,436	—	696,196	401,138	—	1,188,707	X	X
1. Due from customers	113,265	—	145,851	278,943	—	703,153	X	X
2. Due from banks	1,969,171	—	550,345	122,195	—	220,947	X	X
3. Debt securities in issue	—	—	—	—	—	264,607	X	X
Total liabilities	2,082,436	—	696,196	401,138	—	1,188,707	4,368,477	3,741,011
Net value 30/6/17	(242,262)	—	3,710	1,281	—	186,173	(51,098)	X
Net value 30/6/16	111,036	—	396,945	54,747	—	201,974	X	764,702

[1] The table includes collateralized liability transactions: repos, securities lending and other secured financing transactions.

E.4 Banking Group – covered bond issues

The Group has a programme of covered bond issuance in progress, secured by residential mortgages and involving an amount of up to €5bn. The programme, implemented in accordance with the provisions of Italian law 130/99, has a ten-year duration (falling due in December 2021), and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;

– CheBanca!, as the seller (including on a revolving basis) and servicer on the transaction;

– Mediobanca Covered Bond S.r.l., incorporated pursuant to Article 7-bis of Italian law 130/99, as the non-recourse recipient of the assets and guarantor of the covered bonds.

Three deals are outstanding under the current programme, involving a total notional amount of €2,250m, against €3,077.7m in receivables sold. All the issues are addressed to institutional investors rated "AA" by Fitch, and involve:

– €750m issued in October 2013 at a fixed rate of 3.625% and expiring in October 2023;

– €750m issued in June 2014 at a fixed rate of 1.125% and expiring in June 2019;

– €750m issued in November and December 2015 at a fixed rate of 1.375% and expiring in November 2025.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to market risk on the trading book, which is faced virtually entirely by Mediobanca S.p.A., is measured in operating terms on a daily basis by calculating the following main indicators:

- Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;
- Value-at-risk calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out once a month 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 but historically accurate changes in market variables.

In addition to these metrics, other complementary but more specific risk indicators are also used in order to capture other risks on trading positions which are not fully measured by VaR and sensitivity analysis more effectively. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

With reference to market risks, the value-at-risk on the trading ranged from a low of €1.3m (May 2017) and a high of approx. €5.7m (September 2016). The average reading for the twelve months was €3m, down sharply on the average figure for last year (€6.2m). The high volatility levels which affected markets following the Brexit vote began to be mitigated as from autumn 2016, in part due to a policy of gradually reducing or hedging the directional risks on the trading portfolio, bringing VaR into a range between €2m and €4m before falling to the lows recorded in March 2017. The point-in-time figure observed at the reporting date was up again to approx. €4.5m, solely as a result of the addition of one major directional equity position.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €7.5m to €4m, as a result of the lower volatility on markets which gradually reduced the impact of the historically extreme scenarios, along with the reduction in the weight of directional positions during the twelve months already mentioned.

The results of the daily back-testing based on calculations of theoretical profits and losses, show no days on which losses in excess of the VaR were observed.

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors (€ '000)	**12 mths to 30/6/17**				**12 mths to 30/6/16**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	426	426	2,094	916	2,672
Credit	608	556	5,014	1,201	2,760
Share prices	2,618	643	3,942	2,006	3,226
Exchange rates	159	81	2,258	581	1,249
Inflation	217	75	1,523	649	1,726
Volatility	695	630	2,698	1,394	1,796
*Diversification effect **	*(1,560)*	—	—	*(3,703)*	*(7,221)*
Total	3,163	1,268	5,685	3,044	6,207
Expected Shortfall	***3,971***	***1,665***	***8,677***	***4,504***	***7,476***

* Due to mismatch between risk factors.

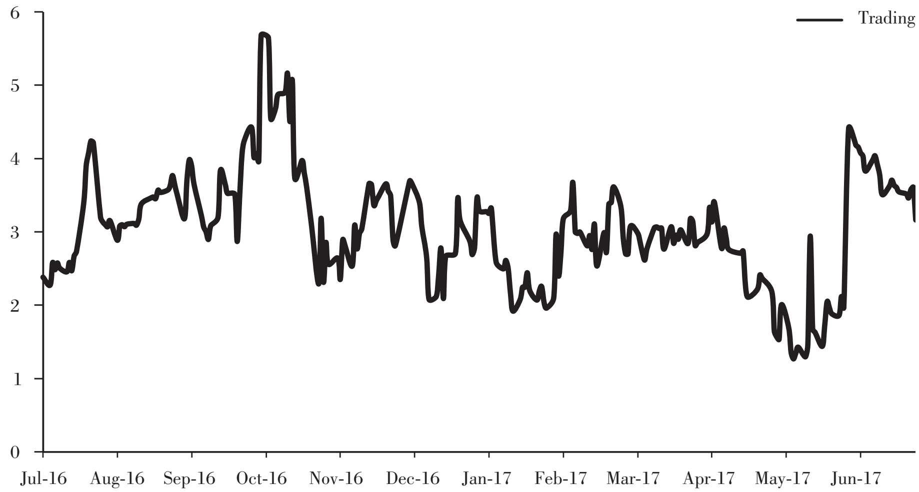
The contribution to market risks deriving from the trading books of other Mediobanca Group companies remains extremely limited. Apart from the Mediobanca VaR, the only other company to contribute is Compagnie Monégasque de Banque. CMB's average VaR reading for the aggregate including positions classified as HFT and AFS for the twelve months, calculated at the 99th percentile, was approx. €937,000, higher than the average figure of €764,000 reported last year, due to the US Treasury bonds component, for which the exchange rate volatility component was higher than last year.

Apart from the overall VaR limit for the trading book and general HFT portfolio, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the 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 volatility). The equity desks structurally show long delta and short vega positions. The exposure to interest rates ranged from minus €206,000 to €171,000, with a low average reading of approx. €36,000, reflecting the trading book's negligible exposure to swap and Euribor interest rates. The exchange rate showed just a few spikes for brief periods of time, while the average readings were very low.

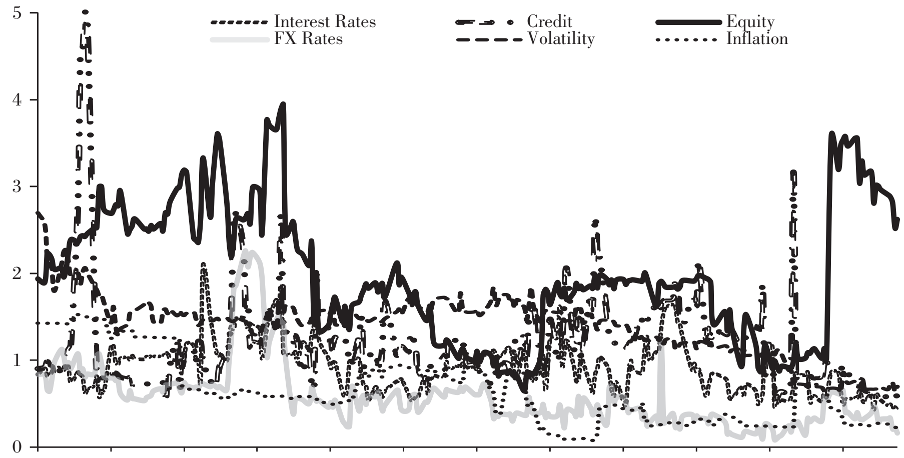
Table 2: Overview of trends in main sensitivities for trading book

Risk factors (€ '000)	**12 mths to 30/6/17**			
	30/6	**Min**	**Max**	**Avg.**
Equity delta (+1%)	1.009	276	1.662	758
Equity vega (+1%)	(27)	(710)	269	(221)
Interest rate delta (+1bp)	35	(206)	171	(36)
Inflation delta (+1bp)	19	(8)	111	27
Exchange rate delta (+1%)	(391)	(1.030)	463	(175)
Credit delta (+1bp)	112	36	483	200

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by residual maturity (repricing date) of financial cash assets and liabilities and financial derivatives

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	—	403,387	971,687	45,858	1,094,795	127,997	91,491	—
1.1 Debt securities	—	403,387	971,687	45,858	1,094,795	127,997	91,491	—
– with early redemption option	—	—	—	—	—	—	—	—
– others		403,387	971,687	45,858	1,094,795	127,997	91,491	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	82	17,856	103,204	38,818	1,935,389	4,738	55,462	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	82	17,856	103,204	38,818	1,935,389	4,738	55,462	
3. Financial derivatives	100,000	98,037,317	69,328,757	11,630,870	55,757,478	17,476,979	7,695,030	—
3.1 With underlying securities	—	228,946	—	—	—	24,038	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others	—	228,946	—	—	—	24,038	—	—
+ long positions	—	114,473	—	—	—	12,019	—	—
+ short positions	—	114,473	—	—	—	12,019	—	—
3.2 Without underlying securities	100,000	97,808,371	69,328,757	11,630,870	55,757,478	17,452,941	7,695,030	—
– Options	—	25,936,470	36,862,300	640,000	1,880,000	792,000	1,280,000	—
+ long positions	—	12,968,235	18,431,150	320,000	940,000	396,000	640,000	—
+ short positions	—	12,968,235	18,431,150	320,000	940,000	396,000	640,000	—
– Others	100,000	71,871,901	32,466,457	10,990,870	53,877,478	16,660,941	6,415,030	—
+ long positions	—	38,477,199	13,844,330	5,810,918	27,036,127	8,072,457	2,950,308	—
+ short positions	100,000	33,394,702	18,622,127	5,179,952	26,841,351	8,588,484	3,464,722	—

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	1,375,919	—	88,071
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	10,524
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	10,524
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	93,736	132,998	1,167
- harmonized	74,506	—	—
- non-harmonized open	—	—	1,167
- non-harmonized closed	19,230	132,998	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	1,469,655	132,998	99,762

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities; over 98% of the net exposure regards other European countries.

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 a parallel and simultaneous 100 bps shock in the interest rate curve on current earnings. The latter is calculated by comparing the discounted value of expected cash flows using the yield curve at the current date with the value obtained using a yield curve which is 200 bps higher or lower (parallel shock).

With reference to the positions held as part of the banking book as at 30 June 2017, if interest rates were to rise, net interest income would also rise by approx. €10m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, a 200 basis-point positive shock would generate a gain of €220.7m at Group level, representing the difference between the losses recorded by Mediobanca (€162m) and Compass (€101m) and the increase for CheBanca! (up €483m). In the opposite scenario, i.e. if interest rates reduce, net interest income on the banking book at Group level would fall by €85m.

The data described above are summarized in the table below:

Data at 30/6/17		Banking Book			
		Group	Mediobanca SpA	CheBanca!	Compass
Net interest income sensitivity	+ 100 bps	10.29	(23.50)	33.93	(0.14)
	- 100 bps	0.88	0.89	(0.01)	—
Discounted value of cash flows senstivity	+ 200 bps	220.65	(162.02)	483.63	(100.96)
	- 200 bps	(84.99)	47.34	(156.27)	23.94

At Group level, the values obtained in both scenarios continue to remain within the limits set by both the monitoring regulations and operational controls, which are respectively 7.5% (net interest income sensitivity/regulatory capital) and 15% (economic value sensitivity/regulatory capital).

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). [3]

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 AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

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

[3] 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.

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.

Mediobanca S.p.A. also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual maturity (by 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	5,056,612	21,260,773	5,524,230	3,648,149	13,938,190	3,753,935	1,323,110	14,085
1.1 Debt securities	—	823,834	514,746	1,076,830	4,341,265	1,482,770	3,471	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	—	823,834	514,746	1,076,830	4,341,265	1,482,770	3,471	—
1.2 Loans to banks	2,619,860	3,434,712	218,326	394,404	936,377	6	275,523	734
1.3 Loans to customers	2,436,752	17,002,227	4,791,158	2,176,915	8,660,548	2,271,159	1,044,116	13,351
– current accounts	902,965	—	—	—	1	—	—	—
– other loans	1,533,787	17,002,227	4,791,158	2,176,915	8,660,547	2,271,159	1,044,116	13,351
– with early repayment option	225,461	6,380,045	839,311	1,547,163	7,316,763	1,873,709	1,026,313	—
– others	1,308,326	10,622,182	3,951,847	629,752	1,343,784	397,450	17,803	13,351
2. Cash liabilities	12,980,091	16,635,763	3,495,304	5,031,963	11,978,794	2,587,729	320,245	1,659
2.1 Due to customers	11,471,907	5,770,956	1,009,458	1,801,598	130,896	224	256,482	1,477
– current accounts	9,033,641	2,657,722	34,626	42,278	57,537	—	—	—
– other amounts due	2,438,266	3,113,234	974,832	1,759,320	73,359	224	256,482	1,477
– with early repaymen option	—	—	—	—	—	—	—	—
– others	2,438,266	3,113,234	974,832	1,759,320	73,359	224	256,482	1,477
2.2 Due to banks	1,231,747	3,497,819	374,905	403,607	6,990,847	310	16	182
– current accounts	450,275	4,207	—	—	—	—	—	—
– other amounts due	781,472	3,493,612	374,905	403,607	6,990,847	310	16	182
2.3 Debt securities	276,437	7,366,988	2,110,941	2,826,758	4,857,051	2,587,195	63,747	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	276,437	7,366,988	2,110,941	2,826,758	4,857,051	2,587,195	63,747	
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	16,091,289	3,666,525	1,833,945	8,595,737	3,910,682	196,003	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	16,091,289	3,666,525	1,833,945	8,595,737	3,910,682	196,003	—
– Options	—	—	—	—	200,000	—	80,000	—
+ long positions	—	—	—	—	100,000	—	40,000	—
+ short positions	—	—	—	—	100,000	—	40,000	—
– Others	—	16,091,289	3,666,525	1,833,945	8,395,737	3,910,682	116,003	—
+ long positions	—	3,862,566	2,656,025	1,723,945	5,668,437	3,007,614	88,503	—
+ short positions	—	12,228,723	1,010,500	110,000	2,727,300	903,068	27,500	—
4. Other OTC trades	1,513,316	6,164,434	610,786	1,204,734	16,640,663	1,061,066	800,293	—
+ long positions	179,424	3,115,280	610,786	362,187	8,681,771	495,734	552,464	—
+ short positions	1,333,892	3,049,154	—	842,547	7,958,892	565,332	247,829	—

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	400,572	—	27,213
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	2,095
B. UCITS units			
B.1 Italian	—	—	184,147
- harmonized open	—	—	61,959
- non-harmonized open	—	—	—
- closed	—	—	112,948
- reserved	—	—	—
- speculative	—	—	9,240
B.2 Other EU states	37,478	—	129,457
- harmonized	28,887	—	559
- non-harmonized open	8,591	—	42
- non-harmonized closed	—	—	128,856
B.3 Non-EU states	—	—	5,237
- open	—	—	—
- closed	—	—	5,237
Total	438,050	—	348,149

[1] Of which 77% Italian and 22% other EU countries.

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. [229] 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. Financial assets, liabilities and derivatives by currency

Line items	Currency					
	US dollars	Pounds sterling	Japanese yen	Canadian dollars	Swiss francs	Other
A. Financial assets	2,361,500	1,074,360	30,052	9,751	112,539	134,360
A.1 Debt securities	928,188	31,929	—	2,063	3,665	9,820
A.2 Equities	25,866	226,983	—	—	6,329	—
A.3 Loans and advances to banks	183,753	80,046	28,700	2,145	17,519	22,772
A.4 Loans and advances to customers	1,221,244	734,655	1,242	5,543	85,026	101,768
A.5 Other financial assets	2,449	747	110	—	—	—
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	(2,815,317)	(592,141)	(27,118)	(43,486)	(69,259)	(41,367)
C.1 Due to banks	(320,636)	(9,673)	(18,262)	—	(910)	(319)
C.2 Due to customers	(968,720)	(142,970)	(8,856)	(42,895)	(62,816)	(34,613)
C.3 Debt securities	(1,525,961)	(439,498)	—	(591)	(5,533)	—
C.4 Other financial liabilities	—	—	—	—	—	(6,435)
D. Other liabilities	—	—	—	—	—	—
E. Financial derivative products	539,762	(434,911)	(3,116)	34,139	(40,194)	(80,537)
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	539,762	(434,911)	(3,116)	34,139	(40,194)	(80,537)
+ Long positions	3,716,155	477,026	7,686	39,719	100,940	138,504
+ Short positions	(3,176,393)	(911,937)	(10,802)	(5,580)	(141,134)	(219,041)
Total assets	6,077,655	1,551,386	37,738	49,470	213,479	272,864
Total liabilities	(5,991,710)	(1,504,078)	(37,920)	(49,066)	(210,393)	(260,408)
Difference (+/-)	85,945	47,308	(182)	404	3,086	12,456

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, directional positions taken on exchange rates were kept under control, with hedges being implemented to contain the exposure where necessary. The VaR for the forex component at the aggregate level showed an average reading of approx. €6.5m, some €2m higher than the average reading recorded one year previously. The VaR reading was impacted by the strong volatility reflected by this asset class in the summer months of 2016 following the Brexit vote. The reading reflected some other temporary spikes in conjunction with the US elections up to the end of 2016, but returned to close to average levels for the last six months of the financial year. The point-in-time reading as at 30 June 2017 was €9.4m.

1.2.4 DERIVATIVE FINANCIAL INSTRUMNTS

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: reporting-date notional values

Underlying assets/Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	89,599,408	31,570,511	102,502,160	88,455,146
a) Options	—	30,721,864	—	87,729,988
b) Swap	86,903,408	—	97,586,160	—
c) Forward	—	—	—	—
d) Futures	—	848,647	—	725,158
e) Others	2,696,000	—	4,916,000	—
2. Equity instruments and stock indexes	14,537,682	11,250,774	14,948,134	11,742,610
a) Options	13,586,813	11,011,994	13,978,569	11,508,167
b) Swap	833,720	—	969,565	—
c) Forward	117,149	—	—	—
d) Futures	—	238,780	—	234,443
e) Others	—	—	—	—
3. Gold and currencies	8,843,295	—	10,156,104	—
a) Options	277,521	—	1,735,370	—
b) Swap	3,578,982	—	3,915,853	—
c) Forward	4,986,792	—	4,504,881	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	112,980,385	42,821,285	127,606,398	100,197,756

A.2 Banking book: reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets/Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	17,147,090	—	16,618,937	—
a) Options	—	—	—	—
b) Swap	17,007,090	—	16,389,738	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	140,000	—	229,199	—
2. Equity instruments and stock indexes	240,048	—	85,708	—
a) Options	29	—	29	—
b) Swap	—	—	—	—
c) Forward	240,019	—	85,679	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	17,387,138	—	16,704,645	—

A.2.2 Other derivatives

Underlying assets/Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	1,172,835	—	536,449	—
a) Options	—	—	—	—
b) Swap	1,132,835	—	407,251	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	40,000	—	129,198	—
2. Equity instruments and stock indexes	1,825,557	—	2,178,229	—
a) Options	1,825,557	—	2,178,229	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,998,392	—	2,714,678	—

A.3 Financial derivatives: gross positive fair value, by product

Portfolios/Type of derivatives	Positive fair value			
	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	2,291,303	462,562	3,847,443	632,131
a) Options	311,962	455,566	419,192	629,729
b) Interest rate swap	1,645,465	—	2,910,959	—
c) Cross currency swap	197,256	—	243,239	—
d) Equity swap	30,542	—	75,174	—
e) Forward	106,078	—	198,879	—
f) Futures	—	6,996	—	2,402
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	461,972	—	933,004	—
a) Options	—	—	—	—
b) Interest rate swap	461,972	—	926,381	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	6,623	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	319,041	—	472,760	—
a) Options	122,862	—	64,877	—
b) Interest rate swap	8,286	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	187,893	—	407,883	—
Total	3,072,316	462,562	5,253,207	632,131

A.4 Financial derivatives: gross negative fair value, by product

Portfolios/Type of derivatives	Negative fair value			
	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(2,332,027)	(496,834)	(3,857,285)	(660,552)
a) Options	(313,647)	(492,721)	(454,531)	(649,353)
b) Interest rate swap	(1,563,214)	—	(2,918,000)	—
c) Cross currency swap	(209,128)	—	(267,668)	—
d) Equity swap	(21,032)	—	(17,044)	—
e) Forward	(225,006)	—	(200,042)	—
f) Futures	—	(4,113)	—	(11,199)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(313,183)	—	(313,519)	—
a) Options	(2,452)	—	(4,525)	—
b) Interest rate swap	(275,160)	—	(308,994)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	(35,571)	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(325,650)	—	(490,064)	—
a) Options	(325,650)	—	(489,008)	—
b) Interest rate swap	—	—	(1,056)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2,970,860)	(496,834)	(4,660,868)	(660,552)

A.5 OTC financial derivatives regulatory trading book: gross fair values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contract not included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	400,000	44,426	—	144,918	—
- positive fair value	—	—	10,758	19	—	318	—
- negative fair value	—	—	(330)	(4,009)	—	(95)	—
- future exposure	—	—	2,000	344	—	1,125	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	489,965	—	—
- positive fair value	—	—	—	—	708	—	—
- negative fair value	—	—	—	—	(160)	—	—
- future exposure	—	—	—	—	29,441	—	—
3. Gold and currencies							
- notional amount	—	—	—	56,968	—	65,485	3,729
- positive fair value	—	—	—	4	—	2,098	—
- negative fair value	—	—	—	(765)	—	(529)	(63)
- future exposure	—	—	—	535	—	625	37
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives regulatory trading book: gross fair values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	33,460,692	49,338,037	716,039	5,495,295	—
- positive fair value	—	—	1,035,863	342,537	66,909	286,851	—
- negative fair value	—	—	(1,113,384)	(493,323)	(1,990)	(26,187)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	6,186,944	6,010,003	334,648	1,516,123	—
- positive fair value	—	—	113,394	43,153	1,752	82,001	—
- negative fair value	—	—	(253,938)	(52,556)	(22,568)	(25,495)	—
3. Gold and currencies							
- notional amount	83,246	—	4,500,034	1,698,510	345,814	2,089,508	—
- positive fair value	—	—	136,634	110,738	130	57,436	—
- negative fair value	(4,921)	—	(148,215)	(12,928)	(10,913)	(159,659)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives banking book: notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	45,850	200,000	—	—	—
- positive fair value	—	—	1,259	—	—	—	—
- negative fair value	—	—	(6,824)	—	—	—	—
- future exposure	—	—	429	1,000	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	29
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	2
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives banking book: notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	9,836,149	6,915,091	—	350,000	—
- positive fair value	—	—	411,151	49,561	—	—	—
- negative fair value	—	—	(212,220)	(26,112)	—	(32,456)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	240,019	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	(35,571)	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.9 OTC financial derivatives by outstanding life: notional vales

Underlyng/ residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book	27,749,166	60,329,345	24,901,875	112,980,386
A.1 Financial derivative contracts on debt securities and interest rates	16,066,896	49,837,347	23,695,166	89,599,409
A.2 Financial derivative contracts on equity securities and stock indexes	6,716,207	7,674,054	147,421	14,537,682
A.3 Financial derivative contracts on exchange rates and gold	4,966,063	2,817,944	1,059,288	8,843,295
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	2,813,641	13,335,154	4,236,735	20,385,530
B.1 Financial derivative contracts on debt securities and interest rates	2,359,123	11,743,008	4,217,794	18,319,925
B.2 Financial derivative contracts on equity securities and stock indexes	454,518	1,592,146	18,941	2,065,605
B.3 Financial derivative contracts on exchange rates and gold	—	—	—	—
B.4 Financial derivative contracts on other values	—	—	—	—
Total 30/6/17	30,562,807	73,664,499	29,138,610	133,365,916
Total 30/6/16	28,502,154	83,679,440	34,844,123	147,025,717

B. CREDIT DERIVATIVES

B.1 Credit derivatives: reporting-date notional values

Type of transaction	Regulatory trading portfolio		Banking book	
	with a single counterparty	with more than one counterparty (basket)	with a single counterparty	with more than one counterparty (basket)
1. Protection buyer's contracts				
a) Credit default products	1,718,403	6,407,880	350,980	12,906
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/17	1,718,403	6,407,880	350,980	12,906
Total 30/6/16	1,619,250	6,414,250	240,120	13,000
2. Protection seller's contracts				
a) Credit default products	1,402,802	5,816,219	28,849	4,529,278
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/17	1,402,802	5,816,219	28,849	4,529,278
Total 30/6/16	1,287,762	6,382,010	36,200	2,701,937

B.2 OTC credit derivatives: gross positive fair value, by product

Portfolio/Type of derivatives	Positive fair value	
	30/6/17	30/6/16
A. Regulatory trading book	161,621	166,863
a) Credit default products	161,621	166,863
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	14,840	27,334
a) Credit default products	14,840	27,334
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	176,461	194,197

B.3 OTC credit derivatives: gross negative fair value, by product

Portfolio/Type of derivatives	Negative fair value	
	30/6/17	30/6/16
A. Regulatory trading book	(543,791)	(521,123)
a) Credit default products [1]	(543,791)	(521,123)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(16,805)	(15,863)
a) Credit default products	(16,805)	(15,863)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(560,596)	(536,986)

[1] Of which certificates in an amount of €352,793,000 and €319,225,000 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty, contracts not forming part of netting arrangement

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	628,831	—	—	—	—
- positive fair value	—	—	14,856	—	—	—	—
- negative fair value [1]	—	—	(352,793)	—	—	—	—
- future exposure	—	—	25,000	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

[1] Of wich certificates in an amount of €352,793,000.

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty, contracts forming part of netting arrangement

Contracts included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	3,982,631	3,314,820	200,000	—	—
- positive fair value	—	—	518	186	3,172	—	—
- negative fair value	—	—	(122,395)	(66,770)	—	—	—
2. Protection sale							
- notional amount	—	—	4,524,216	2,694,805	—	—	—
- positive fair value	—	—	81,572	61,317	—	—	—
- negative fair value	—	—	(1,761)	(71)	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

B.6 Credit derivatives by outstanding duration: notional value

Underlying / Residual	Up to 1 year	From 1 year up to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	3,382,224	7,451,998	4,511,082	15,345,304
A.1 Credit derivatives with “qualified” “reference obligation”	182,850	1,663,982	1,003,000	2,849,832
A.2 Credit derivatives with “not qualified” “reference obligation”	3,199,374	5,788,016	3,508,082	12,495,472
B. Banking portfolio	484,432	2,592,491	1,845,090	4,922,013
B.1 Credit derivatives with “qualified” “reference obligation”	93,400	134,380	36,700	264,480
B.2 Credit derivatives with “not qualified” “reference obligation”	391,032	2,458,111	1,808,390	4,657,533
Total 30/06/17	3,866,656	10,044,489	6,356,172	20,267,317
Total 30/6/16	1,323,078	16,164,251	1,207,200	18,694,529

C. CREDIT AND FINANCIAL DERIVATIVES

*C.1 OTC credit and financial derivatives: net fair values and future exposure by counterparty **

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to Financial Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to Credit Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross products netting agreements							
- positive fair value	—	—	222,198	137,187	53,732	338,037	—
- negative fair value	(4,921)	—	(701,818)	(262,675)	(17,243)	(218,654)	—
- future exposure	333	—	421,595	326,069	22,806	168,161	—
- net counterparty risk	333	—	428,159	367,316	49,283	464,348	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €381,281,000, €216,235,000 of which in respect of banks, €95,940,000 of financial companies, €27,256,000 of insurances and €41,850,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €508,086,000 was paid in, €368,988,000 of which in respect of banks, €131,930,000 of financial companies, and €7,150,000 of insurances.

BANKING GROUP – LIQUIDITY RISK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages liquidity risk in accordance with the regulatory provisions in force in this area (Bank of Italy circular nos. 285 and 286 as amended, CRR/CRD IV/Commission Delegated Regulation on liquidity coverage ratio by the European Parliament and the Council of the European Union, and technical standards and guidelines issued by the European Banking Authority) as defined in the "Group liquidity risk management policy" (the "Regulations").

The main principles on which the Regulations are based are:

- Identifying the parties, responsibilities and duties for controlling liquidity risk for the Group as a whole and for the individual Group companies;
- Defining and monitoring the short-term risk limits (operating liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of up to twelve months;
- Defining and monitoring medium-/long-term liquidity (structural liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of over twelve months;
- Defining a pricing system of internal fund transfers between the Group's various units and companies.

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 present maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. Specifically, monitoring operating liquidity is intended to ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term.

In this connection the metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB) and the cumulative net cash outflows. Through use of maturity ladder reports, the entire Group's ability to withstand a liquidity crisis in the event of a system or specific crisis situation occurring is evaluated. This ability is calculated assuming there are no changes in the Group's business structure or asset profile.

The starting point in the process is quantifying certain and uncertain/ estimated cash inflows and outflows, and the resulting mismatches or surpluses, in the various brackets of duration outstanding which make up the operational maturity ladder (time horizon up to three months). Cash flows are determined in two analysis scenarios, namely the ongoing concern and the specific and systemic stress scenarios.

Stress testing assumes extraordinary factors such as a) drawdowns on committed lines granted to customers, b) reductions in the debt security funding or interbank funding channels, c) renewal of only part of the retail funding expiring, d) full disbursement of lending deals in the pipeline. The liquidity risk tolerance threshold is defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

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 movements in both directions on the interbank market and a table showing the Group's funding balances by individual form. This monitoring instrument forms a point of contact with the other operational metrics used and promotes dialogue with the regulatory bodies regarding the trends influencing the liquidity risk profile over time. 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 inflows cover 100% of outflows for maturities of more than one year, reduced to 90% of outflows for maturities of more than five years.

Throughout the entire twelve months under review, both indicators, short- and long-term, were at all times above the limits set in the policy.

The objectives and metrics described above are addressed through the preparation of the Group Funding Plan, involving sustainable analysis of sources and applications, short-term and structural, and through definition of the Group Risk Appetite Framework, which involves defining the Group's appetite for risk.

Throughout the twelve months under review, the regulatory indicators (the liquidity coverage ratio and net stable funding ratio) and the other indicators established in the Group Risk Appetite Framework were well above the set limits at all times; and the LCR as at 30 June 2017 stood at 245%.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Liquidity 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 Group 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.

Before a contingency situation develops, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to a deterioration in the Group's liquidity position deriving from external factors (market or sector) or from situations which are specific to the Banking Group itself.

The 2016-17 financial year was again characterized by a market scenario reflecting negative interest rates on maturities up to three years on the curve; with a view to optimizing the cost of funding, as part of the broader Funding Plan process, the Group has focused on achieving a mix of diversified sources of funding while keeping down the respective costs.

In addition to renewing the bond issues which expired in the twelve months (new sales of €3bn in five-year bonds, against issues of approx. €3.7bn) falling due, for the interbank channel the Group chose to reposition funds over medium-/long-term durations rather than the short term as has been its custom. This decision was taken as a result of the market scenario, in which the abundant liquidity being held by banks enabled the Group companies to extend the duration of their financing at favourable cost, making them a stable source of funding and at the same time a viable alternative to funds raised via debt securities.

Funding raised from monetary authorities was stable at approx. €5.9bn, through the Targeted Long Term Refinancing Operations (TLTROs). The virtual lack of any change in this item did not prevent the Bank from making its use of the channel more efficient financially, by replacing the older and more expensive transactions with the more recent TLTRO 2 facilities.

Funds raised through CheBanca! retail deposits remained stable and in line with expectations, in view of the deposits added during the twelve months from the Barclays' acquisition.

As at 30 June 2017 the counterbalancing capacity stood at €11.1bn, €9.6bn of which in the form of bonds deliverable in exchange for cash from the ECB (30/6/16: €11.2bn); while the balance of liquidity reserves established at the European Central bank amounted to approx. €7.2bn (€6.8bn), approx. €1.3bn 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 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	4,447,798	1,239,501	697,169	1,057,615	4,121,724	3,308,224	5,366,022	26,498,081	12,192,158	189,622
A.1 Government securities	—	850	874	225,129	192,129	376,425	405,494	5,006,700	1,125,415	—
A.2 Other debt securities	1,170	24,844	51,399	10,297	171,761	138,997	278,203	1,824,434	1,109,982	—
A.3 UCITS units	119,492	—	—	—	—	—	—	19	—	—
A.4 Loans and advances	4,327,136	1,213,807	644,896	822,189	3,757,834	2,792,802	4,682,325	19,666,928	9,956,761	189,622
– to banks	2,619,853	794,206	153,096	209,397	1,433,824	236,666	576,372	1,473,501	276,380	177,783
– to customers	1,707,283	419,601	491,800	612,792	2,324,010	2,556,136	4,105,953	18,193,427	9,680,381	11,839
Cash liabilities	12,674,679	3,808,101	571,241	854,744	2,226,302	3,590,662	4,601,668	22,351,562	4,487,110	1,659
B.1 Deposits and currentaccounts	11,935,280	2,792,649	218,971	445,718	900,519	1,018,065	1,815,432	758,498	68,503	—
– to banks	483,557	100	1,368	2,859	6,287	10,584	17,209	—	—	—
– to customers	11,451,723	2,792,549	217,603	442,859	894,232	1,007,481	1,798,223	758,498	68,503	—
B.2 Debt securities	1,261	216	995	5,825	616,731	2,297,333	2,266,247	10,888,542	4,260,740	—
B.3 Other liabilities	738,138	1,015,236	351,275	403,201	709,052	275,264	519,989	10,704,522	157,867	1,659
Off-balance-sheet transactions	6,572,396	5,570,920	634,077	1,344,486	2,886,996	2,102,944	2,219,665	16,738,715	4,983,028	70,000
C.1 Financial derivatives with exchange of principal	6,994	1,667,720	406,372	1,006,770	1,621,907	1,205,378	624,807	4,149,665	1,227,168	—
– long positions	3,497	905,571	323,491	521,719	779,905	787,116	181,411	1,003,647	64,693	—
– short positions	3,497	762,149	82,881	485,051	842,002	418,262	443,396	3,146,018	1,162,475	—
C.2 Financial derivatives without principal exchange of	4,857,097	10,720	4,299	12,698	113,447	106,580	145,056	40,104	—	—
– long positions	2,506,632	4,565	2,741	4,408	49,816	37,098	72,286	40,104	—	—
– short positions	2,350,465	6,155	1,558	8,290	63,631	69,482	72,770	—	—	—
C.3 Deposits and loans for collection	—	1,754,969	116,111	156,415	767,688	12,187	792,586	4,373,852	924,463	—
– long positions	—	1,753,405	116,111	156,415	767,688	—	713,985	941,531	—	—
– short positions	—	1,564	—	—	—	12,187	78,601	3,432,321	924,463	—
C.4 Irrevocable commitments to disburse funds *	1,468,849	2,137,451	107,295	168,503	382,714	571,871	353,953	4,878,756	815,479	—
– long positions	181,899	116,825	864	60,583	157,424	13,920	91,710	4,022,169	797,041	—
– short positions	1,286,950	2,020,626	106,431	107,920	225,290	557,951	262,243	856,587	18,438	—
C.5 Financed guarantees issued	5,622	60	—	100	340	1,228	76,463	998	70	70,000
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	900	205,700	226,800	3,295,340	2,015,848	—
– long positions	—	—	—	—	450	90,700	93,400	1,647,896	1,039,848	—
– short positions	—	—	—	—	450	115,000	133,400	1,647,444	976,000	—
C.8 Credit derivatives without exchange of principal	233,834	—	—	—	—	—	—	—	—	—
– long positions	114,508	—	—	—	—	—	—	—	—	—
– short positions	119,326	—	—	—	—	—	—	—	—	—

* This item includes hedge sales perfectly matched by buys for the same amount.

1.4 BANKING GROUP – OPERATIONAL RISKS

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 requirements for 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 the reporting date was €284.1m (30/6/16: €264.7m).

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.

In general, the operating losses recorded have been very low, accounting for less than 1% of the Group's total revenues.

With reference to IT risk in particular, the Group has instituted an IT Governance unit which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans).

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 162, 163 and 164.

Other risks

As part of the process of assessing the current and future capital required for the company to perform its business (ICAAP) required by the regulations in force, the Group has identified the following types of risk as relevant (in addition to those discussed previously, i.e. credit risk, counterparty risk, market risk, interest rate risk, liquidity risk and operational risk:

- 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);
- Expected shortfall on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;
- Strategic risk, both in the sense of risk deriving from 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);

– Basis risk: in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;

– Compliance risk, i.e. the risk 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, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities;

– Residual risk, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;

– Country and transfer risk – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management Committees.

* * *

The Mediobanca Group continues to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. (investment banking services) and Group company Cairn Capital (alternative fund management). The potential impact of the Brexit vote for the Group is limited and may be quantified at less than 1.5% of total revenues. Mediobanca continues to monitor the progress of the negotiations and the potential impact in regulatory terms via an internal working group set up for this purpose.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

B. Quantitative information

*B.1 Consolidated net equity: breakdown by type of company**

Net asset items	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
Share capital	457,155	—	—	—	457,155	*16,549*
Share premium reserve	2,189,428	—	—	—	2,189,428	*1,848*
Reserves	5,132,771	—	—	—	5,132,771	*75,906*
Equity instruments	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	(197,709)	—
Revaluation reserves:	867,768	—	—	—	867,768	*(3,619)*
- Financial assets available-for-sale	317,081	2,275	—	—	319,356	—
- Property, plant and equipment	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—	—
- Cash flow hedges	(47,823)	—	—	—	(47,823)	*(3,523)*
- Exchange differences	(6,147)	—	—	—	(6,147)	—
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(5,812)	—	—	—	(5,812)	*(96)*
- Portion of measurement reserves relating to investments carried at equity method	600,837	(2,275)	—	—	598,562	—
- Special revaluation laws	9,632	—	—	—	9,632	—
Net profit (loss) for the period (+/-) of Group and minorities	742,249	—	—	—	742,249	*(7,951)*
Total	9,191,662	—	—	—	9,191,662	82,733

* Includes Compass RE (insurance) and R&S, equity-consolidated consolidated pro rata (Other companies).

B.2 AFS valuation reserves: composition

Assets/Values	Banking Group		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	102,376	(5,816)	2,443	(168)	—	—	—	—	104,819	(5,984)
2. Equities	192,617	(43)	—	—	—	—	—	—	192,617	(43)
3. UCITS units	29,354	(1,407)	—	—	—	—	—	—	29,354	(1,407)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 30/6/17	324,347	(7,266)	2,443	(168)	—	—	—	—	326,790	(7,434)
Total at 30/6/16	397,031	(14,421)	3,266	(133)	—	—	(3,114)	270	397,183	(14,284)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	113.103	254.047	15.748	—
2. Additions	37.315	70.046	20.504	—
2.1 Increases in fair value	34.104	70.033	19.756	—
2.2 Negative reserves charged back to profit and loss as a result of	64	13	748	—
– impairment	—	—	—	—
– disposals	64	13	748	—
2.3 Other additions	3.147	—	—	—
3. Reductions	51.584	131.519	8.305	—
3.1 Reductions in fair value	23.167	1.776	4.790	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	28.417	129.731	380	—
3.4 Other reductions	—	12	3.135	—
4. Balance at end of period	98.834	192.574	27.947	—

SECTION 2

Regulatory and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently and significantly 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 2016, which set the limit for CET1 at 7% and the total capital level at 10.5%, the lowest levels among Italian banks. These values reflect the new phase-regime for the capital conservation buffer (1.25%, as against 2.5% fully-phased). Further details are available in the information disclosed to the public as required under Pillar III of Basel II, published on the Bank's website at www.mediobanca.com.

2.1 Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 275, the Group has applied the phase-in regime, and in particular, after receiving the relevant clearances, has weighted the investment Assicurazioni Generali at 370%, as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limit for the insurance group). As from December 2016, the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets are also included in the definition of regulatory capital, in accordance with the phase-in regulations.

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 €825.7m, or 80% of the positive AFS equity reserves, €42.9m of which in government securities and €597.0m deriving from Assicurazioni Generali being equity-consolidated), and the profit for the period (€422.0m) net of the dividend for the year (€320.2m) corresponding to a payout ratio of 43% calculated based on a dividend of €0.37 per share. From this amount the following items are deducted: treasury shares (€198m), intangible assets (€72m), goodwill (€483.6m) other prudential adjustments (€40.4m) in connection with the values of financial instruments (AVAs and DVAs). Interests in banking, financial and insurance companies worth €1,057.2m were deducted, €875.4m of which in respect of the Assicurazioni Generali investment.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes the liabilities issued (€2,036.4m plus 10% of the positive reserves for AFS securities (€97.8m, which does not include the net gain of EU member states' government securities. Deductions of €272.5m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies, and the share of the investments in banking, financial and insurance companies, based on the provisions of the phase-in regime; these include €97.3m in respect of the Assicurazioni Generali investment.

Issue	**30/6/17**		
	ISIN	**Nominal value**	**Book value***
MB Subordinato Mar 29	XS1579416741	50,000	48,501
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	613,502	404,679
MB OPERA 3.75 2026	IT0005188351	298,666	291,163
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	395,636	305,158
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,701	491,347
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,691	495,554
Total subordinated debt securities		**2,353,196**	**2,036,402**

* The calculated value differs from the book value for items recognized at fair value and amortized cost and for buyback commitments.

The subordinated liabilities fell from €2,103.8m to €2,036.4m, due to movements from the period plus the repayment share (€274.3m). During the year under review, partial buyback of the two subordinated issues, MB Secondo Atto and MB Quarto Atto, was completed which entered the repayment stage in amounts totalling €193.8m and €80.5m and now written off by nominal amounts of €131.4m and €100m, the majority of which was offset by the issue of a new subordinated bond, MB Opera, in an amount totalling €300m, plus another, private €50m issue. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUANTITATIVE INFORMATION

	30/6/17	**30/6/16**
A. Common equity tier 1 (CET1) prior to application of prudential filters	8,843,333	8,666,398
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(4,460)	(788)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	8,838,873	8,665,610
D. Items to be deducted from CET1	(1,779,520)	(2,109,090)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	(42,072)	(51,718)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	7,017,281	6,504,802
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	2,036,402	2,103,802
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(149,070)	(315,501)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	(25,599)	(65,938)
P. Total T2 (M-N+/-O)	1,861,733	1,722,363
Q. Total own funds (F+L+P)	8,879,014	8,227,165

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2017, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 13.31%, higher than last year (12.08%), due to the increase in tier 1 capital (from €6.5bn to €7.0bn) and the reduction in risk-weighted assets (from €53.9bn to €52.7bn) due to lower CIB volumes and the reduction in market risks (from €4bn to €2.2bn) only in part offset by the growth in RWAs held by Che Banca!, Consumer Banking and Specialty Finance. Prudential treatment of the Assicurazioni Generali investment drove a €0.8bn increase in RWAs against a €0.3bn decrease in deductions. There was also an equivalent rise in the total capital ratio, from 15.27% to 16.85%.

B. Quantitative information

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/17	30/6/16	30/6/17	30/6/16
A. RISK ASSETS				
A.1 Credit and counterpart risk	62,865,854	59,963,345	46,158,581	45,713,920
1. Standard methodology	62,553,175	59,802,028	45,873,175	45,320,982
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	312,679	161,317	285,406	392,938
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,692,686	3,657,113
B.2 Credit valuation risk			60,699	65,925
B.3 Settlement risk			—	—
B.4 Market risk			179,130	321,214
1. Standard methodology			179,130	321,214
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			284,144	264,671
1. Basic Indicator Approach (BIA)			284,144	264,671
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			4,216,660	4,308,923
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			52,708,249	53,861,538
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			13.31%	12.08%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			13.31%	12.08%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			16.85%	15.27%

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

The business combinations with counterparties external to the Group have been carried out based on the purchase method, in accordance with the provisions of IFRS 3 on “Business Combinations”.

On 26 August 2016 CheBanca! completed its acquisition of Barclays’ Italian retail operations. The acquisition involved Barclays paying €240m in badwill in return for a business unit with perfectly matched assets and liabilities. This amount has been subject to the purchase price allocation PPA) allocation process as required by IFRS 3; all assets and liabilities acquired (including indirect funding) have been recognized at fair value and a contingent liability has been booked in an amount of €59m in connection with the restructuring process. The deal has generated a residual bargain purchase of €98.3m, partly offset by non-recurring costs relating to the integration of the geographical and computer networks totalling €83.1m. The overall gain is thus €15.2m, which breaks down as follows:

Book values and fair values of puchased assets and liabilities

(€m)

Assets/liabilities	Book value	Fair value
Assets		
Cash	3	3
Due from banks	689	689
Intangible assets	—	26
Due from customers	2,470	2,400
Other assets	6	6
Liabilities		
Due to customers	2,926	2,964
Other liabilities	2	2
Provisions	—	59

For further details on all transactions which have generated goodwill, please see Part B of the Notes to the Consolidated Balance Sheet, Section 13 “Intangible Assets”.

In the twelve months under review, a series of extraordinary intra-Group transactions took place with no impact on the consolidated balance sheet. These deals, which do not fall within the IFRS 3 scope of application, resulted in business units or legal entities being transferred between companies belonging to the Mediobanca Group or in combinations between the companies themselves under common control. The transactions were as follows:

- In August 2016 CB NewCo S.r.l. (a payment institution set up exclusively to enable the technical integration of the Barclays' business unit) was merged into CheBanca! S.p.A.;
- In October 2016 Spafid acquired FIDER, a fiduciary administration company which was merged into Spafid S.p.A. by end-December 2016;
- In April 2017, the Group's factoring businesses were spun off to MBFacta, leaving NPL acquisition and management to Creditech (renamed MBCredit Solutions);
- In June 2017 CMB Wealth Management was spun off from Compagnie Monégasque de Banque S.A. to Mediobanca S.p.A.;
- Again in June 2017 Banca Esperia S.p.A. sold Esperia Trust Company S.r.l. to Spafid S.p.A..

SECTION 2

Transactions completed since the reporting date

- The merger of Banca Esperia into Mediobanca approved by the Board of Directors on 10 May 2017 should be complete by end-December 2017. The acquisition forms part of the Group's growth strategies for the private banking (WM) and mid-cap (CIB) segments, both which are important parts of the new strategic plan;
- The sale of Esperia Fiduciaria S.p.A. by Banca Esperia to Spafid is expected to be completed by end-September 2017, as part of the rationalization and development activities provided for under the new Strategic Plan.

SECTION 3

Retrospective adjustments

No adjustments have been made to the accounts for the year under review in connection with previous business combinations.

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 May 2016. 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

In November 2016, the Board of Directors adopted a resolution, after the Related Parties Committee expressed a favourable opinion, to participate with the role of Global Co-ordinator in the underwriting syndicate for the capital increase implemented by Unicredit S.p.A. up to a maximum exposure of €3bn (the effective guarantee actually issued subsequently was €1.15bn). The financial terms and conditions of the involvement were equivalent to those granted to other banks with equivalent roles in the underwriting syndicate.

2.2 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) fell during the year under review, from €1.7bn to €1.1bn, chiefly due to the repayment of certain transactions, including the renegotiation of one major position between the end of the last and the start of the new financial years, and now represents 1.6% of total assets (30/6/16: 2.5%). Conversely, interest income from such items accounts for 2% of the consolidated total. The increase in fee income is chiefly due to the Unicredit capital increase.

Situation at 30 June 2017

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.5	501.3	572.5	1,075.3
of which: other assets	—	*297.1*	*340.–*	*637.1*
loans and advances	*1.5*	*204.2*	*232.5*	*438.2*
Liabilities	19.4	—	225.3	244.7
Guarantees and commitments	—	—	63.3	63.3
Interest income	—	21.9	17.4	39.3
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	6.2	94.3	100.5
Other income (costs)	(29.4) [1]	(3.7)	9.7	(23.4)

[1] Of which: short-term benefits amounting to €26m and performance shares worth €3.1m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Situation at 30 June 2016

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.6	715.2	865.6	1,582.4
of which: other assets	—	*505.9*	*344.5*	*850.4*
loans and advances	*1.6*	*209.3*	*521.1*	*732.–*
Liabilities	17.6	0.5	864.4	882.5
Guarantees and commitments	—	—	163.2	163.2
Interest income	—	25.7	17.8	43.5
Interest expense	(0.1)	—	(3.–)	(3.1)
Net fee income	—	31.4	13.3	44.7
Other income (costs)	(28.5) [1]	(7.2)	(8.3)	(44.–)

[1] Of which: short-term benefits amounting to €25.4m and performance shares worth €2.8m. The figure refers to the staff included in the definition of management with strategic response bilities 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 reflect the following situation:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
For use in connection with stock option and performance stock option schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
Of which directors[1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
For use in connection with performance share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,022,262 [3]

1 At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

2 2,000,000 of which granted to one former director.

3 In respect of awards made in 2013, 2014, 2015 and 2016.

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 the 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 allotted are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June

2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

Under the terms of the scheme, under certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
– Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued; the 15,758,511 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2016 financial year, a total of 2,177,107 performance shares were awarded (net of 52,558 recovered); the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches (up to 990,726 FY 2018/19 up to 620, 804 in FY 2019/20, up to 440,988 in FY 2020/21, and up to 124,589 in FY 2021/22).

Beneficiaries were also awarded a total of 4,489,290 shares, 21,726 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015.

Subsequently, as part of staff variable remuneration for the 2017 financial year, a total of 1,733,467 performance shares were awarded, at a notional cost of €13.7m in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available in tranches in November 2019 (up to 802,134), November 2020 (up to 476,028), November 2021 (up to 349,381), and November 2022 (up to 105,924).

QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/17			30/6/16		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Balance at start of period	10,167,500	6.55	August 18	22,256,000	8.57	July 17
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Reductions						
C.1 Performance shares cancelled	—	—	X	10,706,000	10.74	X
C.2 Performance shares made available	5,725,000	6.57	X	1,382,500	6.53	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	4,442,500	6.53	August 18	10,167,500	6.55	August 18
E. Performance shares exercisable as at reporting date	4,442,500	6.53	X	10,167,500	6.55	X

2. Changes to performance share scheme during the period

	30/6/17		30/6/16	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Balance at start of period	7,377,896	5.27	7,980,504	4.20
B. Additions				
B.1 New issues	2,229,665	5.07	1,858,951	8.21
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	4,489,290	3.92	2,461,559	4.62
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	52,558	5.10	—	—
D. Balance at end of period	5,065,713	6.37	7,377,896	5.27

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Functions	Writeoffs [1]	Group
Net interest income	292.6	818.1	244.1	(7.1)	(76.3)	16.4	1.287.8
Net trading income	93.4	—	12.3	16.7	3.3	(4.4)	121.3
Net fee and commission income	249.9	118.1	203.1	—	16.5	(65.–)	522.6
Share in profits earned by equity-accounted companies	—	—	—	263.6	—	0.3	263.9
Total income	**635.9**	**936.2**	**459.5**	**273.2**	**(56.5)**	**(52.7)**	**2.195.6**
Personnel costs	(135.5)	(93.9)	(187.–)	(3.8)	(113.8)	18.–	(516.–)
Administrative expenses	(111.9)	(186.–)	(189.3)	(0.8)	(52.4)	32.7	(507.7)
Operating costs	**(247.4)**	**(279.9)**	**(376.3)**	**(4.6)**	**(166.2)**	**50.7**	**(1.023.7)**
Gain (losses) on AFS	—	—	7.6	161.6	—	(0.6)	168.6
Net loss provisions	(11.–)	(276.2)	(22.–)	(0.9)	(16.–)	1.5	(324.6)
Others	—	—	(2.–)	—	(103.–)	3.1	(101.9)
Profit before tax	**377.5**	**380.1**	**66.8**	**429.3**	**(341.7)**	**2.0**	**914.–**
Income tax for the period	(123.6)	(121.9)	(11.8)	(7.2)	92.–	0.8	(171.7)
Minority interest	—	—	—	—	7.9	—	7.9
Net profit	**253.9**	**258.2**	**55.–**	**422.1**	**(241.8)**	**2.8**	**750.2**
Cost/income ratio (%)	*38.9*	*29.9*	*81.9*	*1.7*	*n.m.*	*n.m.*	*46.6*

The divisions comprise:
Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
– Wholesale Banking, Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
  – Specialty Finance: comprises factoring and credit management (including NPL portfolios) activities headed up by MBCredit Solutions (formerly Creditech);
  – Consumer Banking (CB) provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro e Compass RE);
– Wealth Management (WM), new division which brings together all asset management services offered to the following client segments:
  – Affluent & Premier, addressed by CheBanca!;
  – Private & High Net Worth Individual, addressed in Italy by Banca Esperia and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque; this division also comprises the alternative AM product factory and in particular Cairn Capital (alternative AM);
– Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
– Holding Functions: division which houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment).

[1] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

A.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Functions	Writeoffs [1]	Group
Financial assets held for trading	7,408.4	—	453,0	—	—	(27.5)	7,833.9
Treasury funds	4,877,0	632.4	1,084.1	—	2,942.9	(101.3)	9,435.1
AFS securities	—	1.3	125.4	659.5	—	(0.1)	786.1
Banking book securities	734,0	114.8	691.8	—	6,859.2	(42.1)	8,357.7
Loans and advances to customers	14,481,0	11,750.3	9,686.1	—	2,273.5	—	38,190.9
Equity investments	—	—	—	3,036.5	—	—	3,036.5
Tangible and intangible assets	1.1	368.5	41.7	—	253.5	193,0	857.8
Other assets	34.2	600,0	434.2	—	952.9	(73.8)	1,947.5
Total assets	**27,535.7**	**13,467.3**	**12,516.3**	**3,696,0**	**13,282,0**	**(51.8)**	**70,445.5**
Funding	26.6	2,325.6	18,259.1	—	28,509,0	—	49,120.6

[1] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Italy	Europe [1]	Group
Net interest income	1,219.3	68.5	1,287.8
Net trading income	116.6	4.7	121.3
Net fee and commission income	388.5	134.1	522.6
Share in profits earned by equity-accounted companies	263.9	—	263.9
Total income	**1,988.3**	**207.3**	**2,195.6**
Personnel costs	(413.9)	(102.1)	(516.0)
Administrative expensives	(451.2)	(56.5)	(507.7)
Operating costs	**(865.1)**	**(158.6)**	**(1,023.7)**
Gain (losses) on AFS	161.6	7.0	168.6
Net loss provisions	(324.2)	(0.4)	(324.6)
Others	(100.7)	(1.2)	(101.9)
Profit before tax	**859.9**	**54.1**	**914.0**
Income tax for the period	(143.8)	(27.9)	(171.7)
Minority interest	7.9	—	7.9
Net profit	**724.0**	**26.2**	**750.2**
Cost/income ratio (%)	*43.5%*	*76.5%*	*46.6%*

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management and Cairn Capital, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Italy	Europe [1]	Group
Financial assets held for trading	7,244.2	589.7	7,833.9
Treasury funds	9,043.7	391.4	9,435.1
AFS securities	760.3	25.8	786.1
Banking book securities	7,901.7	456.0	8,357.7
Loans and advances to customers	33,712.9	4,478.0	38,190.9
Equity investments	3,036.5	—	3,036.5
Tangible and intangible assets	782.6	75.2	857.8
Other assets	1,800.1	147.4	1,947.5
Total assets	**64,282.0**	**6,163.5**	**70,445.5**
Funding	44,105.9	5,014.7	49,120.6

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management and Cairn Capital, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13.
Situation at 30 June 2017

(€m)

Business line	Composition	Heading 120 Total income*			Full-time employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	496	52	548	774	12	786
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech)	67	—	67	222	—	222
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) (reinsurance) and contribution of Creditech (credit management, NPL acquisitions and factoring)	809	2	811	1,366	1	1,367
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	274	—	274	1,359	—	1,359
Private & High Net Worth Individual	Addressed in Italy by Banca Esperia and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque; this division also comprises the alternative AM product factory and in particular Cairn Capital)	68	122	190	336	270	606
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	171	—	171	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)	(70)	1	(69)	324	11	335
Adjustments [2]		(46)	(3)	(49)	—	—	—
Group total		1,769	174	1,943	4,392	294	4,686

* As per P&L heading Voce 120 according to Bank of Italy circular 262/05.

[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.

ANNUAL GENERAL MEETING, 28 OCTOBER 2017

AGENDA

1) Financial statements as at 30 June 2017, Board of Directors' review of operations and other reports, reports by external auditors and Statutory Audit Committee; related resolutions.

2) Appointment of Board of Directors for 2018-20 three-year period:
   a. Establishment of number of Board members;
   b. Appointment of Directors;
   c. Establishment of their remuneration.

3) Appointment of Statutory Audit Committee for 2018-20 three-year period:
   a. Appointment of Committee members and Chairman;
   b. Establishment of their remuneration.

4) Remuneration policies:
   a. Staff remuneration policies;
   b. Cap on variable and fixed remuneration based on a ratio of 2:1;
   c. Policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca.

5) Increase in fee payable to external auditors for audit of the Company's financial statements for the 2017-21 period.

ACCOUNTS OF THE BANK

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Overview

In the twelve months under review, Mediobanca earned a net profit of €318.3m, higher than the €288m recorded last year, despite a market scenario characterized by strong reductions in credit spreads and short-term interest rates remaining stably in negative territory, which impacted on the top-line performance (revenues were down 10.5%, from €642.5m to €574.8m, with costs rising slightly.

The performance was helped by higher gains on disposals of AFS shares (up from €141.4m to €161.6m), lower one-off contributions to the Bank Resolution Fund of €62.8m (30/6/16: €81.8m), and net writebacks to the loan book in an amount of €13m (compared with net writedowns of €29.5m last year).

The main income items performing as follows:

- Net interest income decreased by 42.5%, from €147.2m to €84.6m, due to the combined effect of lower lending volumes (corporate loans and banking book securities) and the reduction in profitability;
- Net treasury income was down 9.1%, from €127.9m to €116.3m, as a result of the lower contribution from AFS dividends;
- Net fee and commission income was also down slightly, by 4.4% (from €221.4m to €211.7m);
- Dividends from equity investments, due entirely to Assicurazioni Generali, rose from €146m to €162.2m.

Operating costs rose by 3.3%, from €337.3m to €348.3m, split equally between labour costs and administrative expenses.

Net writebacks of €13m were credited to loans, reflecting the improvement in the risk profile (compared with net writedowns of €29.5m last year).

Net gains on the AFS and equity investments portfolio rose from €141.4m to €161.6m, on lower loan loss provisions of €5m (€21.8m).

Other items of €47.8m (€81.8m) refer chiefly to a €42.6m one-off contribution to the Italian Bank Resolution Fund to help bail out Banca Marche, Banca Popolare Etruria, and Casse di Risparmio di Chieti e Ferrara; and €20.1m by way of an ordinary contribution to the Single Resolution Fund, net of €15m in withdrawals from the provision for risks and charges to cover the amount payable by Mediobanca S.p.A. as expenses for settling the SelmaBipiemme tax dispute in connection with yacht leasing operations (involving a total amount of €25m).

Turning now to the balance-sheet aggregates, total assets rose from €57bn to €57.9bn, exclusively due to intercompany loans of €15.6bn (€12.3bn), offset by the CheBanca! retail channel (€10.7bn in funding, compared with €8.6bn). Conversely, corporate loans and securities both declined, from €10.9bn to €9.6bn and from €11.7bn to €10.8bn respectively.

Mediobanca's capital ratios as at 30 June 2017, based on the phase-in regime and including the proposed €0.37 per share dividend, remained at high levels, above the regulatory limits: the common equity ratio rose from 12.94% to 15%, while the total capital ratio increased from 17.17% to 19.97%. RWAs declined from €36.7bn to €32.4bn, on lower lending volumes and the lower market risks component. The fully-phased ratios (i.e. with full application of the CRR/CRDIV rules – in particular the right to include the whole AFS reserve in the CET1 calculation – and the Assicurazioni Generali investment weighted at 370%) rose during the year to 15.17% for the CET1 ratio, and to 20.08% for the total capital ratio.

Financial highlights

The profit and loss account and balance sheet have been restated to provide the most accurate reflection of the Bank's operations. The results are also presented in the format recommended by the Bank of Italy in the annex.

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg. (%) 6/16-6/17
Net interest income	147.2	84.6	-42.5
Net trading income	127.9	116.3	-9.1
Net fee and commission income	221.4	211.7	-4.4
Dividends on investments	146.0	162.2	11.1
Total income	**642.5**	**574.8**	**-10.5**
Labour costs	(192.5)	(198.9)	3.3
Administrative expenses	(144.8)	(149.4)	3.2
Operating costs	**(337.3)**	**(348.3)**	**3.3**
Gain (loss) on AFS, HTM and L&R	141.4	161.6	14.3
Loan loss provisions	(29.5)	13.0	n.m.
Provisions for other financial assets	(19.3)	(4.1)	-78.8
Impairment on investments	(2.5)	(0.9)	-64.0
Other gains (losses)	(81.8)	(47.8)	-41.6
Profit before tax	**313.5**	**348.3**	**11.1**
Income tax for the period	(25.5)	(30.0)	17.6
Net profit	**288.0**	**318.3**	**10.5**

RESTATED BALANCE SHEET

(€m)

	30/6/16	30/6/17
Assets		
Financial assets held for trading	8,535.2	7,271.3
Treasury funds	8,444.4	10,031.8
AFS securities	851.9	659.5
Banking book securities	11,735.1	10,764.3
Loans and advances to customers	23,238.8	25,226.7
Equity investments	2,687.7	3,057.0
Tangible and intangible assets	132.0	132.2
Other assets	1,382.3	766.1
Total assets	**57,007.4**	**57,908.9**
Liabilities and net equity		
Funding	37,468.2	41,038.2
Treasury funding	5,666.8	4,451.3
Financial liabiliites held for trading	7,043.0	5.859.2
Other liabilities	1,414.3	1,136.4
Provisions	139.9	105.7
Net equity	4,987.2	4,999.8
Profit (loss) for the period	288.0	318.3
Total liabilities and net equity	**57,007.4**	**57,908.9**
Regulatory capital (€ mln)	4,748.6	4,861.5
Solvency margin (€ mln)	6,301.0	6,470.0
RWA (€ mln)	36,703.2	32,399.6
Regulatory capital/RWA	12.94%	15.0%
Solvency margin/RWA	17.17%	19.97%
No. of shares outstanding (mln)	871.0	881.0
Market capitalization (€ mln)	4,408.8	7,613.7

Review of key items

Funding – this item rose by 9.5%, from €37.5bn to €41bn, on a higher contribution from CheBanca! (up from €8.6bn to €10.7bn) and increased recourse to the ECB funding programmes (up €0.6bn), and offset by a reduction in debt securities (from €19.2bn to €18.8bn). In the twelve months under review there were new issues worth approx. €3bn, €350m of which subordinate, against redemptions and buybacks totalling €3.3bn, including €218.4m in respect of the partial buyback of two Tier 2 subordinated issues.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Debt securities	19,182.7	51%	18,826.8	45%	-1.9%
Interbank funding	10,933.1	29%	14,289.7	35%	30.7%
- of which: CheBanca!, intercompany	*8,591.3*	*23%*	*10,741.6*	*26%*	*25.0%*
ECB (T-LTRO / LTRO)	5,011.0	13%	5,611.9	14%	12.0%
Other funding	2,341.4	7%	2,309.8	6%	-1.3%
Total funding	**37,468.2**	**100%**	**41,038.2**	**100%**	**9.5%**

Loans and advances to customers – loans and advances to customers rose from €23.2bn to €25.2bn due to the increased contribution from loans to Group companies of €15.6bn (€12.3bn), in particular CheBanca! following the acquisition of the Barclays' business unit. The corporate component fell from €10.9bn to €9.6bn, in particular the non-Italian component, on new loans of €2.6bn and repayments totalling €4bn, €1.5bn of which early.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Corporate customers	10,902.9	47%	9,591.4	38%	-12.0%
Group companies	12,335.9	53%	15,635.3	62%	26.7%
Total loans and advances to customers	**23,238.8**	**100%**	**25,226.7**	**100%**	**8.6%**
- of which: impaired assets	*377.8*		*371.7*		*-1.6%*

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Italy	7,059.9	65%	6,440.4	67%	-8.8%
France	1,110.7	10%	965.5	10%	-13.1%
Spain	842.3	8%	713.8	7%	-15.3%
Germany	455.3	4%	456.0	5%	0.2%
UK	73.3	1%	—	n.m.	n.m.
Other non-resident	1,361.4	12%	1,015.7	11%	-25.4%
Total loans and advances to customers	**10,902.9**	**100%**	**9,591.4**	**100%**	**-12.0%**

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Compass	4,545.9	37%	5,333.9	35%	17.3%
CheBanca!	3,403.4	28%	5,195.9	33%	52.7%
Leasing	1,529.5	12%	1,519.1	10%	-0.7%
Mediobanca International	1,624.0	13%	2,242.2	14%	38.1%
Consumer	1,212.3	10%	1,314.8	8%	8.5%
Others	20.8	—	29.4	—	41.3%
Total intercompany accounts	**12,335.9**	**100%**	**15,635.3**	**100%**	**26.7%**

Non-performing loans totalled €371.7m (€377.8m), and consist of seven exposures, one more than last year; together they represent 3.9% (3.5%) of the corporate loan book, plus exposures in the form of endorsements totalling €17.3m (€7.3m); the coverage ratio was unchanged at 46%.

Equity investments – these increased from €2,687.7m to €3,057m, chiefly due to the buyout of the other 50% stake in Banca Esperia not already owned from the other shareholder Mediolanum for €141m, the CheBanca! capital increase (in an amount of €100m) to pay for the acquisition of the Barclays business unit, and Compass's withdrawal from the ownership of MBFacta (involving an amount of €82.5m) following the reorganization of the Group's factoring business. Capital increases by two Group companies were recorded during the twelve months, involving a total amount of €7m (€5m for Spafid, €2m for the Turkish subsidiary), while 100% of CMB Wealth Management Ltd was purchased for a consideration of €1.6m, and changes in the scope of consolidation added a further €34.2m, representing the balance between the Athena Private Equity stake being reclassified as AFS (involving an amount of €2.6m, after collecting €2.3m, and the holding in Istituto Europeo di Oncologia (book value €39m) being reclassified from AFS to equity investment, following an increase in the holding from 14.8% to 25.37% after buying out other shareholders' interests.

(€m)

	Percentage shareholding	30/6/16	30/6/17
Associates			
Assicurazioni Generali	13.0	1,096.3	1,096.3
Banca Esperia *	50.0	54.3	—
Athena Private Equity (in liquidation)	24.27	2.9	—
Istituto Europeo di Oncologia	25.37	—	39.0
Total associates		**1,153.5**	**1,135.3**
Total subsidiaries		1,534.2	1,921.7
Total equity investments		**2,687.7**	**3,057.0**

* Following acquisition of the other 50% not already owned by Mediobanca, Banca Esperia has become a subsidiary and is now consolidated on a line-by-line basis.

Based on stock market prices as at 30 June 2017, the Assicurazioni Generali investment, equal to 13% of the company's ordinary share capital, reflected a surplus over book value of €1,824.8m.

The criteria adopted for the valuations and impairment tests are explained in section 10, part B of the notes to the accounts.

Banking book securities – these include debt securities held as part of the AFS, HTM and unlisted portfolios, and at the reporting date were worth a total of €10.8bn, down 8.3% on the €11.7bn reported one year previously. During the twelve months under review there were redemptions of €3bn, all of which reinvested (€3.1bn), and disposals totalling €1bn yielding gains of €15.4m (€7.7m of which in negative exchange rate adjustments). The exposure to Italian government securities fell from €4.6bn to €3.2bn, and accounts for 30% of the banking book; while the exposure to securitizations of Consumer Finance receivables (Compass and Futuro) rose from €2.8bn to €3bn and accounts for 28% of the balance.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
AFS securities	6,816.2	58%	5,004.9	47%	-26.6%
Securities held to maturity	1,963.3	17%	2,394.9	22%	22.0%
Unlisted debt securities (stated at cost)	2,955.6	25%	3,364.5	31%	13.8%
Total fixed financial assets	**11,735.1**	**100%**	**10,764.3**	**100%**	**-8.3%**

(€m)

	30/6/16			30/6/17		
	Book Value	%	AFS reserve	Book Value	%	AFS reserve
Italian government securities	4,570.9	39%	88.1	3,179.0	30%	61.6
Foreign government bonds	1,963.2	17%	15.9	2,205.2	20%	17.4
Bonds issued by financial institutions	4,117.8	35%	28.4	4,564.8	42%	37.1
- *of which: Consumer Banking ABS securities*	*2,765.8*	*24%*	—	*3,013.5*	*28%*	—
Corporate bonds	1,083.2	9%	23.3	815.3	8%	27.2
Total debt securities	**11,735.1**	**100%**	**155.7**	**10,764.3**	**100%**	**143.3**

The valuation reserve decreased from €155.7m to €143.3m, in part as a result of the disposals (€34.6m); there were also €86.5m in unrealized gains on fixed financial assets (versus €122m as at 30 June 2016).

AFS shares – this portfolio brings together equities and investments in funds, including those promoted by the Group through seed capital.

(€m)

	30/6/16			30/6/17		
	Book value	ord. %	AFS reserve	Book value	ord. %	AFS reserve
Atlantia	500.4	2.7	198.4	275.6	1.4	124.6
Italmobiliare	66.5	9.5	31.9	69.2	6.1	45.4
RCS MediaGroup	26.2	6.2	6.0	41.8	6.6	20.1
Koening & Bauer	38.4	5.1	27.3	—	—	—
Other listed equities	9.8	—	0.4	12.7	—	5.0
Other unlisted equities	210.6	—	25.1	260.2	—	48.3
Total equities	**851.9**		**289.1**	**659.5**		**243.4**

The portfolio declined in value from €851.9m to €659.5m, following sales of shares totalling €337.2m, in particular half the Atlantia investment (disposal of €261m, generating a gain of €110.4m), 5.1% of Koening & Bauer (€39m disposal generating a €28m gain), and 2.8% of Italmobiliare in acceptance of the recent market transaction (€33m disposal generating a €22.2m gain). Fund investment activity grew by €36.4m, representing the balance between investments of €66.3m (€50.6m in funds managed by Cairn Capital), and redemptions totalling €29.9m. There were also net writedowns of €0.9m. The valuation reserve for this segment fell from €289.1m to €243.4m, after sales of €139.4m not matched by increases in value at the year-end totalling €93.7m.

Net treasury assets — the balance between financial instruments held for trading purposes and trading assets and liabilities totalled €6,992.6m, much higher than the €4,269.8m reported last year, chiefly due to the increase in liquid assets held with the European Central Bank (€1,255.2m). The heading includes equities totalling €1,534.4m (€1,383.8m), over 80% of which are hedged by derivatives with clients, liquid assets of €1,575.5m, other net deposits (including repos) totalling €4,005m (€2,484,8m), and debt securities of €175m (€321.3m).

(€m)

	30/6/16	30/6/17	Chg.
Financial assets held for trading	8,535.2	7,271.3	-15%
Treasury funds	8,444.4	10,031.8	19%
Financial liabilities held for trading	(7.043.0)	(5,859.2)	-17%
Treasury funding	(5,666.8)	(4,451.3)	-21%
Total	**4,269.8**	**6,992.6**	**64%**

			(€m)
	30/6/16	30/6/17	Chg.
Loan trading	—	59.6	n.m.
Derivatives contract valuations	(212.9)	(356.9)	68%
Equities	1,383.8	1,534.4	11%
Bond securities	321.3	175.0	-46%
Financial instruments held for trading	**1,492.2**	**1,412.1**	**-5%**

			(€m)
	30/6/16	30/6/17	Chg.
Cash and banks	292.8	1,575.5	n.m.
Assets PCT&PT	1,385.0	1,168.8	-16%
Financial assets deposits	538.8	1,798.8	n.m.
Stock Lending	561.0	1,037.4	85%
Net treasury assets	**2,777.6**	**5,580.5**	**101%**

Tangible and intangible assets – these were virtually unchanged, at €132.2m, following depreciation and amortization charges for the period totalling €12.1m and investments of €12.3m, the latter in new IT applications in particular.

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Land and properties	114.4	86%	113.4	86%	-0.9%
- of which: core	*88.5*	*67%*	*87.9*	*66%*	*-0.7%*
Other tangible assets	4.9	4%	4.6	3%	-6.1%
Other intangible assets	12.7	10%	14.2	11%	11.8%
Total tangible and intangible assets	**132.0**	**100%**	**132.2**	**100%**	**0.2%**

Provisions – this item reduced from €139.9m to €105.7m, following net withdrawals from the provisions for risks totalling €33.6m, in connection with the settlement of the Fondiaria-SAI cases referring to the events of 2002 (€14.9m) and to meet the cost of settling the yacht leasing tax dispute (€15m), plus other withdrawals totalling €3.7m. The share of the staff severance indemnity provision declined slightly, in line with the reserve (from €0.7m to €0.4m).

	30/6/16		30/6/17		Chg.
	(€m)	%	(€m)	%	
Provisions for risk and charges	130.3	93%	96.8	92%	-25.7%
Staff severance provision	9.6	7%	8.9	8%	-7.3%
of which: staff severance provision discount	*0.7*	—	*0.4*	—	*-42.9%*
Total provisions	**139.9**	**100%**	**105.7**	**100%**	**-24.4%**

Net equity – the €42.9m, or 0.8%, increase in this item reflects the profit for the period (€318.3m), net of the 2016 dividend (€230m) and a €94.3m reduction in the valuation reserves, in particular those for AFS equities (including the share of the cash flow hedge reserve for the Atlantia stake). The Bank's share capital rose from €435.5m to €440.6m following the exercise of 5,725,000 stock options and the award of 4,467,564 performance shares to staff worth a total amount of €37m, including the share premium.

(€m)

	30/6/16	30/6/17	Chg.
Share capital	435.5	440.6	1.2%
Other reserves	4,172.2	4,274.0	2.4%
Valuation reserves	379.5	285.2	-24.8%
-of which: AFS securities	*368.3*	*312.9*	*-15.0%*
cash flow hedge	*6.2*	*(33.6)*	*n.m.*
Profit for the period	288.0	318.3	10.5%
Total net equity	**5,275.2**	**5,318.1**	**0.8%**

The AFS reserve involves equities as to €243.4m, Italian government securities as to €61.6m, and other bonds as to €81.7m, net of the €74m tax effect.

(€m)

	30/6/16	30/6/17	Chg.
Equities	289.1	243.5	-15.8%
Bonds	155.7	143.4	-7.9%
of which: Italian government bonds	*88.1*	*61.6*	*-30.1%*
Tax effect	(76.6)	(74.0)	-3.4%
Total AFS reserve	**368.2**	**312.9**	**-15.0%**

Net interest income — net interest income declined by 42.5%, from €147.2m to €84.6m, having been hit by asset repricing and the higher liquidity levels which were only in part offset by the lower cost of funding.

(€m)

	30/6/16	30/6/17	Chg.
Interest income	902.5	813.1	-9.9%
Interest expense	(770.3)	(742.0)	-3.7%
Other [1]	15.0	13.5	-10.0%
Interest margin	**147.2**	**84.6**	**-42.5%**

[1] Includes margins on interest rate derivative contracts (heading 80) and the hedging effect (heading 90).

Net trading income – net trading income fell from €127.9m to €116.3m, exclusively as a result of the lower AFS dividends which declined from €29.2m to €16.7m in connection with the reduced size of the portfolio. The good performance in equity trading, where a profit of €44.6m was delivered (€31.6m), offset the decline in fixed-income trading (from €67.1m to €55m), split equally between the trading and banking books.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
AFS Dividends	29.2	16.7	-42.8%
Fixed-income trading profit	67.1	55.0	-18.0%
Equity trading profit	31.6	44.6	41.1%
Net trading income	**127.9**	**116.3**	**-9.1%**

Net fee and commission income – the 4.4% reduction in this item, from €221.4m to €211.7m, was due solely to the performance of the items included under the heading of "Other income", which totalled €15.4m as opposed to €24.7m last year, boosted by a one-off item of €6.6m. Wholesale business was virtually unchanged, at €196.7m, despite the strong volatility affecting capital markets, and despite the low business volumes recorded in the first six months. Equity capital market operations generated fees of €86.1m (€70.6m), helped by some substantial deals which offset the reductions recorded in other segments, the most pronounced of which was advisory and M&A (down from €57.4m to €47.8m), with smaller reductions reported in lending (from €45.5m to €43.9m) and markets (from €23.2m to €18.5m).

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Lending	70.6	86.1	21.9%
Advisory M&A	45.5	43.9	-3.5%
Capital Market	57.4	47.8	-16.7%
Sales and Markets	23.2	18.5	-20.3%
Other income	24.7	15.4	-37.6%
Net fee and commission income	**221.4**	**211.7**	**-4.4%**

Operating costs – the 3.3% increase in this item was split equally between labour costs (up 3.3%) and overheads (up 3.2%). The latter reflect higher depreciation and amortization charges, and higher data processing costs due to the new IT infrastructure developed in recent years; by contrast there was a significant reduction in the project-related component (i.e. consultancy expenses) which were down 13.7%.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Labour costs	192.5	198.9	3.3%
of which: directors	*3.4*	*3.4*	—
stock options and performance shares schemes	*10.6*	*11.5*	*8.5%*
Sundry operating costs and expenses	144.8	149.4	3.2%
of which: depreciations and amortizations	*9.6*	*12.1*	*26.0%*
administrative expenses	*135.1*	*137.3*	*1.6%*
Operating costs	**337.3**	**348.3**	**3.3%**

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Legal, tax and professional services	10.5	9.2	-12.4%
Other consultancy expenses	21.1	18.2	-13.7%
Marketing and communication	2.3	2.9	26.1%
Rent and property maintenance	8.9	8.2	-7.9%
EDP	36.2	43.5	20.2%
Financial information subscription	18.0	18.0	n.m.
Bank services, collection and payment commissions	1.3	1.4	7.7%
Operating expenses	5.0	6.0	20.0%
Other labour costs	9.5	9.0	-5.3%
Other costs	16.3	16.1	-1.2%
Direct and indirect taxes	6.0	4.8	-20.0%
Total administrative expenses	**135.1**	**137.3**	**1.6%**

Provisions for other financial assets and impairment charges to investments – these involve adjustments of: €3.2m to fixed financial assets in application of the new credit rating models; €2.9m in respect of Group companies; and €0.9m to private equity and real estate funds. Net writebacks of €2m were also credited in respect of associate companies.

(€m)

	12 mths ended 30/6/16	12 mths ended 30/6/17	Chg.
Equity investments	2.5	0.9	-64.0%
Equities	17.9	0.9	n.m.
Bonds	1.4	3.2	n.m.
Total	**21.8**	**5.0**	**-77.1%**

Income tax for the year — income tax increased from €25.5m to €30m, in line with the higher earnings result delivered, with a tax rate which remained at around 9%, helped by the PEX regime applicable to earnings and dividends.

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

* * *

Significant events that have taken place during the twelve months under review include:

– Approval of the 2016/19 strategic plan guidelines, which confirmed the Group's reshaping towards an even more sustainable, diversified and valuable business model, able to generate high income and capital, while matching outstanding balance-sheet content with efficiency. Growth in banking businesses is expected to derive from leveraging on strengths and opportunities in Corporate and Investment Banking and Consumer Banking, and from development of the new Wealth Management platform. Capital generation is expected to derive from growth in earnings, but also from optimizing the management processes, reducing the equity investments (AFS and the Assicurazioni Generali stake), and validation of the advanced models (AIRB) applied to the Large Corporate (CIB), Consumer Banking (Compass and Futuro) and Mortgage lending (CheBanca!) portfolios. For the period-end (30 June 2019) the Group has set the following objectives:
  – GOP (net of cost of risk): €1bn, 3Y CAGR +10%;
  – ROTE [1]: 10%
  – ROAC [2] of banking businesses: 12%, with cost of risk at 105 bps;
– On 4 April 2017, once all necessary authorizations had been received, the acquisition of the 50% of Banca Esperia not already owned by Mediobanca was completed from Mediolanum Group for a consideration of €141m. The merger of Banca Esperia into Mediobanca S.p.A. should be complete by the end of 1H FY 2017/18, having been approved by the Board of Directors at a meeting held on 10 May 2017, with the creation of the new Mediobanca Private Banking brand;

[1] ROTE: net profit/average tangible common equity (KT). KT= shareholders' equity less goodwill less identifiable tangible assets.

[2] ROAC: net profit/capital allocated (K). K= 9% * RWAs)..

- Disposal of a 1.35% stake in Atlantia and of 5.1% in Koening & Bauer; the Group has also tendered its 2.8% investment in Italmobiliare under the terms of the recent IPO;
- The partial buyback of two subordinated bond issues, completed in an amount of €218.4m, with a view to optimize the Group's liabilities management and liquidity position;
- In April 2017, ratings agency Fitch lowered the Bank's long-term rating from BBB+ to BBB, keeping the short-term rating unchanged at F2. This decision reflects the downgrade to the republic of Italy's long-term rating, from BBB+ to BBB, which took place at the same time. Both Mediobanca's short-term and long-term ratings are thus aligned with the sovereign ratings. S&P, meanwhile, kept its rating unchanged at the BBB- level, with stable outlook;
- Approval by the Board of Directors of the self-assessment process for governing bodies required under the instructions issued by the Bank of Italy on 11 January 2012, of the Review regarding quantitative and qualitative Board of Directors composition and the requirement of certain directors to qualify as independent as defined by Article 148, para. 3 of Italian legislative decree 58/98 and by the Code of Conduct in respect of listed companies.

Related party disclosure

Financial accounts outstanding as at 30 June 2017 between companies forming part of the Mediobanca Group and related parties and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in respect of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts fall within the company's ordinary operations, are maintained on an arm's length basis, and are entered into in the interests of the Group itself. No atypical or unusual transactions have been entered into with these counterparties.

Other information

With regard to securities trading, a total of 25.1 million Mediobanca shares were traded on behalf of customers, worth €194.9m.

Information regarding the Bank's ownership structure as required under Article 123-bis of Italian Legislative Decree 58/98 is contained in the annual statement on corporate governance attached hereto and available on the Bank's website under Corporate Governance.

Assets which have been revalued and recorded in the balance sheet are listed in table A.

The other information on ratings and research is shown on p. 62 of the consolidated Review of Operations.

Information on the most important litigation pending involving the Bank is also provided in Liabilities, section 12.

Outlook

The outlook for the new financial year suggests that the Bank's good earnings performance should continue while continuing to be affected by a low interest rate and strongly competitive scenario, which will impact on net interest and fee income. Operating costs should be helped by the synergies expected to derive from the Banca Esperia merger, while the positive trend in the cost of risk is expected to continue.

Milan, 15 September 2017

THE BOARD OF DIRECTORS

Proposal to approve financial statements and profit allocation for the year ended 30 June 2017

Dear shareholders,
The net profit for the year was € 318,325,998.29 which we propose to allocate as follows:

€ 1,021,500.00 to the *Legal Reserve*, which accordingly would amount to €88,123,521.20, or 20% of the Bank's share capital;

€ 30,811,099.83 to the *Statutory Reserve*;

€ 286,493,398.46 as profit remaining.

We therefore propose to distribute a €0.37 dividend on each of the 865,476,647 shares in issue entitling their holders to such rights, which, including the redistribution of amounts payable in respect of the treasury shares, makes for a total amount of €320,226,359.39, to be made up from the profit remaining plus €33,732,960.93 to be taken from the *Statutory Reserve*, as per the table shown below.

Accordingly, you are invited to approve the financial statements for the year ended 30 June 2017, including the balance sheet, profit and loss account and accompanying schedules, and the following profit allocation:

Net profit for the year	€ 318,325,998.29
To the Legal Reserve	€ 1,021,500.00
To the Statutory Reserve	€ 30,811,099.83
Remaining profit	€ 286,493,398.46
From the Statutory Reserve	€ 33,732,960.93
Dividend of €0.37 on 865,476,647 shares	€ 320,226,359.39

The dividend of €0.37 per share will be paid on 22 November 2017, with the shares going ex-rights on 20 November 2017.

Milan, 15 September 2017

THE BOARD OF DIRECTORS

DECLARATION IN RESPECT OF INDIVIDUAL FINANCIAL STATEMENTS

DECLARATION IN RESPECT OF 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 Massimo Bertolini, 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 consolidated financial statements:
   - were adequate in view of the company's characteristics;
   - were effectively applied in the year ended 30 June 2017.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2017 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 consolidated 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;
   - corresponds to the data recorded in the company's books and accounts ledgers;
   - are 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, 15 September 2017

Chief Executive Officer	Head of Company Financial Reporting
Alberto Nagel	*Massimo Bertolini*

AUDITORS' REPORT

Mediobanca SpA

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

Financial Statements as of 30 June 2017

Independent auditors' 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 2017, the profit and loss accounts, comprehensive profit and loss account, statement of changes to net equity, cash flows 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 2017, and of the result of its operations and cash flows for the year then ended in compliance 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 described in detail in the section of this report titled '*Auditor's Responsibilities for the Audit of the Financial Statements*'. 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 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 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*
Valuation of loans to customers *Notes to the accounts:* *Part B – Information on the balance sheet, Assets, section 7;* *Part C – Information on the profit and loss account, section 8;* *Part E – Information on risks and related hedging policies* Loans to customers as of 30 June 2017 were equal to Euro 13.9 billion, corresponding to 24% of total assets. We paid special attention to those items during our audit because the accounting processes and policies adopted by the Bank are characterised by high subjectivity and the use of estimations for a number of variables such as, mainly, existence of indicators of impairment, calculation of the expected future cash flows and related timing of recovery, realisation value of guarantees, type of customers, as well as by the use of internal and external inputs observable at the measurement date.	As part of the audit, 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 in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • analysis of the valuation models, both in aggregate and individually, and sample testing of the reasonableness of the variables estimated in those models, with the support of experts from the PwC network; • On a sample basis, testing of the valuation and classification in the financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting.
Valuation of complex unlisted financial instruments measured at fair value *Notes to the accounts:* *Part B – Information on the balance sheet, Assets, sections 2 and 8, and Liabilities, sections 4 and 6;* *Part C – Information on the profit and loss account, sections 4 and 5.* As part of our audit we paid special attention to the analysis of the valuation models applied to complex unlisted financial instruments measured at fair value. The use of estimates applies mainly to certain types of compound instruments and derivative financial instruments, which are	As part of the audit, to address this key audit matter we performed the following main activities: • analysis of the adequacy of the IT environment and testing of the operating effectiveness of relevant controls in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of financial instruments classified in the fair value 2 and fair value 3 hierarchy levels; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion

Key audit matters	*Auditing procedures performed in response to key audit matters*
measured using valuation models fed by inputs that are not directly observable in the market and that were estimated internally (financial instruments classified in the fair value 2 and fair value 3 hierarchy levels).	of findings with the corporate functions involved; • On a sample basis, testing of the valuation models used by the Bank and of the reasonableness of the input data and parameters used, with the support of experts from the PwC network.

Responsibilities of the Directors and Those Charged with Governance 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 the directors 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, when preparing the financial statements, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. The directors prepare financial statements on a going concern basis unless they either intend to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The statutory audit committee ("collegio sindacale") is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process

Auditors' responsibilities for the audit of the 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 that, but is not a guarantee that an audit performed 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 these consolidated financial statements.

As part of the audit 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 financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base 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 the 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. Where 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, subsequent 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 such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the 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 to them any circumstances that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we identified those 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 statutory audit committee ("collegio sindacale"), in their 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 2017, 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 2017 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 2017 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, 29 September 2017

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

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

STATUTORY AUDITORS' REPORT

STATUTORY AUDIT COMMITTEE'S REPORT
as required under Article 153 of Italian Legislative Decree 58/98

Dear Shareholders,

This report, which has been prepared as required under Article 153 of Italian Legislative Decree 58/98 (the "Italian Consolidated Finance Act"), refers to the activities carried out by the Statutory Audit Committee (the "Statutory Audit Committee") of Mediobanca S.p.A. ("Mediobanca", the "Bank" or the "Company") during the financial year ended 30 June 2017, 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 accounts and accounting experts. During the course of the year, the Statutory Audit Committee met on a total of 29 occasions, 12 of which with the Risks Committee; it also took part in 11 Board meetings, 13 Executive Committee meetings, 13 Related Parties' Committee meetings, and 8 Remunerations 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 Board and Executive Committee meetings, on the activities carried out and the most significant transactions in earnings, financial and capital terms approved and executed by the Bank and the other Group companies, including in compliance with Article 150, paragraph 1 of the Italian Consolidated Finance Act. Based on the information available, the Statutory Audit Committee can provide reasonable assurance that these transactions have been carried out in compliance with the provisions of the law and the company's Articles of Association, and are not manifestly imprudent or risky, in conflict with the resolutions adopted by shareholders in general meeting, or such as may compromise the integrity of the Company's assets. Furthermore, all transactions giving rise to potential conflicts of interest have been approved in compliance with the provisions of the law, the regulations in force 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 2016-19 business plan include:

- Approval of the 2016/19 business plan, following the Group's strategic decision to move towards a sustainable, diversified, profitable, high fee- and capital-generating model able to combine capital excellency and efficiency. Growth in banking activities will derive from leveraging capabilities and opportunities in the Corporate & Investment Banking and Consumer Banking divisions and from developing the Wealth Management platform. Capital will be generated from increasing profits, optimization of operations processes, reduction of equity investments (AFS shares and the Assicurazioni Generali investment), and validation of the advanced internal ratings-based models (AIRB) for the following portfolios: Corporate (CIB), Mortgage Lending (CheBanca!) and Consumer Banking (Compass and Futuro);
- Completion of the acquisition of Barclays' Italian retail banking operations, a business unit which consists of 85 branches, 564 commercial staff, 68 financial advisors, and 220,000 clients. Under the terms of the transaction, Barclays paid CheBanca! badwill of €240m for the above business unit with perfectly-balanced assets and liabilities;
- Acquisition of the other 50% of Banca Esperia from the Mediolanum group for a consideration of €141m. Banca Esperia has therefore been consolidated on a line-by-line basis as from the fourth quarter of the financial year under review. The merger of Banca Esperia into approved by the Board of Directors on 10 May 2017 should be complete by the end of the first half of the 2017-18 financial year. The acquisition forms part of the strategy to grow the business in the Private Banking (WM) and MidCap (CIB) segments, both of which are important pillars of the new strategic plan;
- The ECB's decision on 8 December 2016, following the outcome of the SREP 2016 process, to set the minimum level of for the phase-in CET 1 ratio to be complied with at consolidated level at 7%, along with a level of 10.5% for the total capital ratio. These ratios are boosted by the capital conservation buffer for the phase-in period, and even though they rise respectively to 8.25% and 11.75% phase-in, they are far below the levels set last year (CET1 ratio 150 bps lower phase-in, and 50 bps lower fully-phased). The ECB's decision reflects among other things the results of the Group's stress test which have confirmed the Bank's solidity in this area even in negative scenarios.

2. Monitoring compliance with principles of proper management and adequacy of the Bank's organizational structure

The Statutory Audit Committee has been informed regarding, and has monitored the adequacy of, the Bank's organizational structure, its compliance with the principles of proper management, and the adequacy of the instructions given by the company to its subsidiaries, as required by Article 114, paragraph 2 of Italian Legislative Decree 58/98, by obtaining information from the heads of the relevant company divisions and meetings with the External Auditors involving the mutual exchange of relevant data and information.

During the twelve months under review, the rationalization of some of the Bank's internal units has continued, involving the institution and/or launch of new forms of operations or different organizational units (such as Physical Security & Facility Management, Group Treasury), or the reorganization or revision of business areas (Finance division, now split into the Group Treasury, Strategic Portfolio & ALM and Trading Portfolio sub-units, and revision of organizational and operating model for the HR area) which, operating Group-wide, serve not only to optimize operations for the individual Group companies, but also to enable broader-based alignment and co-operation across the Group as a whole.

Other major organizational projects are still in progress and will be completed in the course of the following financial year. These include in particular the merger of Banca Esperia into Mediobanca the subsequent institution of an efficient organizational model for the Private Banking division within Mediobanca, and the development of internal models for measuring credit risk.

Our review of the annual reports on the financial statements of Group companies by the Statutory Audit Committee revealed no critical issues. Equally, no such issues emerged from our meetings with the members of the same Committees, which in each of the Group companies also act as the supervisory bodies instituted pursuant to Italian Legislative Decree 231/01.

The Statutory Audit Committee also noted that no atypical or unusual transactions had been entered into with Group companies, third parties or related parties.

The Statutory Audit Committee also reviewed the corporate processes which led to the definition of the company's remunerations policies, with reference in particular to the executive directors, the heads of the control units, and the Head of Company Financial Reporting.

3. Supervision of the internal control and risk management systems

The Statutory Audit Committee has monitored the adequacy of the internal control and risk management system, by:

– Holding meetings with the Bank's senior management to examine the internal control and risk management system;

– Holding regular meetings with the Group Audit, Compliance/AML and Risk Management units (the "Control Units") to evaluate the methods used for planning activities based on an 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 received 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.

In the performance of its control activities, the Statutory Audit Committee has maintained an ongoing dialogue with the Control Units.

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 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.

The Compliance unit presides directly over those regulatory areas considered to present the highest reputational risks (e.g. MiFID, market abuse, transparency, conduct, remuneration policies and anti-money laundering), and also, by means of a "graduated" model, the areas of regulations covered by other specialist units. In the year under review its activity was focused on:

– Projects to incorporate newly-issued regulations (such as PRIIPs) or regulations which have been revised (such as MiFID II or AML Directive IV), coming into force between 2017 and 2018;
– Merger of Banca Esperia, with focus on: i) projects to incorporate relevant regulations which had not already been launched by the company itself; ii) due diligence on relevant processes and identifying compliance risk mitigation action required by Mediobanca post-merger;
– Acquisition of the Barclays business unit, with the AML controls being brought back inhouse and IT systems migration;
– Maintaining the level of coverage through scheduled controls, with reference in particular to compliance with the regulations on market abuse, MiFID and anti-money-laundering.

Based on the activities and controls performed, including via the equivalent units at the Group companies, it emerged that, especially in the Group companies in the process of merging, the workload in connection with these projects has generated slowdowns in the process of aligning the internal regulations fully with the Group's body of procedures (Che Banca!). Certain points requiring improvement were also noted in the controls for the provision of investment services, *inter alia* as a result of the need to adapt the IT processes (Banca Esperia). The remediation action agreed with the corporate bodies of these companies is already underway.

In connection with the activities performed by the AML unit, the Statutory Audit Committee also monitored, with reference to tackling money-laundering and terrorist financing, the development of electronic and control instruments intended to strengthen the measures in force. Regarding the controls carried out after the fact to ensure that the AML procedures have been complied with, no significant critical issues were noted. However, certain areas for improvement were noted, regarding the processes for standardizing client AML risk profiling Group-wide. Further areas for improvement were also identified in the promptness of completion of customer due diligence processes, albeit limited to an area of the Bank's operations considered to be at low risk and for which suitable corrective measures have already been identified.

Following on from last year, and despite the fact that there is no specific regulatory obligation to do so, the unit also carried out a self-assessment of the risks of money-laundering and terrorist financing. The outcome confirmed last year's findings, namely: i) that Mediobanca's exposure was not significant, bearing in mind the nature of the counterparties (chiefly parties which are EU residents, regulated or listed), the type of activities involved, and the effectiveness of the measures implemented; and ii) that at Group level the highest concentration of such risks is in the activities performed by CMB and Banca Esperia, and also, to a more limited extent, in the companies operating in the retail sector (in particular CheBanca!).

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.

The Risk Management unit's activities in the year under review have been focused on three main areas.

Firstly, the unit has assisted the business lines in developing their activities, pursuing in general terms a reduction in the risk profile, and without prejudice to the foregoing, an increased awareness of the risks undertaken; secondly, it has been involved in improving certain aspects of the control activities based on the indications received from the regulatory authorities, received in the course of ordinary enquiries and inspections; and thirdly, it continued to refine the risk measurement methodologies, in particular as part of the AIRB project, and more generally based on changes in the regulations.

On 14 June 2017, the Board of Directors of Mediobanca S.p.A. approved the annual revised version of the Risk Appetite Framework (RAF). The framework has developed both in terms of the structure of the document itself and the calibration of the risk metrics and limits, in order to address the recommendations made by the regulatory authorities and the guidance contained in the regulations themselves.

During the financial year under review, the process was launched to obtain authorization to use advanced internal ratings-based models (AIRB) to estimate credit risk, in which the Risk Management unit has a role of management and co-ordination. In particular, in the course of the 2016-17 financial year, activities were focused on the Mediobanca S.p.A. Corporate portfolio, the authorization process for which is nearing completion (the Group obtained a favourable assessment from the regulatory authority in August 2017 and is now waiting for the ECB Supervisory Board to formally complete the process, which is expected to be before end-December 2017), and also on mortgage lending by CheBanca!, for which pre-validation activities are expected to be launched starting from February 2018. As far as regards the other portfolios, preparatory activities have been carried out in line with the deadlines for the respective project plans.

As part of its activities, the Group Audit Unit carried out an audit of the internal rating system relative to the regulatory provisions, basing the audit on its own framework for controls consisting of eleven areas of enquiry, for each of which specific reports were issued. The overall situation which emerged from the checks was assessed as adequate, with no significant irregularities being noted in terms of the functioning of the rating system, and as compliant with the applicable regulatory requirements.

On 16 November 2016, the Board of Directors of Mediobanca approved the Internal Capital Adequacy Assessment Process (ICAAP) report, which takes into account all major risks detected, current and future. Assessment of capital adequacy was carried out over a three-year time horizon, taking the macro-economic scenario estimated in the Strategic Plan and the recent stress test exercise carried out for SREP purposes as the benchmark. The results of the ICAAP process confirm that the Group's capital meets the prudential requirements (in the sense that it exceeds the minimum thresholds set) and the RAF limits, in both a basic and advanced macroeconomic scenario. The fact that the Group operates at a capitalization level which is above the minimum limits set, on prudential grounds, to constitute a buffer in order to tackle risks identified as not measurable, ensure a degree of operating and strategic flexibility, and to absorb fluctuations in the economic cycle and crisis scenarios.

At the same Board meeting held on 16 November 2016 the ILAAP document was approved. This report is a summary of the Group's annual liquidity assessment process, based on assessment of all relevant current and future liquidity and funding risks. The Group's overall liquidity situation, assessed relative to the indicators included in the RAF, and also the others monitored in connection with the "Group liquidity risk management policy", proved to be adequate.

During the year under review, the process of strengthening the Group Risk Management unit has continued with the establishment of equivalent coverage in MBFacta and MB Credit Solutions, with a focus on credit risk associated with NPLs asset acquisition business.

With Banca Esperia being fully integrated into the Group, a close working relationship has begun between the respective Risk Management units, with a view *inter alia* to supporting the merger process and eventually to setting up a Risk Management focusing specifically on all activities related to investment products and services offered to private banking clients.

Particular attention is paid by the control units to the activities of the international branches, where the Group Audit Unit carries out specific audits. The activities thus performed have not revealed any particular issues requiring to be brought to shareholders' attention.

The Statutory Audit Committee notes that the annual reports by the Control Units conclude with a favourable opinion overall being expressed on the internal controls system.

On the subject of business continuity and IT risk, ad hoc reports have been prepared in accordance with the supervisory instructions in force. With reference to business continuity, the planned tests performed during the year have all been passed successfully. Regarding IT risk, the annual analysis showed no significant risks.

The Statutory Audit Committee, having been vested with the powers attributable to the supervisory body instituted pursuant to Article 6, para. 4-*bis* of the Italian Legislative Decree 231/01 regarding corporate administrative liability, viewed and obtained information regarding the organizational and procedural activity implemented in compliance with the aforementioned legislative decree. The supervisory body reported on the activities performed by it during the year ended 30 June 2017 without highlighting any critical issues worthy of note, revealing a situation which on the whole was satisfactory and in line with the provisions set forth in the Organizational, management and control model.

Based on the activities performed, the information obtained and the contents of the Control Units' reports, the Statutory Audit Committee believes there are no critical issues that could jeopardize the Group's internal controls and risk management system.

4. Supervision of the administrative and accounting system and the financial reporting process

The Statutory Audit Committee, in its capacity as the committee responsible for internal control and auditing, *inter alia* following the changes made to the Italian regulatory framework as a result of the introduction of Italian Legislative Decree 135/16, has monitored the process and reviewed the effectiveness of the internal controls and risk management systems with reference to the issue of financial reporting.

Financial reporting is managed by the Head of Company Financial Reporting (the "Head of Company Financial Reporting"), adopting models based on the best market practices (the COSO Report and the CobIT Framework) which provide reasonable assurance over the reliability of the financial reporting, the effectiveness and efficiency of the business operations, and compliance with the provisions of the law and the internal regulations. The processes and controls are revised and updated annually.

A specific assessment was carried out with the support of an external advisor in the first six months of 2016, which showed that the operational model instituted pursuant to Italian Law 262/05 was compliant and consistent with the leading market practices. Areas for improvement noted gave rise to the following action being taken:

– Update to Head of Company Financial Reporting Regulations;

- Preparation of Group Head of Company Financial Reporting Directive;
- Revision to structure of Head of Company Financial Reporting's report, to ensure that the reporting is more effective and aligned to the leading market practices.

Work continued in FY 2016-17 on keeping the map of processes in line with the projects in progress, the new forms of operations undertaken and the organizational changes that have been made.

With reference to the accounting processes, the Bank has comprehensively overhauled its operating procedures in the area of supervisory reporting, in line with the new regulations in this area, which has led to revision and formalization of the reporting processes for all reporting bases (individual, consolidated, prudential and capital). In the Human Resources area, work has also now been completed on revising the Group Staff Administration procedures.

Controls to ensure that the model is functioning correctly, as required by Italian Law 262/05 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 administrative and accounting system, its reliability for the purposes of correctly 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. The Statutory Audit Committee also reviewed the statements made by the Chief Executive Officer and the Head of Company Financial Reporting as required by the instructions contained in Article 154-*bis* of the Italian Finance Act. It has also met with the Group Audit Unit to review the results of the activities performed to this end.

The Statutory Audit Committee has found no evidence of shortcomings that could affect its judgement that the administrative and accounting procedures are adequate and have been properly applied in practice.

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 36 of the Regulations for Markets.

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. The Statutory Audit Committee has taken part in meetings of the Related Parties Committee, instituted under the procedure referred to, and has received regular information on the transactions that have been executed. 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, only one transaction qualifying as "most significant" under the Procedure was executed. In November 2016 the Board of Directors, after consulting with the Related Parties Committee, approved a resolution to participate in the underwriting syndicate for the Unicredit S.p.A. capital increase in the capacity of Global Co-ordinator for a maximum risk of up to €3bn (effective guarantee subsequently issued €1.15bn). The financial terms and conditions applied are equivalent for all syndicate participants with the same role.

The Statutory Audit Committee checked that adequate information had been provided on transactions with related parties by the Board of Directors in its Review of Operations and the notes to the accounts, in view of the requirements set in the regulations in force.

The Procedure in respect of related parties, which includes the internal controls policies on risk assets and conflicts of interest versus connected parties as an annex, was revised by the Board of Directors at a meeting held on 10 May 2017. The changes were necessary in order to: (i) incorporate the contents of Italian Legislative Decree 25/16 which, in line with the European regulations on transparency obligations for issuers, raised the limit for disclosing significant equity holdings to the market from 2% to 3%; and (ii) include SelmaBipiemme in the category of financial intermediaries to which the regulations apply.

The Statutory Audit Committee expressed a favourable opinion on the changes.

The Statutory Audit Committee, in view *inter alia* of the results of the activities of the various units involved in the Related Parties procedure, considers that transactions with related parties are managed adequately.

6. Methods for implementing corporate governance rules in practice

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.

The Statutory Audit Committee has also ascertained that the criteria and procedures adopted by the Board of Directors to assess the independence of its members have been applied correctly.

7. Supervision of External Auditors' activity

In accordance with the provisions of Article 19 of Italian Legislative Decree 39/10, the Statutory Audit Committee, identified therein as the "Committee for internal control and auditing", duly carried out the required activity in terms of monitoring the External Auditor's operations.

The Statutory Audit Committee met on several occasions with External Auditor PriceWaterhouseCoopers S.p.A. as appointed *inter alia* pursuant to Article 150 of the Italian Consolidated Finance Act in order to exchange information regarding the latter's activity. In such meetings the External Auditor has at no stage shown evidence of facts considered to be censurable or other irregularities such as would warrant reporting as required by Article 155, para. 2 of the Italian Consolidated Finance Act.

The Statutory Audit Committee met with the External Auditor during the year under review during the preparation of the company's interim financial statements for the period ended 31 December 2016. On this occasion, the External Auditor submitted a document summarizing its activities, with reference in particular to the most significant valuation items. On 9 February

2017 the External Auditor issued its reports on the individual and consolidated financial statements for the year ended 30 June 2017.

On 29 September 2017, the External Auditor, appointed by the shareholders in an ordinary general meeting held on 27 October 2012 to audit Mediobanca's individual and consolidated financial statements, issued its audit reports (individual and consolidated) in respect of the Bank's financial statements for the year ended 30 June 2017, as required pursuant to Article14 of Italian Legislative Decree 39/10.

The text of the auditors' report has been revised indepth as a result of the changes introduced by the audit reform as incorporated into the Italian regulatory framework through the introduction of Italian Legislative Decree 135/16 which amends the provisions of Italian Legislative Decree 39/10. The new report has been amended in terms of both form and content, and with regard to both the declarations and information contained in it.

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 2017, 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;
- Issued their opinion that the Reviews of Operations attached to the individual and consolidated financial statements for the twelve months ended 30 June 2017 are consistent with certain specific information contained in the "Report on Corporate Governance and Ownership Structure" stipulated in Article 123-*bis*, para. 4 of the Italian Consolidated Finance Act, responsibility for which lies with the Bank's directors, and have been drawn up in accordance with the legal provisions in force;
- Declared, with reference to the possibility of there being material errors in the Reviews of Operations, that based on their knowledge and understanding of the company and the scenario in which it operates, obtained as a result of their audit activities, that they had no comment to make in this connection.

With respect to the preparation of the Bank's individual and consolidated financial statements, the Statutory Audit Committee:

- Hereby gives notice that at a Board meeting held on 14 June 2017 the Directors of Mediobanca approved the impairment criteria established by the combined Bank of Italy/Consob/ISVAP document dated 3 March 2010;
- With respect to legal and tax risks, draws shareholders' attention to the description contained in the Notes to the consolidated financial statements regarding the litigation pending involving Mediobanca.

On 29 September 2017 the External Auditors also submitted the additional report required under Article 11 of Regulation (EU) no. 537/2014 to the Statutory Audit Committee, which revealed no significant shortcomings in the internal control system in relation to the financial reporting process worthy of being brought to the attention of those responsible for governance activities.

As an annex to the additional report, the External Auditor also submitted its statement of independence, as required by Article 6 of Regulation (EU) no. 537/2014, to the Statutory Audit Committee, from which no situations emerged that could compromise its independence. The Committee also duly noted the report on transparency prepared by the external auditors and published on its own website pursuant to Article 18 of Italian Legislative Decree 39/2010.

In addition to the duties prescribed by regulations for listed companies, the External Auditors and the other companies forming part of its network have received other mandates, the fees paid in respect of which, shown also in the notes to the financial statements as required by Article 149-*duodecies* of the Regulations for Issuers, have been recognized in the consolidated profit and loss as follows:

Type of service	**PricewaterhouseCoopers €'000**	**PricewaterhouseCoopers network €'000**
Statements	179	36
Other services	108	—
Total	287	36

Given the mandates conferred on PricewaterhouseCoopers S.p.A. and its network by Mediobanca and the other Group companies, the Statutory Audit Committee does not consider that there are any critical issues arising with respect to the External Auditor's independence.

The External Auditors have also confirmed to the Statutory Audit Committee that no external opinions have been expressed by them as required by law in the course of the financial year under review, in the absence of any grounds for such opinions.

8. Omissions, censurable facts, opinions given and initiatives undertaken

During the year letters were received by the Statutory Audit Committee pursuant to Article 2408 of the Italian Civil Code from shareholder Tommaso Marino on the following dates: 31 October 2016; 1 December 2016, 31 March 2017, 8 July 2017, 10 September 2017 (two letters), 16 September 2017.

In these letters the shareholder complains about: (i) the failure to reply to complaints made by him pursuant to Article 2408 of the Italian Civil Code last year; (ii) with reference to the annual general meeting held on 28 October 2016, the answers to some of the questions tabled prior to the meeting being omitted; (iii) shortcomings in the activities performed by Spafid with reference to keeping the shareholders' register for Poste Italiane S.p.A.; (iv) absence of an annex to the minutes for the Annual General Meeting held on 28 October 2016; (vi) failure to produce a paper copy of the answers to the questions submitted prior to the Annual General Meeting held on 28 October 2016. The shareholder concerned also requested: (i) that enquiries and disclosure be into the relations Mediobanca and the Ligresti family; and (ii) the Chief Executive Officer receive a warning for having organized a representative event.

The Committee reviewed the complaints, carried out the requisite enquiries and analysis, and obtained the relevant information from the Bank's various units. Based on this initial activity the Committee felt that there were no grounds for following up on the complaints received.

The Statutory Audit Committee is not aware of any facts or complaints, other than those referred to above, 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 the following:

– Opinion on the changes to the Procedure in respect of transactions with related parties referred to under section 5 above;

- Favourable opinion regarding suitability of appointment to position of head of Group Audit Unit;
- Favourable opinion regarding suitability of appointment to position of head of company financial reporting;
- Considerations on the annual report on outsourcing important corporate functions.

In the course of the Committee's activities and based on the information obtained, no omissions, censurable facts, irregularities or other significant circumstances such as would require the supervisory authorities to be notified or as would warrant inclusion in this report have come to its attention.

9. Increase in fee payable to external auditors

The Group's external auditors PricewaterhouseCoopers S.p.A., in view of the provisions of the contract in force, informed us in a letter sent by them on 4 August 2017, that as a result of events which have occurred in the financial year ended 30 June 2017, it is necessary to redefine the audit process to include additional activities which entail an increased commitment in terms of man hours and accordingly also an increase in the fees payable. The events in question involve changes made to the audit reform as enacted in Italian law under Italian Legislative Decree 135/16, which amends the provisions of Italian legislative decree 39/10, and the acquisition and integration of the Esperia group companies into Mediobanca. The Statutory Audit Committee, which has met with the external auditors to request more detailed information regarding the additions to the audit activities and the reasons behind the request for the revision process, and which met also with the relevant company units which gave their assessment on the request submitted by the external auditors and whether or not its contents were reasonable, unanimously agreed to propose a resolution to the approval of shareholders in general meeting, giving due reasons for its opinion, to increase the remuneration payable to the external auditors.

10. Conclusions

The agenda for the ordinary Annual General Meeting of Mediobanca shareholders to take place on 28 October 2017 includes the following items in addition to approval of the financial statements for the year ended 30 June 2017:

- Appointment of Board of Directors for 2018-20 three-year period.
- Appointment of Statutory Audit Committee for 2018-20 three-year period.
- Staff remuneration policies:
  a. Staff remuneration policies.
  b. Cap on variable and fixed remuneration based on a ratio of 2:1.
  c. Policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca.
- Increase in fee payable to external auditors for audit of the Company's financial statements for the 2017-21 period.

In view of the specific duties assigned to the External Auditors in terms of auditing the Group's accounts and appraising the reliability of its financial statements, the Statutory Audit Committee has no observations to make to shareholders in general meeting, pursuant to Article 153 of the Italian Consolidated Finance Act, regarding approval of the financial statements for the year ended 30 June 2017 and the Review of Operations as presented by the Board of Directors, and the proposed profit allocation and dividend distribution formulated by the Board itself.

Milan, 29 September 2017

THE STATUTORY AUDIT COMMITTEE

INDIVIDUAL
FINANCIAL STATEMENTS *

* Figures in Euros.

Mediobanca S.p.A. Balance Sheet

Liabilities and net equity	30/6/17	30/6/16
10. Cash and cash equivalents	1,255,629,468	102,153,798
20. Financial assets held for trading	7,271,344,274	8,535,224,199
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	5,664,401,363	7,668,088,791
50. Financial assets held-to-maturity	2,394,875,243	1,963,257,965
60. Due from banks	20,408,727,799	15,029,843,248
70. Due from customers	16,991,344,037	19,552,312,488
80. Hedging derivatives	462,595,557	936,701,733
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,056,998,433	2,687,686,029
110. Property, plant and equipment	118,063,530	119,370,247
120. Intangible assets	14,165,449	12,665,064
of which: goodwill	—	—
130. Tax assets	207,452,093	295,081,147
a) current	*93,598,346*	*162,759,064*
b) deferred	*113,853,747*	*132,322,083*
of which under L. 214/2011	*54,950,270*	*57,842,390*
140. Loans classified as held-for-sale	—	—
150. Other assets	63,311,007	105,026,619
Total assets	**57,908,908,253**	**57,007,411,328**

Liabilities and net equity	**30/6/17**	**30/6/16**
10. Due to banks	24,242,941,954	19,748,564,036
20. Due to customers	2,350,342,477	3,855,263,618
30. Debt securities in issue	18,902,615,956	19,536,496,756
40. Trading liabilities	5,859,160,778	7,042,997,028
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	498,679,049	726,273,646
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	412,789,546	447,077,035
a) current	*122,415,558*	*150,475,312*
b) deferred	*290,373,988*	*296,601,723*
100. Other liabilities	218,544,938	235,544,101
110. Staff severance indemnity provision	8,860,341	9,603,103
120. Provisions	96,808,459	130,324,370
a) post-employment and similar benefits	—	—
b) other provisions	*96,808,459*	*130,324,370*
130. Revaluation reserves	285,167,356	379,537,513
140. Redeemable shares repayable on demand	—	—
150. Equity instruments repayable on demand	—	—
160. Reserves	2,284,194,072	2,217,335,267
170. Share premium reserve	2,187,579,966	2,152,828,778
180. Share capital	440,606,329	435,510,047
190. Treasury shares (-)	(197,708,966)	(197,981,546)
200. Profit for the period (+/-)	318,325,998	288,037,576
Total liabilities and net equity	**57,908,908,253**	**57,007,411,328**

Mediobanca S.p.A. Profit and Loss Account

Item	30/6/17	30/6/16
10. Interest and similar income	813,117,541	902,487,077
20. Interest expense and similar charges	(742,001,588)	(770,270,958)
30. Net interest income	**71,115,953**	**132,216,119**
40. Fee and commission income	219,137,973	211,635,406
50. Fee and commission expense	(16,908,369)	(14,535,067)
60. Net fee and commission income	**202,229,604**	**197,100,339**
70. Dividends and similar income	243,247,631	226,263,942
80. Net trading income	41,387,411	43,314,793
90. Net hedging income (expense)	10,655,427	7,622,689
100. Gain (loss) on disposal/repurchase of:	152,373,547	111,444,564
a) loans and advances	*(5,317,397)*	*4,856,595*
b) AFS securities	*174,077,143*	*109,861,333*
c) financial assets held to maturity	*1,981,349*	*618,154*
d) financial liabilities	*(18,367,548)*	*(3,891,518)*
110. Net result from assets/liabilities recognized	—	—
120. Total income	**721,009,573**	**717,962,446**
130. Adjustments for impairment to:	8,971,734	(48,794,105)
a) loans and advances	*1,773,181*	*(20,448,591)*
b) AFS securities	*(869,064)*	*(17,916,205)*
c) financial assets held to maturity	*(3,184,519)*	*(1,360,889)*
d) other financial assets	*11,252,136*	*(9,068,420)*
140. Net income from financial operation	**729,981,307**	**669,168,341**
150. Administrative expenses:	(396,811,281)	(405,777,270)
a) personnel costs	*(198,897,926)*	*(192,540,124)*
b) other administrative expenses	*(197,913,355)*	*(213,237,146)*
160. Net transfers to provisions	15,000,000	—
170. Net adjustments to tangible assets	(3,454,693)	(3,668,877)
180. Net adjustments to intangible assets	(8,655,724)	(5,962,598)
of which: goodwill	—	—
190. Other operating income (expense)	13,191,978	20,713,605
200. Operating costs	**(380,729,720)**	**(394,695,140)**
210. Gain (loss) on equity investments	(925,631)	39,082,816
230. Writedowns on intangible assets - goodwill	—	—
240. Gain (loss) on disposal of investments in:	42	(18,441)
a) property	—	—
b) other assets	*42*	*(18,441)*
250. Profit (loss) on ordinary activities before tax	**348,325,998**	**313,537,576**
260. Income tax for the year on ordinary activities	(30,000,000)	(25,500,000)
270. Profit (loss) on ordinary activities after tax	**318,325,998**	**288,037,576**
290. Net profit (loss) for the period	**318,325,998**	**288,037,576**

Mediobanca S.p.A. Comprehensive Profit and Loss Account

Item		30/6/17	30/6/16
10.	Profit (loss) for the period	318,325,998	288,037,576
	Other income items net of tax without passing through profit and loss	**743,363**	**(877,554)**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	743,363	(877,554)
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	—	—
	Other income items net of tax passing through profit and loss	**(95,113,520)**	**(21,788,580)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	—	—
90.	Cash flow hedges	(39,752,968)	11,187,005
100.	AFS financial assets	(55,360,552)	(32,975,585)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	—	—
130.	**Total other income items, net of tax**	**(94,370,157)**	**(22,666,134)**
140.	**Comprehensive income (headings 10 + 130)**	**223,955,841**	**265,371,442**

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period							Other comprehensive income statement for the 12 mths ended 30/6/17	Total net equity at 30/6/17
					Transactions involving net equity							
		Reserves	Dividends and other fund application	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	*Stock options* [1]		
Share capital:	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
a) ordinary shares	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,152,828,778	—	—	—	34,751,188	—	—	—	—	—	—	2,187,579,966
Reserves:	2,217,335,267	288,037,576	(230,914,761)	—	(2,233,782)	(272,580)	—	—	—	12,242,352	—	2,284,194,072
a) retained earnings	2,093,126,230	288,037,576	(230,914,761)	—	(2,233,782) (2)	—	—	—	—	—	—	2,148,015,263
b) others	124,209,037	—	—	—	—	(272,580)	—	—	—	12,242,352	—	136,178,809
Valuation reserves	379,537,513	—	—	—	—	—	—	—	—	—	(94,370,157)	285,167,356
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,981,546)	—	—	—	—	272,580	—	—	—	—	—	(197,708,966)
Profit (loss) for the period	288,037,576	(288,037,576)	—	—	—	—	—	—	—	—	318,325,998	318,325,998
Total net equity	5,275,267,635	—	(230,914,761)	—	37,613,688	—	—	—	—	12,242,352	223,955,841	5,318,164,755

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Free equity granting following the performance shares scheme.

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/15	Allocation of profit for previous period		Changes during the reference period							Other comprehensive income statement for the 12 mths ended 30/6/16	Total net equity at 30/6/16
		Reserves	Dividends and other fund application	Changes to reserves	Transaction involving net equity							
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	*Stock options* [1]		
Share capital:	433,598,881	—	—	—	1,911,166	—	—	—	—	—	—	435,510,047
a) ordinary shares	433,598,881	—	—	—	1,911,166	—	—	—	—	—	—	435,510,047
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,144,489,313	—	—	—	8,339,465	—	—	—	—	—	—	2,152,828,778
Reserves:	2,074,656,421	333,045,255	(212,892,699)	—	(1,219,916)	(272,577)	—	—	—	24,018,783	—	2,217,335,267
a) retained earnings	1,974,193,590	333,045,255	(212,892,699)	—	(1,219,916) (2)		—	—	—	—	—	2,093,126,230
b) others	100,462,831	—	—	—	—	(272,577)	—	—	—	24,018,783	—	124,209,037
Valuation reserves	402,203,647	—	—	—	—	—	—	—	—	—	(22,666,134)	379,537,513
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(198,254,123)	—	—	—	—	272,577	—	—	—	—	—	(197,981,546)
Profit (loss) for the period	333,045,255	(333,045,255)	—	—	—	—	—	—	—	—	288,037,576	288,037,576
Total net equity	5,189,739,394	—	(212,892,699)	—	9,030,715	—	—	—	—	24,018,783	265,371,442	5,275,267,635

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Free equity granting following the performance shares scheme.

Mediobanca Cash Flow Statement Direct Method

	Amount	
	30/6/17	30/6/16
A. CASH FLOW FROM OPERATING ACTIVITIES		
1. Operating activities	**(14,102,028)**	**145,885,365**
- interest received	2,245,472,442	2,704,862,478
- interest paid	(2,013,595,367)	(2,613,572,266)
- dividends and similar income	64,271,566	63,995,319
- net fees and commission income	60,902,154	71,624,890
- cash payments to employees	(105,273,959)	(96,465,507)
- net premiums gains (+)	—	—
- other insurance gains/losses (+/-)	—	—
- other expenses paid	(911,978,844)	(1,105,384,996)
- other income received	568,975,301	1,136,119,439
- income taxes paid	77,124,678	(15,293,992)
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**20,701,063**	**2,153,585,046**
- financial assets held for trading	(353,692,676)	746,811,585
- financial assets recognized at fair value	—	—
- AFS securities	2,042,178,751	(199,256,961)
- due from customers	2,653,091,972	1,849,848,681
- due from banks: on demand	863,776,079	32,291,952
- due from banks: other	(5,098,640,475)	(179,993,319)
- other assets	(86,012,590)	(96,116,892)
3. Cash generated/absorbed by financial liabilities	**2,002,429,465**	**(1,491,350,129)**
- due to banks: on demand	7,072,906,267	3,558,081,160
- due to banks: other	952,104,150	(2,020,909,877)
- due to customers	(5,527,258,750)	(2,093,703,556)
- debt securities	(302,602,903)	(183,322,073)
- trading liabilities	(171,252,467)	(368,037,192)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(21,466,832)	(383,458,592)
Net cash flow (outflow) from operating activities	**2,009,028,499**	**808,120,281**
B. Investment activities		
1. Cash generated from	**372,460,582**	**533,162,525**
- disposals of shareholdings	2,592,482	59,858,798
- dividends received in respect of equity investments	162,170,808	145,953,727
- disposals/redemptions of financial assets held to maturity	207,697,292	327,350,000
- disposals of tangible assets	—	—
- disposals of intangible assets	—	—
- disposals of business units	—	—
2. Cash absorbed by	**(1,034,712,337)**	**(1,040,055,084)**
- acquisitions of shareholdings	(369,689,321)	(36,114,474)
- acquisitions of held-to-maturity investments	(652,718,016)	(995,017,610)
- acquisitions of tangible assets	(2,149,000)	(1,056,000)
- acquisitions of intangible assets	(10,156,000)	(7,867,000)
- acquisitions of business units	—	—
- Net cash flow (outflow) from investment/servicing of finance	**(662,251,755)**	**(506,892,558)**
C. Funding activities		
- issuance/acquisition of treasury shares	37,613,688	9,030,715
- issuance/acquisitions of equity instruments	—	—
- dividends payout and other applications of funds	(230,914,761)	(212,892,700)
Net cash flow (outflow) from funding activities	**(193,301,074)**	**(203,861,985)**
Net cash flow (outflow) during period	**1,153,475,670**	**97,365,738**

Reconciliation of Movements in Cash Flow During the Period

	Amount	
	30/6/17	30/6/16
Cash and cash equivalents: balance at start of period	102,153,798	4,788,059
Total cash flow (ouflow) during period	1,153,475,670	97,365,738
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1,255,629,468	102,153,798

NOTES TO INDIVIDUAL ACCOUNTS

NOTES TO INDIVIDUAL ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

Mediobanca's individual financial statements for the period ended 30 June 2017 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 2017 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 (fourth amendment issued on 15 December 2015), which establish the structure of the financial statements and the methods for completing them, along with the contents of the notes to the accounts.

SECTION 2

General principles

These consolidated financial statements comprise:

– Balance sheet;
– Profit and loss account;
– Comprehensive profit and loss account;
– 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.

The following list details the recently issued-regulations which have supplemented the accounting standards in force and have been incorporated into the Group's accounting policies:

Regulation	Date of application for Group	Accounting Standard
2015/2113 issued on 23 November 2015	1 July 2016	Changes to IAS 16 – *Property, plant and equipment*
2015/2173 issued on 24 November 2015	1 July 2016	Changes to IFRS 11 – *Joint arrangements*
2015/2231 issued on 2 December 2015	1 July 2016	Changes to IAS 16 – *Property, plant and equipment*
		Changes to IAS 38 – *Intangible assets*
2015/2343 issued on 15 December 2015	1 July 2016	Changes to IFRS 5 – *Non-current assets held for sale and discontinued*
		Changes to IFRS 7 – *Financial instruments: disclosures*
		IAS 19 – *Employee benefits*
		IAS 34 – *Interim financial reporting*
2015/2406 issued on 18 December 2015	1 July 2016	Changes to IAS 1 – *Presentation of financial statements*
2015/2441 issued on 18 December 2015	1 July 2016	Changes to IAS 27 – *Separate financial statements*
2016/1703 issued on 22 September 2016	1 July 2016	Changes to IFRS 10 – *Consolidated financial statements*
		Changes to IFRS 12 – *Disclosures of interests in other entities*
		Changes to IAS 28 – *Investments in associates and joint ventures*

The changes listed above have not impacted significantly on the Mediobanca's financial statements.

The accounting standards which have been ratified but which have not yet come into force are as follows:

Regulation	Date of application for Group	Accounting standard
2016/1905 issued on 22 September 2016	1 July 2018	Adoption of IFRS 15 – *Revenues from contracts with customers*
2016/2067 issued on 22 November 2016	1 July 2018	Adoption of IFRS 9 – *Financial instruments*

With regard to IFRS 15 (revenues from contracts with customers), this standard specifies the rules for recognizing such revenue, introducing an appproach whereby the revenue is recognized only when the contractual obligations have been met in full. Under the new standard revenue is recognized on the basis of the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract based on their market prices (i.e. stand-alone selling prices);
- Recognize revenue when (or as) the entity satisfies a performance obligation, i.e. when the client obtains control of the good or service.

An internal Preliminary Impact Assessment has been in progress since November 2015, to identify the main problems raised for the accounting issues currently faced. This project, the application of which comprises all the most affected companies, has revealed that the accounting issues currently faced are already substantially aligned with the new requisites.

In January 2016 the IASB also issued IFRS 16 (leasing), which has still not been ratified by the European Commission and will come into force on 1 January, with companies having the option of applying it early (subject to application of IFRS 15). The standard will replace IAS 17 which is currently in force for leasing contracts, and also the IFRIC 4, SIC 15 and SIC 27 interpretations.

Under the terms of the new standard:

- For the lessee, the distinction between financial and operating leases will be abolished. All contracts must be recognized according to the rules for the "old" financial leasing, that is, with an asset/liability being booked to the balance sheet and the interest expenses being recorded through the profit and loss account;
- For the lessor, conversely, there are no changes.

IFRS 9: The Mediobanca Group project

Regulatory framework

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

The new standard replaces IAS 39 and will be applicable as from the first day of the financial year starting on 1 January 2018 or of the first financial year starting thereafter.

The main changes regard classification and impairment, and are as follows:

– How financial assets (apart from shares) are classified and measured will depend on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the "Solely Payments of Principal and Interest Test" (or SPPI). Only those instruments which pass both tests can be recognized at cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio ("Held to collect and sell"), for which, like with the existing Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income).

– Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account.

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

Current projects

The Mediobanca Group will adopt the new standard starting from 1 July 2018. An internal project was launched in spring 2015, under the joint leadership of the Risk Management and Group Financial Reporting areas, with the involvement of all other areas affected (in particular the front office teams, Group Technology and Operations, Group ALM, Group Treasury). The initiative has been developed in line with the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting), and has been split into two phases: Assessment, and Design and Implementation.

Regarding the new criteria for classifying and measuring financial instruments, analysis has been carried out of the entire product portfolio, without any particular effects being noted. In the last six months the methodological framework has been completed for the implementation of organizational and applications processes, the IT systems in particular, and will become operative by 31 December 2017.

Work on developing the new impairment models was completed during the six months, with the internal means for calculating the expected shortfall now finalized (principally the criteria of staging and the introduction of macroeconomic criteria and forward-looking elements). This activity included all the Group's main asset portfolios, in line with the findings of the Classification phase of the project, with no particular impact being noted in quantitative terms and requiring only minimal revisions to the monitoring processes. This activity too will be completed by year-end 2017, in particular with regard to IT implementation.

For the Hedge Accounting area, the Group will avail itself of the opt-in option introduced for general hedges, with no significant impact expected.

The Design and Implementation activity is also now basically complete, hence in the second half of 2017 work can begin on testing the new IFRS 9 systems and processes so as to be able to run IAS 39 and IFRS 9 in parallel from the start of 2018 (i.e. six months prior to actual application).

SECTION 3

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the twelve months ended 30 June 2017 to require adjustment.

On 28 July 2017 Mediobanca deliberated the hedge of QuarzoMB S.r.l. losses through capital full write off and a €30,000 capital increase, 90% of which was subscribed by Mediobanca (€27,000).

On 5 September 2017 Mediobanca subscribed for a €34.5m capital increase implemented by MBFacta S.p.A. which involved issuance of 34.5 million new ordinary shares, each one for €1.00 in book value.

On 8 September 2017 Mediobanca subscribed for a 8m in local currency capital increase implemented by MB Advisory Turkey.

For a description of the most significant events since the reporting date, please refer to the relevant section in the Review of Operations.

A.2 – Significant accounting policies

Financial assets held for trading

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

At the settlement date for securities [1] 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.

[1] See Part A – Information on fair value, pp. 364-374 for further details.

After initial recognition they continue to be measured at fair value [1]. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

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

AFS securities

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

AFS assets are initially recognized at fair value [2], which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. Equities for which it is not possible to reliably determine fair value are stated at cost. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over 30% or for longer than twenty-four months, compared to the initial recognition value. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to the profit and loss account for debt securities to and net equity for shares.

[2] See Part A – Information on fair value, pp. 364-374 for further details.

Financial assets held to maturity

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

Such assets are initially recognized at fair value [3], which is calculated as at the settlement date and includes any transaction costs or income directly attributable to them. Following their initial recognition they are measured at amortized cost using the effective interest method. Differences between the initial recognition value and the amount receivable at maturity are booked to the profit and loss account pro-rata.

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

Loans and receivables

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

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or

[3] See Part A – Information on fair value, pp. 356-366 for further details.

lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

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

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

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

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

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

Leasing

IAS 17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period [4].

Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

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

[4] As required by the amortized cost rules under IAS 39.

through the profit and loss account only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

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

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

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, which are recognized at cost.

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

Property, plant and equipment

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

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

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 (list of clients and development software) deriving from the Purchase Price Allocation process.

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

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

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

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

Derecognition of assets

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

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

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

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

Provisions for liabilities and charges

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

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

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

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities.

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

The sale of treasury shares over the market following a buyback (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.

Staff severance indemnity provision

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

Conversely, actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS 19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EE 475/12 [5].

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

[5] These items were accounted for directly as labour costs by the Group until 30 June 2012.

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 on the basis of the average exchange rates 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.

EU regulation 634/14 introduced IFRIC 21, providing guidelines on the methods of accounting for certain taxes not covered in the treatment provided for in IAS 12. In particular, the interpretation states the nature of the"obligating event" which gives rise to the recognition of the liability to pay a tax, i.e. the event which triggers the obligation to pay. For example, the interpretation establishes the treatment to be adopted if the obligation to pay the tax arises from having reached a minimum level of assets or from the circumstance of the entity being operative at a certain date in the future. This interpretation is significant in establishing the accounting treatment for the obligations to contribute to the Bank Resolution Fund and Deposit Guarantee Fund schemes, as illustrated in more depth in the following section "Contributions to Deposit Guarantee and Resolution Mechanism Systems".

Stock options and performance shares

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

Treasury shares

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

Dividends and commissions

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

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

Related parties

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

a) individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;

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

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

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

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

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

g) transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

A.3 - Information on transfers between financial asset portfolios

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 30/6/17	Fair value at 30/6/17	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities [1] (ABS)	Financial assets held for trading	Due from customers	70,912	72,779	(123)	952	—	952
Debt securities [1] (ABS)	AFS securities	Due from customers	8,995	9,094	38	142	—	142
Debt securities [2]	AFS securities	Financial assets held to maturity	162,149	173,660	(6,614)	9,610		9,610
Total			242,056	255,533	(6,699)	10,704	—	10,704

[1] Made during FY 08/09.

[2] Made during FY 10/11.

A.3.2 Reclassified financial assets: effects on comprehensive profit and loss before transfer

(€'000)

Type of instrument	Transferred from	Transferred to	Profit and Loss plus/minus (pre-tax)		Balance Sheet plus/minus (pre-tax)	
			30/6/17	30/6/16	30/6/17	30/6/16
Debt securities (ABS)	Financial assets held to maturity	Due from customers	23	4	—	—
Total			23	4	—	—

A.4 - Information on Fair Value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS 13 paragraph 91, 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.

Equities and equity-related derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost. For investment funds, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds, fair value is taken to be the net asset value (NAV) per stock unit published by the funds themselves.

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

Fair value is reported according to rankings based on the quality of the input parameters used to determine it [6].

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.

[6] 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.

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

Fair Value Adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

– Credit/debit valuation adjustment;

– Other adjustments.

Credit/debit valuation adjustment (CVA/DVA)

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

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

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

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

- Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices. The CVA/DVA methodology used by Mediobanca is based on the following inputs:

- Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;
- Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels or valuation parameters.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis

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

- Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. All ABS held in the Bank's portfolio are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3.
- 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.

– 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 a price is available on a listed market; otherwise they are categorized as Level 3.

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

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

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

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

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks).

A.4.2 Measurement processes and sensibilities

As required by 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 (€ '000), 30/6/17**	**+/- delta vs MtM (€ '000), 30/6/16**
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)	624	266
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	50	90

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	*Non-observable inputs*	**Fair value* Assets 30/6/17 (€m)**	**Fair value* Liabilities 30/6/17 (€m)**	**Fair value* Assets 30/6/16 (€m)**	**Fair value* Liabilities 30/6/16 (€m)**
OTC equity plain vanilla options, OTC equity digital options, variance swap	Black-Scholes/ Black model	Implicit volatility[1]	1.25	(9.87)	5.49	(12.84)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation [2]	2.80	(0.34)	7.20	—
Synthetic CDOs	Gaussian copula model using factor with base correlation	*Base correlation with bootstrap starting from quoted data on liquid index tranches*	0.14	(0.13)	0.16	(0.29)

* 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.

3 The base correlation is the level of relation between the default events for the underlying instruments belonging to the principal credit indexes. The correlation is obtained from the quoted market prices of synthetic CDOs on the indexes, in particular from instruments hedging the various parts of the equity structure of these indexes.

A.4.3 Fair value ranking

Transfers between levels of fair value ranking

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

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

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

A.4.4 Other information

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

A.4.5 Fair value ranking

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

(€'000)

Financial assets/Liabilities measured at fair value	**30/6/17**			**30/6/16**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	4,004,381	3,122,863	144,100	3,394,155	5,058,245	82,824
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	5,020,919	383,326	260,156	6,957,349	500,189	210,551
4. Hedge derivatives	—	462,596	—	—	936,702	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,025,300	3,968,785	404,256	10,351,504	6,495,136	293,375
1. Financial liabilities held for trading	(2,730,204)	(3,045,815)	(83,142)	(2,286,362)	(4,695,514)	(61,121)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(498,679)	—	—	(726,274)	—
Total	(2,730,204)	(3,544,494)	(83,142)	(2,286,362)	(5,421,788)	(61,121)

The level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, in an amount of €65.4m (30/6/16: €43.2m), plus €7.4m (€4.8m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets increased from €34.8m to €71.3m, after new deals worth €63.8m,[7] disposals and redemptions totalling €21.2m, and other negative changes, including movements in fair value, amounting to negative €6.1m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds. During the year under review AFS assets rose from €210.6m to €260.2m, representing the balance between purchases of €71.1m, only in part offset by sales of €42.4m, plus other additions totalling €20.9m (profits and valuations).

[7] For further details see section A.5, "Information on day one profit loss".

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

(€'000)

	FINANCIAL ASSETS			
	Held for trading [1]	**Recognized at fair value**	**AFS** [2]	**Hedges**
1. Balance at start of period	34,832	—	210,544	—
2. Additions	71,047	—	98,856	—
2.1 Purchases	63,761	—	71,149	—
2.2 Profits recognized in:	7,279	—	27,707	—
2.2.1 profit and loss	7,279	—	73	—
- of which, gains	*638*	—	—	—
2.2.2 net equity	—	—	27,634	—
2.3 Transfers from other levels	—	—	—	—
2.4 Other additions	7	—	—	—
3. Reductions	34,592	—	49,252	—
3.1 Disposals	8,352	—	42,428	—
3.2 Redemptions	12,804	—	—	—
3.3 Losses recognized in:	13,436	—	5,331	—
3.3.1 profit and loss	13,436	—	3,771	—
- of which, losses	*13,436*	—	*869*	—
3.3.2 net equity	—	—	1,560	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other reductions	—	—	1,493	—
4. Balance at end of period	71,287	—	260,148	—

[1] Net of the market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) as well as options traded (€65.4m and €43.2m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments in unlisted companies valued on the basis of internal models.

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]	**Recognized at fair value**	**Hedges**
1. Balance at start of period	13,133	—	—
2. Additions	7,123	—	—
2.1 Issues	421	—	—
2.2 Losses recognized in:	6,702	—	—
2.2.1 profit and loss	6,702	—	—
- of which, losses	*6,702*	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	—	—	—
3. Reductions	9,923	—	—
3.1 Redemptions	7,179	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2,744	—	—
3.3.1 profit and loss	2,744	—	—
- of which, gains	*2,744*	—	
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	—	—	—
4. Balance at end of period	10,333	—	—

[1] Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) as well as options traded (€65.4m and €43.2m 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	30/6/17				30/6/16			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Financial assets held to maturity	2,394,875	2,416,975	50,933	—	1,963,258	1,968,923	59,439	19,459
2. Due from banks	20,408,728	—	6,992,576	13,429,009	15,029,843	—	12,946,272	2,080,773
3. Due from customers	16,991,344	—	7,693,013	9,337,914	19,552,312	—	9,926,711	9,619,056
4. Tangible assets held for investment purposes	25,505	—	—	92,961	25,917	—	—	92,030
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	39,820,452	2,416,975	14,736,522	22,859,884	36,571,330	1,968,923	22,932,422	11,811,318
1. Due to banks	24,242,942	—	24,242,942	—	19,748,564	—	19,748,564	—
2. Due to customers	2,350,342	—	2,350,342	—	3,855,264	—	3,855,264	—
3. Debt securities in issue	18,902,616	1,261,457	17,915,904	31,583	19,536,497	1,264,876	18,712,242	19,159
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	45,495,900	1,261,457	44,509,188	31,583	43,140,325	1,264,876	42,316,070	19,159

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.

During the period under review this principle was applied by suspending 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. This difference was generated from the use of an internal model to value the unlisted instrument which, pursuant to paras. AG76 and AG76A of IAS39, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years).

Part B - Notes to Individual Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/17	30/6/16
a) Cash	450	468
b) Demand deposits with Central banks	1,255,179	101,686
Total	1,255,629	102,154

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

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition **

Items/Values	30/6/17			30/6/16		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities	1,993,991	334,167	2,321	1,344,175	547,331	11,194
1.1 Structured securities	10,711	20,267	—	10,955	33,527	—
1.2 Others	1,983,280	313,900	2,321	1,333,220	513,804	11,194
2. Equity instruments [1]	1,453,540	—	54,253	1,275,776	—	—
3. Units in investment funds [1]	93,736	—	10,524	141,488	—	10,793
4. Loans	—	59,639	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	59,639	—	—	—	—
Total A	3,541,267	393,806	67,098	2,761,439	547,331	21,987
B. Derivative instruments						
1. Financial derivatives	463,114	2,555,934	77,002	632,716	4,319,078	60,837
1.1 Trading	463,114	2,252,596	69,584 [2]	632,716	3,852,201	55,931 [2]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	303,338	7,418 [3]	—	466,877	4,906 [3]
2. Credit derivatives	—	173,123	—	—	191,836	—
2.1 Trading	—	173,123	—	—	191,836	—
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	463,114	2,729,057	77,002	632,716	4,510,914	60,837
Total (A+B)	4,004,381	3,122,863	144,100	3,394,155	5,058,245	82,824

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

[1] Equities as at 30/6/17 include shares committed in securities lending transactions totalling €737,408,000 (30/6/16: €483,011,000).

[2] Respectively €65,407,000 and €43,185,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[3] Includes the market value of options (€7.4m as at 30/6/17 and €4.8m as at 30/6/16) matching those associated with bond issues recorded among financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	**30/6/17**	**30/6/16**
A. Financial assets (non-derivatives)		
1. Debt securities	2,330,479	1,902,700
a) Governments and Central banks	1,779,053	1,334,319
b) Other public-sector entities	15,160	11,990
c) Banks	135,197	67,813
d) Other issuers	401,069	488,578
2. Equity instruments	1,507,793	1,275,776
a) Banks	81,293	35,583
b) Other issuers:	1,426,500	1,240,193
- Insurance companies	54,142	53,537
- Financial companies	55,014	92,027
- Non-financial companies	1,317,344	1,094,629
- Other	—	—
3. Units in investment funds	104,260	152,281
4. Loans	59,639	—
a) Goverments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	59,639	—
d) Other issuers	—	—
Total A	4,002,171	3,330,757
B. Derivative instruments		
a) Banks	2,088,094	3,033,897
- Fair Value	2,088,094	3,033,897
b) Customers	1,181,079	2,170,570
- Fair Value	1,181,079	2,170,570
Total B	3,269,173	5,204,467
Total (A+B)	7,271,344	8,535,224

SECTION 4

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition

Items/Values	30/6/17			30/6/16		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1. Debt securities	4,621,602	383,326	—	6,315,963	500,189	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,621,602	383,326	—	6,315,963	500,189	—
2. Equity instruments	399,317	—	26,670	641,386	—	32,350
2.1 Designated at fair value	399,317	—	26,670	641,386	—	32,350
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds	—	—	233,486	—	—	178,201
4. Loans	—	—	—	—	—	—
Total	5,020,919	383,326	260,156	6,957,349	500,189	210,551

(*) Includes shares in non-listed companies based on internal rating models.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/17	30/6/16
1. Debt securities	5,004,928	6,816,152
a) Governments and Central banks	3,422,929	5,196,469
b) Other public-sector entities	214,203	229,297
c) Banks	698,869	612,829
d) Other entities	668,927	777,557
2. Equity instruments	425,987	673,736
a) Banks	—	—
b) Other issuers:	425,987	673,736
- Insurance companies	—	—
- Financial companies	21,618	12,351
- Non-financial companies	404,369	661,385
- Other	—	—
3. Units in investment funds (including Private Equity funds)	233,486	178,201
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	5,664,401	7,668,089

4.3 AFS securities: assets subject to specific hedging

Items/Values	30/6/17	30/6/16
1. Financial instruments subject to fair value micro hedging	2,255,207	1,909,659
a) Interest rate risk	2,255,207	1,909,659
b) Currency rsk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Financial instruments subject to cash flow micro hedging	240,019	85,692
a) Interest rate risk	—	—
b) Currency rsk	—	—
c) Other	240,019	85,692
Total	2,495,226	1,995,351

SECTION 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity: composition

	30/6/17				30/6/16			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	2,394,875	2,416,975	50,933	—	1,963,258	1,968,923	59,439	19,459
- structured	—	—	—	—	—	—	—	—
- other	2,394,875	2,416,975	50,933	—	1,963,258	1,968,923	59,439	19,459
2. Loans	—	—	—	—	—	—	—	—

5.2 Assets held to maturity: by borrower/issuer

Type of transaction/Amounts	30/6/17	30/6/16
1. Debt securities	2,394,875	1,963,258
a) Government and Central banks	1,747,050	1,108,290
b) Other public-sector entities	—	—
c) Banks	251,778	259,887
d) Other issuers	396,047	595,081
2. Loans	—	—
a) Government and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	2,394,875	1,963,258
Total Fair Value	2,467,908	2,047,821

SECTION 6

Heading 60: Due from banks

6.1 Due from banks: composition

Type of transactions/Values	30/6/17				30/6/16			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	157,191	—	157,191	—	126,505	—	126,505	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	157,191	X	X	X	126,505	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	20,251,537	—	6,835,385	13,429,009	14,903,338	—	12,819,767	2,080,773
1. Loans	19,963,757	—	6,542,160	13,429,009	14,903,338	—	12,819,767	2,080,773
1.1 Current accounts and demand deposits	718,447	X	X	X	780,059	X	X	X
1.2 Time deposits	45,000	X	X	X	339,505	X	X	X
1.3 Other loans	19,200,310	X	X	X	13,783,774	X	X	X
- Repos	5,315,656	X	X	X	2,758,981	X	X	X
- Finance leases	—	X	X	X	—	X	X	X
- Other	13,884,654	X	X	X	11,024,793	X	X	X
2. Debt securities	287,780	—	293,225	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	287,780	X	X	X	—	X	X	X
Total	20,408,728	—	6,992,576	13,429,009	15,029,843	—	12,946,272	2,080,773

6.2 Due from banks: assets subject to specific hedging

	30/6/17	30/6/16
1. Receivables subject to specific hedging of fair value	1,921	—
a) Interest rate risk	1,921	—
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Receivables subject to specific hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	1,921	—

SECTION 7

Heading 70: Due from customers

7.1 Due from customers: composition

Type of transaction/Value	30/6/17						30/6/17					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Non performing		Level 1	Level 2	Level 3	Performing	Non performing		Level 1	Level 2	Level 3
		Purchased	Other					Purchased	Other			
Loans	13,542,916	—	371,736	—	7,616,741	6,321,659	16,218,937	—	377,774	—	9,850,518	6,702,254
1. Current accounts	424,966	—	—	X	X	X	342,294	—	—	X	X	X
2. Repos	677,543	—	—	X	X	X	3,567,070	—	—	X	X	X
3. Mortgages	10,601,040	—	371,736	X	X	X	11,562,830	—	377,774	X	X	X
4. Credit cards, personal loans and salary-backed finance	—	—	—	X	X	X	—	—	—	X	X	X
5. Financial leases	—	—	—	X	X	X	—	—	—	X	X	X
6. Factoring	—	—	—	X	X	X	—	—	—	X	X	X
7. Other loans	1,839,367	—	—	X	X	X	746,743	—	—	X	X	X
Debt securities	3,076,692	—	—	—	76,272	3,016,255	2,955,601	—	—	—	76,193	2,916,802
8. Structured instruments	—	—	—	X	X	X	—	—	—	X	X	X
9. Others[1]	3,076,692	—	—	X	X	X	2,955,601	—	—	X	X	X
Total	16,619,608	—	371,736	—	7,693,013	9,337,914	19,174,538	—	377,774	—	9,926,711	9,619,056

[1] €2,725,739,000 of which in respect of securitizations by Group companies (Compass and Futuro).

7.2 Due from customers: by borrower/issuer

Tipologia operazioni/Valori	30/6/17			30/6/16		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by:	3,076,693	—	—	2,955,601	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	3,076,693	—	—	2,955,601	—	—
- Non-financial companies	74,064	—	—	—	—	—
- Financial companies	3,002,629	—	—	2,955,601	—	—
- Insurance companies	—	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	13,542,916	—	371,736	16,218,937	—	377,774
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	3,182	—	—	425,699	—	—
c) Other entities	13,539,734	—	371,736	15,793,238	—	377,774
- Non-financial companies	6,390,527	—	356,438	7,930,785	—	360,290
- Financial companies	6,226,864	—	15,298	7,091,880	—	17,484
- Insurance companies	922,320	—	—	769,088	—	—
- Other	23	—	—	1,485	—	—
Total	16,619,609	—	371,736	19,174,538	—	377,774

7.3 Due from customers: assets subject to specific hedging

	30/6/17	30/6/16
1. Loans and receivables subject to micro-hedging of fair value	576,789	238,859
a) Interest rate risk	576,789	238,859
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risk	—	—
2. Loans and receivables subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	576,789	238,859

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	30/6/17				30/6/16			
	Fair Value			Nominal Value	Fair Value			Nominal Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	462,596	—	8,367,129	—	936,702	—	10,406,186
1) Fair Value	—	462,596	—	8,367,129	—	930,079	—	10,320,507
2) Cash flow	—	—	—	—	—	6,623	—	85,679
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	462,596	—	8,367,129	—	936,702	—	10,406,186

8.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction/Type of hedging	Fair Value						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	—	—	—	X	—	X	—	X	X
3. Held-to-maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	—	—	—	—
1. Financial liabilities	462,596	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	462,596	—	—	—	—	—	—	—	—
1. Estimated transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

As at 30 June 2017, the stakes held as part of the Equity investment portfolio reflected a book value of €3,057.0m.

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Shareholding %	Voting right %
A. Directly-held investments				
Banca Esperia S.p.A. Share capital € 63m, in par value € 0.52 each	Milan	Milan	100.0	100.0
Cairn Capital Group Limited * Share capital GBP 263	London	London	100.0 (*)	51.0
CheBanca S.p.A. Share capital € 226.3m, in par value € 0.50 shares	Milan	Milan	100.0	100.0
Compagnie Monegasque de Banque - CMB S.A.M. Share capital € 111.1m, in par value € 200 shares	Montecarlo	Montecarlo	100.0	100.0
CMB Wealth Management Limited Share capital GBP 3m	London	London	100.0	100.0
Compass Banca S.p.A. Share capital € 587.5m, in par value € 5 shares	Milan	Milan	100.0	100.0
Mediobanca Innovation Services - MIS S.c.p.A. Share capital € 35m, in par value € 5 shares	Milan	Milan	99,99	99,99
MB Advisory Kurumsal Danismanlik Hizmetleri A.S. Share capital TRY 14m	Istanbul	Istanbul	100.0	100.0
MB Facta S.p.A. Share capital € 85.5m	Milan	Milan	100.0	100.0
MB Funding Lux S.A. Share capital € 431,000, in par value € 10 shares	Luxembourg	Luxembourg	100.0	100.0
MB International (Luxembourg) S.A. Share capital € 10m, in par value € 10 shares	Luxembourg	Luxembourg	99.0	99.0
MB Securities USA LLC Share capital $ 2.25m	New York	New York	100.0	100.0
Prominvestment S.p.A. (under liquidation) Share capital €743,000, in par value € 0.52 shares	Rome	Rome	100.0	100.0
Quarzo MB S.r.l. Share capital € 10,000	Milan	Milan	90.0	90.0
Ricerche e Studi S.p.A. Share capital € 100,000, in par value €5 shares	Milan	Milan	100.0	100.0
SelmaBipiemme Leasing S.p.A. Share capital €41.3m, in par value €0.50 shares	Milan	Milan	60.0	60.0
Spafid S.p.A. Share capital € 6.1m, in par value € 10 shares	Milan	Milan	100.0	100.0
B. Companies subject to significant influence				
Assicurazioni Generali S.p.A. Share capital € 1,559.9m, in par value € 1 shares	Trieste	Trieste	13.0	13.0
Burgo Group S.p.A. Share capital € 20m, in par value € 0.52 shares	Altavilla Vicentina (VI)	Milano	22,13	22,13
Istituto Europeo di Oncologia S.r.l. Share capital € 80.6m”	Milan	Milan	25,37	25,37

* Taking into account the put-and-call option exercisable from the fifth year after the date on which the transaction was executed.

10.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	*Fair Value*	Dividends received
A. Directly-held companies			
Banca Esperia S.p.A.	195,348	n.a.	—
Cairn Capital Group Limited	33,466	n.a.	—
Chebanca! S.p.A.	383,303	n.a.	—
Compagnie Monegasque de Banque - CMB S.A.M.	371,834	n.a.	—
CMB Wealth Management S.A.M.	1,580	n.a.	—
Compass Banca S.p.A.	764,891	n.a.	—
Mediobanca Innovation Services - MIS S.c.p.A.	35,020	n.a.	—
MB Advisory Kurumsal Danismanlik Hizmetleri A. S.	2,272	n.a.	—
MB Facta S.p.A.	85,523	n.a.	—
MB Funding Lux	431	n.a.	—
MB International (Luxembourg) S.A.	5,942	n.a.	—
MB Securities USA LLC	211	n.a.	—
Prominvestment S.p.A. (under liquidation)	—	n.a.	—
Quarzo MB S.r.l.	9	n.a.	—
Ricerche e Studi S.p.A.	103	n.a.	—
SelmaBipiemme Leasing S.p.A.	32,909	n.a.	—
Spafid S.p.A.	8,888	n.a.	—
B. Companies under significant influence			
Assicurazioni Generali S.p.A.	1,096,273	2,921,102	162,171
Burgo Group S.p.A.	—	n.a.	—
Istituto Europeo di Oncologia S.r.l.	38,995	n.a.	—
Total	3,056,998		

The criteria for establishing whether or not an investee company is subject to joint control or significant influence are illustrated in "Section 3 — Part A — Accounting Policies" to which reference is made.

*10.3 Significant equity investments: financial information **

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														
Banca Esperia S.p.A.	139	1,888,060	101,200	1,739,084	81,417	81,134	10,219	(1,614)	(20,708)	(17,358)	—	(17,358)	(11,523)	(28,881)
Cairn Capital Group Limited	—	7,810	9,175	82	5,835	27,959	(7)	(92)	3,347	2,423	—	2,423	84	2,507
CheBanca S.p.A.	70,706	18,950,937	287,569	18,555,076	409,019	274,283	203,974	(6,362)	18,180	16,407	—	16,407	808	17,215
Compagnie Monegasque de Banque - CMB S.A.M.	2,379	3,970,002	45,792	3,230,623	38,676	93,876	32,811	(6,573)	44,637	38,032	—	38,032	(7,681)	30,351
CMB Wealth Management UK	—	1,586	31	—	79	16	8	(15)	(50)	(50)	—	(50)	—	(50)
Compass Banca S.p.A.	1,350	10,762,738	926,032	9,911,206	200,452	751,890	756,154	(3,805)	297,157	201,178	—	201,178	13,192	214,370
Mediobanca Innovation Services - MIS S.c.p.A.	2	22	79,984	24,830	17,573	—	—	(10,428)	(245)	2	—	2	21	23
MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	—	376	195	32	71	53	37	(27)	(1,495)	(1,495)	—	(1,495)	—	(1,495)
MB Facta S.p.A.	—	1,536,859	3,095	1,445,052	6,771	9,208	8,509	(3)	3,945	2,595	—	2,595	3	2,598
MB Funding Lux S.A.	—	430	43	—	42	—	—	—	—	—	—	—	—	—
MB International (Luxembourg) S.A.	1	5,198,359	20,010	4,862,305	27,513	36,196	38,552	(11)	28,486	20,779	—	20,779	—	20,779
MB Securities USA LLC	—	6,480	429	1,767	1,067	3,590	(76)	(1)	1,353	574	—	574	—	574
Prominvestment S,p.A. (under liquidation)	—	4,400	632	2,786	5,244	23	(16)	—	(1,158)	(1,158)	—	(1,158)	—	(1,158)
Quarzo MB S.r.l.	—	2	—	—	22	—	—	—	(30)	(30)	—	(30)	—	(30)
Ricerche e Studi S.p.A.	3	894	195	—	1,035	—	—	(1)	14	(2)	—	(2)	7	5
SelmaBipiemme Leasing S.p.A.	5	2,311,230	174,185	2,218,200	60,397	47,540	47,454	(1,719)	(16,959)	(19,822)	—	(19,822)	3,640	(16,182)
Spafid S.p.A.	6	47,640	10,936	2,798	6,872	8,469	311	(208)	1,758	1,104	—	1,104	—	1,104
B. Companies subject to significant influence														
Assicurazioni Generali S.p.A.	X	480,962,000	32,689,000	60,966,000	434,550,000	86,103,000	X	X	3,157,000	2,239,000	—	2,239,000	(69,000)	2,170,000
Burgo Group S.p.A.	X	604,622	993,068	1,171,437	179,033	1,990,553	X	X	7,962	4,571	200	4,771	708	5,479
Istituto Europeo di Oncologia S.r.l.	X	90,193	116,153	79,053	67,350	326,327	X	X	9,018	7,740	—	7,740	—	7,740

* All data in Euros, including for non-Italian Group companies.

** Interim results: total income as per the financial statements.

During the twelve months under review, the other 50% of Banca Esperia was acquired from the Mediolanum Group for a consideration of €141m, which, in addition to the share already owned by Mediobanca (€54.3m), represents a total cost of €195.3m. It is felt that the deal should generate substantial synergies in terms of keeping down costs and enabling the Group to reformulate its service offering.

Chebanca! implemented a €100m capital increase during the twelve months under review, in connection with the Barclays' business unit acquisition, while Compass exited its investment in MBFacta (€82.5m) following the reorganization of the Group's factoring activities. Capital increases were also implemented in favour of two Group companies in an amount of €7m (€5m for Spafid and €2m for Mediobanca Turkey), while CMB Wealth Management Ltd was acquired for a consideration of €1.6m. MB Mexico, already in liquidation, was also wound up definitively.

With regard to investments in associates, the Athena Private Equity stake was transferred to the AFS portfolio (€2.6m, following collections amounting to €2.3m), while the Istituto Europeo di Oncologia investment was added from the AFS portfolio (at a book value of €39m), after the Group's interest rose from 14.8% to 25.37% after buying out stakes owned by other shareholders.

The Assicurazioni Generali investment continues to be recognized at cost.

The book value of the CheBanca! investment was subject to impairment testing but no evidence of impairment was recorded.

Finally, on 6 October 2016 the court of Milan upheld the composition with creditors pursuant to Article 161, para. 6 of the Italian bankruptcy act in respect of Prominvestment, necessary only in order to complete the liquidation process for the company which had begun in September 2008 and without prejudice to the creditors.

10.5 Equity investments: movements during the period

	30/6/17	30/6/16
A. Opening balance	2,687,686	3,159,688
B. Increases	372,204	77,672
B.1 Purchases	364,651	36,114
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	7,553	41,558
C. Decreases	2,892	549,674
C.1 Sales	2,258	59,859
C.2 Adjustments	—	2,475
C.3 Other changes	634	487,340
D. Closing balance	3,056,998	2,687,686
E. Total revaluations	—	—
F. Total adjustments	820,806	820,806

SECTION 11

Heading 110: Property, plant and equipment

11.1 Tangible core assets stated at cost

Assets/Values	30/6/17	30/6/16
1. Assets owned by the Group	92,559	93,453
a) land	67,897	67,897
b) buildings	20,023	20,634
c) furniture	1,059	1,153
d) electronic equipment	1,554	1,476
e) other assets	2,026	2,293
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	92,559	93,453

11.2 Tangible assets held for investment purposes stated at cost: composition

Items/Value	30/6/17				30/6/16 30/6/16			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owned assets	25,505	—	—	92,961	25,917	—	—	92,030
a) Land	20,350	—	—	73,224	20,350	—	—	72,491
b) Buildings	5,155	—	—	19,737	5,567	—	—	19,539
2. Leased assets	—	—	—	—	—	—	—	—
a) Land	—	—	—	—	—	—	—	—
b) Buildings	—	—	—	—	—	—	—	—
Total	25,505	—	—	92,961	25,917	—	—	92,030

11.5 Tangible core assets: movements during the period

Assets/Amounts	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	67,897	40,480	5,180	7,401	19,611	140,569
A.1 Total net reduction value	—	(19,846)	(4,027)	(5,925)	(17,318)	(47,116)
A.2 Net opening balance	67,897	20,634	1,153	1,476	2,293	93,453
B. Increases	—	644	249	542	714	2,149
B.1 Purchases	—	—	249	542	714	1,505
B.2 Capitalized expenditures on improvements	—	644	—	—	—	644
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
B.5 Exchange differences (+)	—	—	—	—	—	—
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	—	—	—	—	—
C. Decreases	—	1,255	343	464	981	3,043
C.1 Sales	—	—	—	—	—	—
C.2 Amortizations	—	1,255	343	464	981	3,043
C.3 Impairment losses allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.4 Negative changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.5 Exchange differences (+)	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	—	—	—	—
D. Net closing balance	67,897	20,023	1,059	1,554	2,026	92,559
D.1 Total net write-downs	—	(21,081)	(4,363)	(6,389)	(18,265)	(50,098)
D.2 Final gross balance	67,897	41,104	5,422	7,943	20,291	142,657
E. Carried at cost	—	—	—	—	—	—

11.6 Tangible assets held for investment purposes: movements during the period

	Total	
	Land	**Building**
A. Opening balance	20,350	5,567
B. Increases	—	—
B.1 Purchases	—	—
B.2 Capitalized expenditures on improvements	—	—
B.3 Increases in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange differences	—	—
B.6 Transfers from properties used in the business	—	—
B.7 Other changes	—	—
C. Reductions	—	412
C.1 Disposals	—	—
C.2 Depreciations	—	412
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C.5 Negative exchange differences	—	—
C.6 Transfers to:	—	—
a) properties used in the business	—	—
b) non-current assets classified as held-for-sale	—	—
C.7 Other changes	—	—
D. Closing balance	20,350	5,155
E. Measured at fair value	73,224	19,737

SECTION 12

Heading 120: Intangible assets

12.1 Intangible assets: composition

Assets/Values	**30/6/17**		**30/6/16**	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill	X	—	X	—
A.2 Other intangible assets	14,165	—	12,665	—
A.2.1 Assets valued at cost	14,165	—	12,665	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	14,165	—	12,665	—
A.2.2 Assets valued at fair value	—	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	—	—	—	—
Total	14,165	—	12,665	—

12.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other intangible assets		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	—	—	—	73,301	—	73,301
A.1 Total net reduction in value	—	—	—	(60,636)	—	(60,636)
A.2 Net opening balance	—	—	—	12,665	—	12,665
B. Increases	—	—	—	10,156	—	10,156
B.1 Purchases	—	—	—	10,156	—	10,156
B.2 Increases in intangible assets generated internally	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Increases in fair value allocated to:	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other changes	—	—	—	—	—	—
C. Reduction	—	—	—	8,656	—	8,656
C.1 Disposals	—	—	—	—	—	—
C.2 Write-downs	—	—	—	8,656	—	8,656
- Amortization	X	—	—	8,656	—	8,656
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Reduction in fair value allocated to	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to non-current assets held-for-sale	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Other changes	—	—	—	—	—	—
D. Net closing balance	—	—	—	14,165	—	14,165
D.1 Total net reduction in value	—	—	—	(69,285)	—	(69,285)
E. Closing balance	—	—	—	83,450	—	83,450
F. Carried at cost	—	—	—	—	—	—

SECTION 13

Asset heading 130 and Liability heading 80: Tax assets and liabilities

13.1 Advance tax assets: composition

	30/6/17	30/6/16
Balancing to the Profit and Loss	107,998	125,090
Balancing to the Net Equity	5,855	7,232
Total	113,853	132,322

13.2 Deferred tax liabilities: composition

	30/6/17	30/6/16
Balancing to the Profit and Loss	212,536	212,325
Balancing to the Net Equity	77,838	84,277
Total	290,374	296,602

13.3 Changes in advance tax during the period

	30/6/17	30/6/16
1. Opening balance	125,090	131,717
2. Increases	1,079	7,039
2.1 Deferred tax assets of the year	1,079	7,039
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	1,079	7,039
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	—	—
3. Decreases	18,171	13,666
3.1 Deferred tax assets derecognised in the year	18,171	13,666
a) Reversals of temporary differences	18,171	13,666
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
a) Conversion into tax credit under L. 214/2011	—	—
b) Other	—	—
4. Final amount	107,998	125,090

*13.3.1 Changes in advance tax during the period pursuant to Italian Law 214/2011 (balancing to the profit and loss) **

	30/6/17	30/6/16
1. Opening balance	57,842	56,020
2. Increases	—	1,822
3. Decreases	2,892	—
3.1 Reversals of temporary differences	2,892	—
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	—
4. Final amount	54,950	57,842

* Mediobanca has elected to retain its right to take advantage of the possibility of converting DTAs into tax credits provided for by Italian decree law 59/16 on 29 April 2016, as amended by Italian decree law 237/16. The exercise of this option is effective for all companies included in the tax consolidation. Such companies are not required to make the annual 1.5% payment as the tax paid by the consolidating entity exceeds the increase in the DTAs at the reporting date since 30 June 2008.

13.4 Changes in deferred tax during the period (balancing to the profit and loss)

	30/6/17	30/6/16
1. Opening balance	212,325	213,207
2. Increases	490	—
2.1 Deferred tax liabilities of the year	490	—
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	490	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	—	—
3. Decreases	279	882
3.1 Deferred tax liabilities derecognised in the year	279	882
a) Reversals of temporary differences	279	882
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	212,536	212,325

13.5 Changes in advance tax during the period (balancing to the net equity) [1]

	30/6/17	30/6/16
1. Opening balance	7,232	10,568
2. Increases	25,011	30,417
2.1 Deferred tax assets of the year	25,011	30,417
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	25,011	30,417
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	—	—
3. Decreases	26,388	33,753
3.1 Deferred tax assets derecognised during the year	26,388	33,753
a) Reversals of temporary differences	26,388	33,753
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	5,855	7,232

[1] Taxes on cash flow hedges and AFS securities valuations.

13.6 Changes in deferred tax during the period (balancing to the net equity) [1]

	30/6/17	30/6/16
1. Opening balance	84,277	76,805
2. Increases	309,235	327,135
2.1 Deferred tax liabilities of the year	309,235	323,490
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	309,235	323,490
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	—	3,645
3. Decreases	315,674	319,663
3.1 Deferred tax liabilities derecognised in the year	315,674	319,663
a) Reversals of temporary differences	315,674	319,663
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	77,838	84,277

[1] Taxes on cash flow hedges and AFS securities valuations.

SECTION 15

Heading 150: Other assets

15.1 Other assets: composition

	30/6/17	30/6/16
1. Gold, silver and precious metals	—	—
2. Accrued income other than capitalized income from financial assets	7,742	5,194
3. Trade receivables or invoices to be issued	43,858	55,291
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	5,326	9,363
5. Other items:	6,385	35,179
- bills for collection	—	—
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	—	—
- prepaid assets	—	—
- futures and other securities transactions	168	365
- advance payments on deposit commissions	—	—
- other items in transit	—	—
- amounts due from staff	187	146
- improvements on third parties' assets	2,626	2,865
- fiscal consolidated	583	28,956
- sundry other items	2,821	2,847
Total Other Assets	63,311	105,027

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transactions/Amounts	30/6/17	30/6/16
1. Deposits from Central Banks	5,649,082	5,518,540
2. Deposits from banks	18,593,860	14,230,024
2.1 Other current accounts and demand deposits	13,633,457	10,386,749
2.2 Time deposits	480,643	641,878
2.3 Loans	4,299,916	3,192,872
2.3.1 Repos	3,209,125	2,005,734
2.3.2 Other	1,090,791	1,187,138
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	179,844	8,525
Total	24,242,942	19,748,564
Fair Value - Level 1	—	—
Fair Value - Level 2	24,242,942	19,748,564
Fair Value - Level 3	—	—
Total Fair Value	24,242,942	19,748,564

1.4 Due to banks: items subject to specific hedges

	30/6/17	30/6/16
1. Liability items subject to micro-hedging of fair value:	1,115,469	790,463
a) Interest rate risk	1,115,469	790,463
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows;	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	1,115,469	790,463

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transactions/Amounts	30/6/17	30/6/16
1. Current accounts and demand deposits	1,671,529	1,355,770
2. Time deposits including saving deposits with maturity	—	52,131
3. Loans	678,481	2,446,370
3.1 Repos	577,708	2,373,602
3.2 Other	100,773	72,768
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	332	993
Total	2,350,342	3,855,264
Fair Value - Level 1	—	—
Fair Value - Level 2	2,350,342	3,855,264
Fair Value - Level 3	—	—
Total Fair Value	2,350,342	3,855,264

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of securities/ Values	30/6/17				30/6/16			
	Book Value	Fair Value *			Book Value	Fair Value *		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt certificates including bonds								
1. Bonds	18,871,032	1,261,457	17,915,904	—	19,517,338	1,264,876	18,712,242	—
1.1 structured	6,174,664	—	6,408,765	—	8,028,294	—	8,361,335	—
1.2 other	12,696,368	1,261,457	11,507,139	—	11,489,044	1,264,876	10,350,907	—
2. Other structured securities	31,584	—	—	31,583	19,159	—	—	19,159
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	31,584	—	—	31,583	19,159	—	—	19,159
Total	18,902,616	1,261,457	17,915,904	31,583	19,536,497	1,264,876	18,712,242	19,159

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2017 would show a gain of €204m (€466m).

Debt securities in issue declined from €19,517,338,000 to €18,871,032,000, on new issuance of €3bn, redemptions and buybacks of €3.3bn (generating losses of €18.4m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €77.1m.

3.2 Breakdown of heading 30 "Debt securities in issue": subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,479,907,000:

Issue	**30/6/17**		
	ISIN	**Nominal value**	**Book value**
MB GBP *Lower Tier II Fixed/Floating Rate Note* 2018 (Non computato nel patrimonio di Vigilanza)	XS0270002669	22,129	25,202
MB Subordinato Mar 29	XS1579416741	50,000	50,477
MB Secondo Atto 5% 2020 *Lower Tier 2*	IT0004645542	613,502	674,589
MB OPERA 3.75 2026	IT0005188351	298,666	284,382
MB Quarto Atto a Tasso Variabile 2021 *Lower Tier 2*	IT0004720436	395,636	397,120
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,701	506,989
MB CARATTERE 5,75% 2023 *Lower Tier 2*	IT0004917842	495,691	541,148
Total subordinated liabilities		2,375,325	2,479,907

3.3 Breakdown of heading 30 "Debt securities in issue": items

	30/6/17	**30/6/16**
1. Securities subject to micro-hedging of fair value:	12,430,548	13,470,797
a) Interest rate risk	12,430,548	13,470,797
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	12,430,548	13,470,797

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	30/6/17					30/6/16				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Financial liabilities										
1. Deposits from banks	1,456,852	1,710,400	182	—	1,710,582	771,649	825,840	53	—	825,893
2. Deposits from customers	445,006	522,452	55	—	522,507	747,165	799,638	51	—	799,689
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)	1,901,858	2,232,852	237	—	2,233,089	1,518,814	1,625,478	104	—	1,625,582
B. Derivative instruments										
1. Financial derivatives	—	497,352	2,622,063	83,015	3,202,430	—	660,884	4,299,891	60,827	5,021,602
1.1 Trading	X	497,352	2,305,314	74,114 [1]	X	X	660,884	3,822,042	55,642 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	316,749	8,901 [2]	X	X	—	477,849	5,185 [2]	X
2. Credit derivatives	—	—	423,515	127	423,642	—	—	395,519	294	395,813
2.1 Trading	X	—	423,515	127	X	X	—	395,519	294	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	497,352	3,045,578	83,142	X	X	660,884	4,695,410	61,121	X
Total (A+B)	X	2,730,204	3,045,815	83,142	X	1,518,814	2,286,362	4,695,514	61,121	1,625,582

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

[1] Respectively €65,407,000 and €43,185,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€7.4m at 30/6/17 and €4.8m at 30/6/16) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of product/underlying asset

	30/6/17				30/6/16			
	Fair Value			Nominal Value	Fair Value			Nominal Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	498,679	—	9,577,633	—	726,274	—	7,090,812
1) Fair value	—	463,108	—	9,337,614	—	726,274	—	7,090,812
2) Cash flow	—	35,571	—	240,019	—	—	—	—
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	498,679	—	9,577,633	—	726,274	—	7,090,812

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/type of hedging	Fair Value						Cash flow		Non-Italian investments
	Specific					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	49,238	—	—	—	—	X	—	X	X
2. Loans and advances	56,676	—	—	X	—	X	—	X	X
3. Held to maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	105,914	—	—	—	—	—	—	—	—
1. Financial liabilities	357,194	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	357,194	—	—	—	—	—	—	—	—
1. Expected transactions	X	X	X	X	X	X	35,571	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80 - Deferred liabilities

Please see asset section 13.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/17	30/6/16
1. Payments agreements (IFRS2)	—	—
2. Impaired endorsements	67,793	79,212
3. Working capital payables and invoices pending receipts	28,439	23,795
4. Prepaid expenses other than capitalized expenses or related financial assets	959	214
5. Amounts due to revenue authorities	8,301	4,550
6. Amounts due to staff	100,344	106,473
7. Other items	12,709	21,300
- bills for cllection	—	—
- coupons and dividends pending collection	2,286	2,258
- available sum payable to third parties	10,358	18,407
- premium, grants and other items in respect of lending transactions	—	—
- fiscal consolidation	—	228
- other	65	407
Total	218,545	235,544

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	30/6/17	30/6/16
A. Initial amount	9,603	8,891
B. Increases	2,465	3,841
B.1 Provision of the year	2,465	3,841
B.2 Other increases	—	—
C. Reductions	3,208	3,129
C.1 Severance payments	675	107
C.2 Other decreases [1]	2,533	3,022
D. Closing balance	8,860	9,603
Total	8,860	9,603

[1] Includes €2,197,000 in transfers to external, defined contribution pension schemes (30/6/16: €3,632,000).

11.2 Other information

The staff severance indemnity provision, calculated in accordance with the provisions of the Italian Civil Code, amounts to € 8,494,000 (€ 8,877,000), with no new service costs accruing for the year.

In order to calculate the actuarial value, the provision has been adjusted in line with a rate of 1.7% for the current year, and discounted using the IBOXX Eurozone Corporate AA index (for a panel of comparable companies) as at 30 June 2017, with an effect (interest cost) of 118.

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/17	30/6/16
1. Provision to retirement payments and similar	—	—
2. Other provisions	96,808	130,324
2.1 Staff expenses	—	765
2.2 Other	96,808	129,559
Total	96,808	130,324

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 2017, the heading "Other provisions" totalled €96.8m, for litigation and other contingent liabilities. No provisions have been set aside in respect of disputes with the Italian revenue authorities.

The most significant litigation still pending against Mediobanca is as follows.

– For the alleged failure to launch a full takeover bid for La Fondiaria in 2002, a total of sixteen claims had been made against Mediobanca and UnipolSai.

Of this total just two are still pending, with total damages claimed jointly from the defendants (known as the *petitum* in Italian law), of approx. €1m (plus interest and expenses); Mediobanca's share of this amount is approx. €300,000 (plus interest and expenses).

The state of proceedings in these two claims is as follows:

– For one, the date of the hearing at the Court of Cassation has still to be set. The appeal was submitted by a former shareholder of Fondiaria S.p.A. against the ruling issued by the Court of Appeal in Milan which partly revised the first-degree ruling, reducing the amount of the damages to be refunded to the former shareholder; and

– For the other, the terms for submission of an appeal against the Court of Appeal in Milan's ruling against Mediobanca and Unipol to the Court of Cassation are still pending; but an agreement has now been reached with the plaintiff for out-of-court settlement.

– Claim for damages by Monte dei Paschi di Siena ("FMPS") against – *inter alia* – Mediobanca, in respect of participation with criminal intent by virtue of an alleged non-contractual liability, jointly with the other twelve lender banks, for alleged damages to FMPS in connection with the 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. The case is currently pending with the court of Florence. At the first hearing, the judge upheld the objection made by the former members of the administrative body and the former superintendent regarding the failure to obtain the necessary authorization from the Italian Ministry for the Economy and Finance to take action against them, and set a deadline of 15 November 2017 for the said authorization to be obtained. The judge's decision regarding the preliminary objection to non-Italian arbitration raised by the defendant banks is also still pending. The next hearing has been set for 30 November 2017.

With reference to the disputes with the Italian revenue authorities, as at 30 June 2017 Mediobanca had only one case outstanding, regarding its alleged failure to apply withholding tax upon the disbursement of a medium-/long-term loan outside Italy, involving a higher notified amount of €375,000. The Bank was successful in the second degree of ruling but the appeal submitted by the Italian tax authority to the Court of Cassation is still pending.

Mediobanca believes that the provisions are adequate to cover any charges due in connection with all the cases that have been brought against the Bank and any other contingent liabilities, of which, as permitted by IAS 37, paragraph 92, no precise indication has been given.

12.2 Provisions: movements during the period

Items	Charges relating to staff	Other provisions	Total
A. Opening balance	765	129,559	130,324
B. Increases	500	—	500
B.1 Provision for the year	500	—	500
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	—	—	—
C. Decreases	1,265	32,751	34,016
C.1 Use during the year	1,265	32,751	34,016
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	—	—
D. Closing balance	—	96,808	96,808

SECTION 14

Headings 130, 150, 160, 170, 180, 190 and 200: net equity

14.1 "Capital" and "treasury shares": composition

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

14.2 Share capital: changes in no. of shares in issue during the period

Item/type	Ordinary
A. Shares in issue at start of period	871,020,094
- entirely unrestricted	871,020,094
- with restrictions	—
A.1 Treasury shares (-)	(15,780,237)
A.2 Shares in issue: balance at start of period	855,239,857
B. Additions	10,214,290
B.1 New share issuance as a result of:	10,192,564
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	10,192,564
- to staff members	10,192,564
- to Board members	—
- others	—
B.2 Treasury share disposals	21,726
B.3 Other additions	—
C. Reductions	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	865,454,147
D.1 Add: treasury shares	(15,758,511)
D.2 Shares in issue at end of period	881,212,658
- entirely unrestricted	881,212,658
- with restrictions	—

14.3 Share capital: other information

A total of 21,726 treasury shares were awarded to staff in the course of the financial year under review, in connection with the performance share scheme; as at 30 June 2017, 21,725 treasury shares are still reserved for such awards.

14.4 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	440,606	—	—	—	—
Share premiun reserve	2,187,580	A – B – C	2,187,580	—	—
Reserves:					
- Legal reserve	87,102	B	87,102	—	—
- Statutory reserve	1,288,162	A – B – C	1,288,162	—	—
- Treasury share reserve	197,709	A – B – C	197,709	—	—
- Other reserves	711,221	A – B – C	711,221	234,998	—
Valuation reserves:					
- AFS securities	312,932	—	—	—	—
- Cash flow hedges	(33,590)	—	—	—	—
- Special laws	9,632	A – B – C	9,632	—	—
- Treasury shares	(3,807)	—	—	—	—
- Own shares	(197,709)	—	—	—	—
Total	4,999,838	—	4,481,406	234,998	—
Portion unavailable	—	—	284,811	—	—
Remainder distributable	—	—	4,196,595	—	—

Legend:
A: due to rights issues
B: to cover losses
C: distribution to shareholders.

Other information

1.Guarantees and commitments

Operations	30/6/17	30/6/16
1) Financial guarantees given to	4,424,675	5,722,884
a) Banks	1,546,552	2,708,246
b) Customers	2,878,123	3,014,638
2) Commercial guarantees given to	66,812	67,748
a) Banks	12,497	13,433
b) Customers	54,315	54,315
3) Irrevocable commitments to disburse funds	9,569,083	20,140,348
a) Banks	1,746,782	10,863,962
i) usage certain	1,746,782	3,978,302
ii) usage uncertain	—	6,885,660
b) Customers	7,822,301	9,276,386
i) usage certain	7,621,534	9,156,367
ii) usage uncertain	200,767	120,019
4) Commitments underlying credit derivatives protection sales [1]	11,686,393	10,365,184
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	2,482,442	2,360,794
Total	28,229,405	38,656,958

[1] Includes transactions fully matched by hedge buys (€4,997,186,000 and €5,694,003,000 respectively).

2. Assets pledged as collateral for own liabilities and commitments

Portfolio	30/6/17	30/6/16
1. Financial instruments held for trading	2.489.838	1.551.244
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	2.750.235	2.582.830
4. Financial instruments held to maturity	1.260.208	476.014
5. Loans and receivables with banks	669.368	317.528
6. Loans and receivables with customers	5.199.924	5.855.451
7. Property, plant and equipment	—	—

4. Assets managed and traded on behalf of customers

Type of service	30/6/17	30/6/16
1. Orders execution on behalf of customers	29,733,276	36,804,577
a) purchases	14,899,875	18,671,049
1. settled	14,754,760	18,550,202
2. unsettled	145,115	120,847
b) sales	14,833,401	18,133,528
1. settled	14,688,286	18,012,681
2. unsettled	145,115	120,847
2. Portfolio management	—	—
a) Individual	—	—
b) Collective	—	—
3. Custody and administration of securities	33,499,344	32,724,545
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	9,678,117	7,794,571
1. securities issued by companies included in area of consolidation	297,405	399,104
2. other securities	9,380,712	7,395,467
b) Third-party securities held in deposits (excluding segregating accounts): other	—	—
1. securities issued by companies included in area of consolidation	—	—
2. other securities	—	—
c) securities of third deposited to third	8,757,803	7,169,844
d) property securities deposited to third	15,063,424	17,760,130
4. Other operations	—	—

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

Instrument type	Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b	Net Balance Sheet value of financial assets (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount 30/6/17	Net amount 30/6/16
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	3,162,841	—	3,162,841	2,349,629	328,657	484,555	330,469
2. Repos	5,993,199	—	5,993,199	5,993,199	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/17	9,156,040	—	9,156,040	8,342,828	328,657	484,555	X
Total 30/6/16	11,107,280	—	11,107,280	10,403,475	373,336	X	330,469

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

Instrument type	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet value of financial liabilities (c=a-b)	Related amount not recognised in Balance Sheet		Net amount 30/6/17	Net amount 30/6/16
				Financial instruments (d)	Cash collateral pledged (e)		
1. Derivatives	3,240,300	38,687	3,201,613	2,343,511	451,188	406,914	136,973
2. Repos	3,786,833	—	3,786,833	3,786,833	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/17	7,027,133	38,687	6,988,446	6,130,344	451,188	406,914	X
Total 30/6/16	9,232,544	116,191	9,116,353	8,443,456	535,924	X	136,973

Part C - Notes to individual profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: composition

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Financial assets held for trading	24,066	98	—	24,164	40,669
2. Available for sale financial assets	72,918	—	—	72,918	95,077
3. Held to maturity investments	42,812	—	—	42,812	51,492
4. Loans and receivables with banks	1,717	273,419	—	275,136	248,386
5 Loans and receivables with customers	36,293	202,383	—	238,676	302,142
6. Financial assets designated at fair value through profit or loss	—	—	—	—	—
7. Hedging derivaives	X	X	149,457	149,457	164,584
8. Other assets	X	X	9,955	9,955	137
Total	177,806	475,900	159,412	813,118	902,487

1.2 Interest and similar income: differences arising on hedging transactions

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Positive differentials related to hedging operations	336,138	360,065
B. Negative differentials related to hedging operations	(186,681)	(195,481)
C. Net differentials (A-B)	149,457	164,584

1.3 Interest and similar income: other information

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
Interest income from currency assets	61,834	66,863
Interest income from leasing	—	—
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	61,834	66,863

1.4 Interest expense and similar charges: composition

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Deposits from central banks	(1,768)	X	—	(1,768)	(3,365)
2. Deposits from banks	(216,750)	X	—	(216,750)	(208,710)
3. Deposits from customers	(259)	X	—	(259)	(1,091)
4. Debt securities in issue	X	(516,745)	—	(516,745)	(557,105)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(6,480)	(6,480)	—
8. Hedging derivatives	X	X	—	—	—
Total	(218,777)	(516,745)	(6,480)	(742,002)	(770,271)

1.6 Interest expense and similar charges: other information

Items	12 mths ended 30/6/17	12 mths ended 30/6/16
Interest expense on liabilities held in foreign currency	(59,145)	(44,374)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(59,145)	(44,374)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition

Type of services/Values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) guarantees given	6,284	7,131
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	107,258	87,751
1. securities trading	13,018	13,476
2. currency trading	—	—
3. portfolio management	—	—
3.1 individual	—	—
3.2 collective	—	—
4. custody and administration of securities	—	—
5. custodian bank	7,458	7,458
6. placement of securities	86,500	66,529
7. reception and transmission of orders	282	288
8. advisory services	—	—
8.1 related to investments	—	—
8.2 related to financial structure	—	—
9. distribution of third parties services	—	—
9.1 portfolio management	—	—
9.1.1 individual	—	—
9.1.2 collective	—	—
9.2 insurance products	—	—
9.3 other products	—	—
d) collection and payment services	—	—
e) securitization servicing	—	—
f) factoring services	—	—
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	—	—
j) other services	105,596	116,753
Total	219,138	211,635

2.2 Fee and commission income: by product/service distribution channel

Canals/Values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) through Group bank branches	86,500	66,529
1. portfolio management	—	—
2. placement of securities	86,500	66,529
3. others' products and services	—	—
b) off-site	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others' products and services	—	—
c) other distribution channels	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others products and services	—	—

2.3 Fee and commission expense: composition

Services/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
a) guarantees received	—	—
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(7,309)	(7,605)
1. trading in financial instruments	(3,785)	(5,191)
2. currency trading	—	—
3. portfolio management	—	—
3.1 own portfolio	—	—
3.2 third parties portfolio	—	—
4. custody and administration securities	(1,312)	(1,792)
5. financial instruments placement	(2,212)	(622)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(3,316)	(2,675)
e) other services	(6,283)	(4,255)
Total	(16,908)	(14,535)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: composition

Items/Income	12 mths ended 30/6/17		12 mths ended 30/6/16	
	Dividends	Incomes from units in investment funds	Dividends	ncomes from units in investment funds
a) Financial assets held for trading	63,602	777	50,231	920
b) Available for sale financial assets	14,058	2,639	20,859	8,300
c) Financial assets at fair value through profit or loss	—	—	—	—
d) Investments	162,172	X	145,954	X
Total	239,832	3,416	217,044	9,220

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: composition

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized loss (C)	Realized loss (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	139,744	387,274	(76,620)	(83,739)	366,659
1.1 Debt securities	49,319	55,821	(41,672)	(25,183)	38,285
1.2 Equity	85,960	327,375	(34,804)	(57,711)	320,820
1.3 Units in investment funds	4,281	4,078	(144)	(845)	7,370
1.4 Loans	184	—	—	—	184
1.5 Other	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	12,242
4. Derivatives	2,670,929	794,581	(2,716,100)	(1,073,511)	(337,514)
4.1 Financial derivatives	2,447,374	516,032	(2,466,828)	(806,918)	(323,753)
- on debt securities and interest rates [1]	1,819,143	345,163	(1,786,118)	(401,265)	(23,077)
- on equity securities and shares' indexes	628,231	118,532	(680,686)	(405,653)	(339,576)
- on currencies and gold	X	X	X	X	(13,413)
- other [2]	—	52,337	(24)	—	52,313
4.2 Credit derivatives	223,555	278,549	(249,272)	(266,593)	(13,761)
Total	2,810,673	1,181,855	(2,792,720)	(1,157,250)	41,387

[1] Of which minus €2,579,000 in positive margins on interest rate derivatives (30/6/16: €7,398,000).

[2] Equity swap contracts have been classified as equity derivatives.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Incomes from:		
A.1 Fair value hedging instruments	333,406	414,427
A.2 Hedged asset items (in fair value hedge relationships)	22,995	55,273
A.3 Hedged liability items (in fair value hedge relationship)	250,394	93,445
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	606,795	563,145
B. Losses on:		
B.1 Fair value hedging instruments	(484,123)	(278,411)
B.2 Hedged asset items (in fair value hedge relationships)	(62,531)	(4,893)
B.3 Hedged liability items (in fair value hedge relationship)	(49,486)	(272,218)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(596,140)	(555,522)
C. Net profit from hedging activities (A-B)	10,655	7,623

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Items/Income	12 mths ended 30/6/17			12 mths ended 30/6/16		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	—	(5,570)	(5,570)	—	—	—
2. Loans and receivables with customers	933	(680)	253	6,259	(1,402)	4,857
3. Financial assets available for sale	187,826	(13,749)	174,077	119,379	(9,517)	109,862
3.1 Debt securities	26,215	(13,749)	12,466	19,596	(9,517)	10,079
3.2 Equity instruments	161,611	—	161,611	99,225	—	99,225
3.3 Units in investment funds	—	—	—	558	—	558
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	3,413	(1,432)	1,981	620	(2)	618
Total assets	192,172	(21,431)	170,741	126,258	(10,921)	115,337
Financial liabilities						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(18.367)	(18.367)	—	(3.892)	(3.892)
Total liabilities	—	(18.367)	(18.367)	—	(3.892)	(3.892)

SECTION 8

Heading 130: Adjustments for impairment

8.1 Net value adjustments for impairment: composition

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Others		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(522)	—	—	—	—	(522)	187
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased receivables									
- Loans	—	—	X	—	—	X	X	—	—
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	—	(2,673)	(215)	—	6,366	—	—	3,478	(20,620)
- Debt securities	—	—	(1,183)	—	—	—	—	(1,183)	(16)
C. Total	—	(2,673)	(1,920)	—	6,366	—	—	1,773	(20,449)

Legend

A = interest

B = other amounts recovered.

8.2 Net value adjustments for impairment to AFS securities: composition

Transactions/Income	Adjustments		Reversals of impairment losses		12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Specific			
	Write - offs	Others	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(816)	X	X	(816)	(14,335)
C. Units in investment funds	—	(53)	X	—	(53)	(3,581)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(869)	—	—	(869)	(17,916)

Legend

A = interest

B = other amounts recovered.

8.3 Net value adjustments for impairment to financial assets held to maturity: composition

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Debt securities	—	—	(3,185)	—	—	—	—	(3,185)	(1,361)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	(3,185)	—	—	—	—	(3,185)	(1,361)

Legend

A = interest

B = other amounts recovered

8.4 Net value adjustments for impairment to other financial transactions: composition

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/17	12 mths ended 30/6/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Guarantees given	—	—	—	—	1,467	—	3,291	4,758	(10,372)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(1,577)	—	—	—	—	8,072	6,495	1,304
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(1,577)	—	—	1,467	—	11,363	11,253	(9,068)

Legend

A = interest

B = other amounts recovered

SECTION 9

Heading 150: Administrative expenses

9.1 Personnel costs: composition

Type of expense/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
1) Employees	(185,137)	(178,904)
a) wages and salaries	(131,757)	(127,802)
b) social security contributions	(28,179)	(27,683)
c) severance pay (only for Italian legal entities)	—	—
d) social security costs	—	—
e) allocation to employees severance pay provision	(4,172)	(3,747)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(6,427)	(6,284)
- defined contribution	(6,427)	(6,284)
- defined benefits	—	—
h) expenses resulting from share-based payments	(11,545)	(10,635)
i) other employees' benefits	(3,057)	(2,753)
2) Other staff	(4,994)	(4,811)
3) Directors and Statutory Auditors	(3,403)	(3,396)
4) Early retirement costs	(6,500)	(6,735)
5) Recovery of expenses for employees seconded to other companies	1,136	1,306
6) Reimbursement of cost of third-party employees seconded to the Bank	—	—
Total	(198,898)	(192,540)

9.2 Average number of staff by category

	12 mths ended 30/6/17	12 mths ended 30/6/16
Employees		
a) Senior managers	179	173
b) Managers	462	439
c) Remaining employees staff	130	121
Other staff	83	89
Total	854	822

9.5 Other administrative expenses: composition

Type of services/Amounts	12 mths ended 30/6/17	12 mths ended 30/6/16
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(27,615)	(31,944)
– loan recovery activity	—	—
– marketing and communications	(2,944)	(2,297)
– property	(8,165)	(8,940)
– EDP	(43,537)	(36,233)
– info-provider	(17,991)	(17,990)
– bank charges, collection and payment fees	(1,411)	(1,336)
– operating expenses	(5,950)	(5,017)
– other staff expenses	(8,994)	(9,453)
– other costs [1]	(75,896)	(93,787)
– indirect and other taxes	(5,410)	(6,240)
Total other administrative expenses	(197,913)	(213,237)

[1] Includes €62,822,000 (30/6/16: €81,784,000) transfer to Single Resolution Fund (SRF).

SECTION 10

Heading 160: Net transfers to provisions

10.1Net transfers to provisions: composition

	12 mths ended 30/6/17	12 mths ended 30/6/16
Net transfers to provisions for risks and charges - legal expenses	—	—
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments	15,000	—
Total transfers to provisions for risks and charges	15,000	—

SECTION 11

Heading 170: Net adjustments to tangible assets

11.1Net adjustments to tangible assets: composition

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, plant and equipment				
A.1 Owned	(3,455)	—	—	(3,455)
- For operational use	(3,043)	—	—	(3,043)
- For investment	(412)	—	—	(412)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(3,455)	—	—	(3,455)

SECTION 12

Heading 180: Net adjustments to intangible assets

12.1 Net adjustments to intangible assets: composition

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Intangible assets				
A.1 Owned	(8,656)	—	—	(8,656)
- Software	—	—	—	—
- Other	(8,656)	—	—	(8,656)
A.2 Acquired under finance lease	—	—	—	—
Total	(8,656)	—	—	(8,656)

SECTION 13

Heading 190: Other operating income (expense)

13.1 Other operating expense: composition

Income-based components/values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) Leasing activity	—	—
b) Sundry costs and expenses	(3,013)	(4,188)
Total	(3,013)	(4,188)

13.2 Other operating income: composition

Income-based components/values	12 mths ended 30/6/17	12 mths ended 30/6/16
a) Amounts recovered from customers	793	198
b) Other income	15,412	24,704
Total	16,205	24,902

SECTION 14

Heading 210: Gains (losses) on equity investments

14.1 Gains (losses) on equity investments: composition

Income/Value	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Incomes	1,958	41,558
1. Revaluations	—	—
2. Gains on disposal	1,958	41,558
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(2,884)	(2,475)
1. Writedowns	—	—
2. Impairment losses	(2,884)	(2,475)
3. Losses on disposal	—	—
4. Other expenses	—	—
Total	(926)	39,083

SECTION 17

Heading 240: Net gain (loss) upon disposal of investments

17.1 Net gain (loss) upon disposal of investments: composition

Income/Value	12 mths ended 30/6/17	12 mths ended 30/6/16
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	—	(18)
- Gains on disposal	—	—
- Losses on disposal	—	(18)
Net result	—	(18)

SECTION 18

Heading 260: Income tax on ordinary activities

18.1 Income tax on ordinary activities: composition

Income components/Sectors	12 mths ended 30/6/17	12 mths ended 30/6/16
1. Current tax expense (-)	(12,699)	(19,754)
2. Changes of current tax expense of previous years (+/-)	—	—
3. Reduction in current tax expense for the period (+)	—	—
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	—	—
4. Changes of deferred tax assets (+-)	(17,090)	(6,628)
5. Changes of deferred tax liabilities (-)	(211)	882
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(30,000)	(25,500)

18.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/17	
	Amounts %	**Absolute value**
Total profit or loss before tax from current operations	100.00%	348,326
Theoretical tax rate	27.50%	95,790
Dividends (-)	-13.32%	(46,395)
Gains on disposals of equity investments (PEX) (-)	-12.20%	(42,487)
Gains on equity-accounted investments (-)	—	—
Changes in deferred tax for previous years (-)	—	—
Other taxes (non-Italian companies) (-)	—	—
Non-taxable income 10% IRAP (-)	-0.15%	(512)
Interest on exempt securities (-)	—	(10)
Tax losses (-)	—	—
Tax sparing credit	-0.22%	(764)
Non-deductible interest expense 3% (+)	2.34%	8,161
Benefit from tax consolidation (-)	-0.62%	(2,156)
Impairment (+/–)	0.29%	1,018
Extraordinary items (rate adjustments, …)	—	—
Other differences	0.82%	2,855
TOTAL IRES	4.45%	15,500
IRAP	4.16%	14,500
TOTAL HEADING [1]	8.61%	30,000

[1] Compared with a tax rate of 8.13% in the previous financial year.

SECTION 21

Earnings per share

21.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/17	12 mths ended 30/6/16
Net profit	318,326	288,037
Avg. no. of shares in issue	854,445,929	849,895,132
Avg. no. of potentially diluted shares	9,508,213	17,545,396
Avg. no. of diluted shares	863,954,142	867,440,528
Earnings per share	0.37	0.34
Earnings per share, diluted	0.37	0.33

Part D - Comprehensive Profit and Loss Account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect
10.	**Profit (loss) for the period**	**X**	**X**	**318,326**
	Other comprehensive income without passing through profit and loss			
20.	Property, plant and equipment	—	—	—
30.	Intangible assets	—	—	—
40.	Defined benefits schemes	1,025	(281)	744
50.	Non-current assets classified as held-for-sale	—	—	—
60.	Valuation reserves from equity-accounted investments:	—	—	—
	Other comprehensive income passing through profit and loss			
70.	Hedges of non-Italian investments:	—	—	—
	a) changes in fair value:	—	—	—
	b) reclassifications through profit and loss account	—	—	—
	c) other variations	—	—	—
80.	Exchange differences:	—	—	—
	a) changes in fair value:	—	—	—
	b) reclassifications through profit and loss account	—	—	—
	c) other variations	—	—	—
90.	Cash flow hedges:	(42,194)	2,441	(39,753)
	a) changes in fair value:	(42,194)	2,441	(39,753)
	b) reclassifications through profit and loss account	—	—	—
	c) other variations	—	—	—
100.	AFS securities:	(57,980)	2,618	(55,362)
	a) changes in fair value:	114,467	(17,985)	96,482
	b) reclassifications through profit and loss account	(172,447)	20,603	(151,844)
	- due to impairment	—	—	—
	- gain/losses on disposals	*(172,447)*	*20,603*	*(151,844)*
	c) other variations	—	—	—
110.	Non-current assets classified as held-for-sale:	—	—	—
	a) changes in fair value:	—	—	—
	b) reclassifications through profit and loss account	—	—	—
	c) other variations	—	—	—
120.	Valuation reserves from equity-accounted investments:	—	—	—
	a) changes in fair value:	—	—	—
	b) reclassifications through profit and loss account	—	—	—
	- due to impairment	—	—	—
	- gain/losses on disposals	—	—	—
	c) other variations	—	—	—
130.	**Total other comprehensive income**	**(99,149)**	**4,778**	**(94,371)**
140.	**Comprehensive income after tax (10 + 130)**	**X**	**X**	**223,955**

Part E - Information on risks and related hedging policies

SECTION 1

Credit risk

QUALITATIVE INFORMATION

Description of risk governance organization

The Bank has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guaranteeing that all forms of operations are consistent with their own propensity to risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme 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, supervising also the RAF and ICAAP processes.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee with executive powers for matters of credit, issuer and conduct risk; Group ALM committee and Operational 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; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions.

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Bank's own operating choices identified in the RAF, monitoring risks and ascertaining that the various limits established for the various business lines are complied with. The risk management process, which is supervised by the Chief Risk Officer, reporting directly to the Chief Executive Officer, is implemented by the following units: i) Enterprise Risk Management, which helps to develop risk management policies at Group level, and is responsible for integrated Group risks and RAF and Recovery Plan indicators monitoring, ICAAP reporting and internal risk measurement system validation; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator (LGD); iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Quantitative Risk Methodologies, responsible for developing quantitative analysis and credit and market risk management methodologies; v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; and vi) Group Risk Management, responsible for co-ordinating relations with the supervisors and for providing operating guidance on Group and parent company activities and projects.

Establishment of risk propensity and process for managing relevant risks

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.

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.

Credit risk

With reference to the authorization process to use internal models in order to calculate the regulatory capital requirements for credit risk, the Bank has passed the pre-validation and validation phases performed by the regulatory authorities on the Corporates rating system (Probability of Default and Loss Given Default); the European Central Bank's final decision is expected by end-2017.

An integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013), the Bank has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme").

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Bank has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks.

In accordance with Bank of Italy circular 272/08, seventh update, Mediobanca has adopted the new definitions of non-performing credit exposures, now subdivided into three separate categories: non-performing, probable default and past due, plus the category of exposures subject to various kinds of tolerance measures, known as "forborne" exposures, applied to any asset (i.e. performing or non-performing).

In particular, forborne exposures are defined as debt contracts in which concessions have been adopted In particular, forborne exposures are defined as debt contracts in which concessions have been adopted versus 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").

For an asset to be classified as forborne, the Bank assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of 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.

Corporate lending

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, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval by the relevant collegiate bodies, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

The Credit Risk Management unit 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 at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

Any deterioration in the risk profile of either the loan or the borrower's rating are brought swiftly to the attention of the management and the aforementioned committees.

In monitoring the performance of individual credit exposures in operating terms, Mediobanca adopts an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (green, amber or red for performing accounts, black for non-performing items) and are reviewed in regular meetings to identify the most appropriate mitigation actions to be taken. The watchlist also includes all forborne positions, which are therefore 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 calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Impaired and performing accounts: amounts, value adjustments, trends, segmentation by performance and geography

A.1.1 Credit exposures by portfolio and credit quality (book value)

	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Overdue exposures (performing)	Other exposures (performing) *	Total
1. AFS securities	—	—	—	—	5,004,928	5,004,928
2. Financial assets held to maturity	—	—	—	—	2,394,875	2,394,875
3. Due from banks	—	—	—	—	20,408,728	20,408,728
4. Due from customers	—	371,736	—	—	16,619,608	16,991,344
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/17	—	371,736	—	—	44,428,139	44,799,875
Total 30/6/16	—	377,774	—	—	42,983,791	43,361,565

* No performing exposures which are past due or subject to renegotiation under collective agreements.

A.1.2 Credit exposures by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans			Performing loans			Total net exposure
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. AFS securities	—	—	—	5,004,928	—	5,004,928	5,004,928
2. Financial assets held to maturity	—	—	—	2,402,092	(7,217)	2,394,875	2,394,875
3. Due from banks	—	—	—	20,410,998	(2,270)	20,408,728	20,408,728
4. Due from customers	694,926	(323,190)	371,736	16,658,999	(39,391)	16,619,608	16,991,344
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/17	694,926	(323,190)	371,736	44,477,017	(48,878)	44,428,139	44,799,875
Total 30/6/16	703,938	(326,164)	377,774	43,034,879	(51,088)	42,983,791	43,361,565

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	9,268	5,650,023
2. Hedge derivatives	—	—	462,596
Total 30/6/17	—	9,268	6,112,619
Total 30/6/16	—	9,562	8,034,307

Information on sovereign debt exposures

*A.1.2.a 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	(356,920)	(356,920)
Italy	—	—	—	—	X	X	(56,642)	(56,642)
Germany	—	—	—	—	X	X	(40,561)	(40,561)
France	—	—	—	—	X	X	(232,142)	(232,142)
Others	—	—	—	—	X	X	(27,575)	(27,575)
2. AFS securities	—	—	—	—	3,636,839	—	3,636,839	3,636,839
Italy	—	—	—	—	2,039,935	—	2,039,935	2,039,935
Germany	—	—	—	—	930,151	—	930,151	930,151
France	—	—	—	—	301,856	—	301,856	301,856
United States	—	—	—	—	214,203	—	214,203	214,203
Spain	—	—	—	—	150,694	—	150,694	150,694
3. Financial assets held to maturity	—	—	—	—	1,747,050	—	1,747,050	1,747,050
Italy	—	—	—	—	1,139,075	—	1,139,075	1,139,075
France	—	—	—	—	354,080	—	354,080	354,080
Spain	—	—	—	—	203,356	—	203,356	203,356
Germany	—	—	—	—	50,539	—	50,539	50,539
Others	—	—	—	—	—	—	—	—
Total at 30/6/17	—	—	—	—	5,383,889	—	5,026,969	5,026,969

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €26.5m.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	(51,065)	(56,642)	4.39	3,069,850	3,179,010	3,191,873	2.43
Germany	(39,848)	(40,561)	3.83	925,000	980,690	980,867	5.02
France	(200,000)	(232,142)	3.82	650,000	655,936	657,121	3.87
Spain	—	—	—	350,000	354,050	356,121	4.34
United States	—	—	—	219,068	214,203	214,203	5.75
Others	(412,343)	(27,575)	—	—	—	—	—
Total at 30/6/17	(703,256)	(356,920)		5,213,918	5,383,889	5,400,185	

[1] Does not include sales of €40.5m on *Bund/Bobl/Schatz* futures (Germany), with a fair value of minus €0.8m, purchases of US Treasury futures of €4m (with a fair value of €0.01m) and sales on the *BTP* future (Italy) of €56.5m (with a fair value of minus €0.7m). Net hedge buys of €210m (€200m of which on France country risk, €7m on Italy country risk and €3m on Hungary country risk) have also not been included.

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.3m.

A.1.3 Cash and off-balance-sheet exposures to banks: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad debts	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
b) Probable default	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	21,558,004	X	(3,793)	21,554,211
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
TOTAL A	—	—	—	—	21,558,004	—	(3,793)	21,554,211
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	41,734,292	X	(137)	41,734,155
TOTAL B	—	—	—	—	41,734,292	—	(137)	41,734,155
TOTAL (A+B)	—	—	—	—	63,292,296	—	(3,930)	63,288,366

[1] Balance as at 30/6/17 includes trades worth €4,997,186,000, fully matched by hedge buys.

A.1.6 Cash and off-balance-sheet exposures to customers: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad debts	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
b) Probable default	545,442	—	—	149,484	X	(323,190)	X	371,736
- of which: forborne exposures	*544,935*	—	—	*149,484*	*X*	*(323,124)*	*X*	*371,295*
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- of which: forborne exposures	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	25,309,131	X	(45,085)	25,264,046
- of which: forborne exposures	*X*	*X*	*X*	*X*	*294,565*	*X*	*(12,023)*	*282,542*
TOTAL A	545,442	—	—	149,484	25,309,131	(323,190)	(45,085)	25,635,782
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	70,930	—	—	—	X	(53,604)	X	17,326
b) Performing	X	X	X	X	24,595,239	X	(14,052)	24,581,187
TOTAL B	70,930	—	—	—	24,595,239	(53,604)	(14,052)	24,598,513
TOTAL (A+B)	616,372	—	—	149,484	49,904,370	(376,794)	(59,137)	50,234,295

A.1.7 Cash exposures to customers: trends in gross impaired positions

Descriptions/categories	Bad loans	Probable default	Overdue exposures (NPLs)
A. Gross exposure at start of period	—	703,938	—
- of which: exposures sold but not derecognized	—	—	—
B. Additions	—	20,399	—
B.1 transferred from performing exposures	—	11,042	—
B.2 transferred from other categories of non-performing exposure	—	—	—
B.3 other additions	—	9,357	—
C. Reductions	—	29,411	—
C.1 transferred to performing exposures	—	—	—
C.2 writeoffs	—	—	—
C.3 collections	—	29,405	—
C.4 amounts realized on disposals	—	—	—
C.5 losses incurred on disposals	—	—	—
C.6 transferred to other categories of non-performing exposure	—	—	—
C.7 other reductions	—	6	—
D. Gross exposure at end of period	—	694,926	—
- of which: exposures sold but not derecognized	—	—	—

A.1.7bis Banking Group - On-balance sheet credit exposures with customers: gross changes by credit quality in forborne exposures

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at start of period	703,285	64,098
- of which: exposures sold but not derecognized	—	—
B. Additions	20,545	286,745
B.1 transferred from performing exposures for which no concessions have been made	—	255,071
B.2 transferred from performing exposures for which concessions have been made	11,042	X
B.3 transferred from non-performing exposures for which concessions have been made	X	—
B.4 other additions	9,503	31,674
C. Reductions	29,411	56,278
C.1 transferred to performing exposures for which no concessions have been made	X	—
C.2 transferred to performing exposures for which concessions have been made	—	X
C.3 transferred to non-performing exposures for which concessions have been made	X	11,042
C.4 writeoffs	—	—
C.5 collections	29,405	45,236
C.6 amounts realized on disposals	—	—
C.7 losses incurred on disposals	—	—
C.8 other reductions	6	—
D. Gross exposure at end of period	694,419	294,565
- of which: exposures sold but not derecognized	—	—

A.1.8 Cash exposures to non-performing customers: trends in collective value adjustments

Descriptions/categories	Bad loans		Probable default		Overdue exposures (NPLs)	
	Total	Of which: forborne	Total	Of which: forborne	Total	Of which: forborne
A. Overall adjustments at start of period	—	—	326,164	325,516	—	—
- of which: exposures sold but not derecognized	—	—	—	—	—	—
B. Additions	—	—	3,142	3,724	—	—
B.1 value adjustments	—	—	1,921	1,858	—	—
B.2 losses incurred on disposals	—	—	—	—	—	—
B.3 transferred from other categories of non-performing exposure	—	—	—	—	—	—
B.4 other additions	—	—	1,221	1,866	—	—
C. Reductions	—	—	6,116	6,116	—	—
C.1 amounts reversed following changes in valuation	—	—	—	—	—	—
C.2 amounts reversed following collections	—	—	6,116	6,116	—	—
C.3 gains realized on disposals	—	—	—	—	—	—
C.4 writeoffs	—	—	—	—	—	—
C.5 transferred to other categories of non-performing exposure	—	—	—	—	—	—
C.6 other reductions	—	—	—	—	—	—
D. Overall adjustments at end of period	—	—	323,190	323,124	—	—
- of which: exposures sold but not derecognized	—	—	—	—	—	—

As at 30 June 2017 non-performing loans net of forborne exposures amounted to €371.3m, with a coverage ratio of 47%, while performing loans qualifying as forborne amounted to €282.5m, with a coverage ratio of 4%. Overall the non-performing forborne positions represent 2.19% of the total customer loan book, and the performing forborne exposures 1.66%.

A.2 Exposures by internal and external ratings

A.2.1 Cash and off-balance-sheet exposures by external rating category

Exposures	External rating classes						Without rating	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. On-balance-sheet credit exposures	2,596,211	2,583,014	29,022,257	1,783,537	90,096	10,041	11,104,837	47,189,993
B. Derivative contracts	235,177	21,335,372	16,235,736	1,015,935	935,028	—	12,126,755	51,884,003
B.1 Financial derivative contracts	235,177	15,829,586	11,391,634	1,015,935	935,028	—	11,090,250	40,497,610
B.2 Credit derivatives [1]	—	5,505,786	4,844,102	—	—	—	1,036,505	11,386,393
C. Guarantees given	—	—	2,011,110	589,483	75,594	—	1,815,300	4,491,487
D. Other commitments to disburse funds	3,061	174,848	6,552,467	867,472	122,398	—	2,236,932	9,957,178
E. Others	—	—	—	—	—	—	—	—
Total	2,834,449	24,093,234	53,821,570	4,256,427	1,223,116	10,041	27,283,824	113,522,661

[1] Balance as at 30/6/17 includes trades worth €4,997,186,000, fully matched by hedge buys.

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

A.2.2 Cash and off-balance-sheet exposures by internal rating category

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. On-balance-sheet exposures	2,802,543	2,462,545	31,528,847	5,643,608	2,689,591	238	371,736	1,690,885	47,189,993
B. Derivative contracts	1,451,526	17,495,267	21,742,411	2,804,109	3,776,679	—	—	4,614,011	51,884,003
B.1 Financial derivative contracts	1,096,686	14,109,669	15,053,761	2,804,109	3,776,679	—	—	3,656,706	40,497,610
B.2 Credit derivatives	354,840	3,385,598	6,688,650	—	—	—	—	957,305	11,386,393
C. Guarantees given	—	—	2,336,970	1,976,862	137,218	—	743	39,694	4,491,487
D. Other commitments to disburse funds	154,040	349,044	7,023,762	1,933,404	176,731	—	16,631	303,566	9,957,178
E. Others	—	—	—	—	—	—	—	—	—
Total	4,408,109	20,306,856	62,631,990	12,357,983	6,780,219	238	389,110	6,648,156	113,522,661

Mediobanca uses the models developed internally in the process of managing credit risk to assign counterparties ratings.

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 Secured exposures by type of security

A.3.1 Secured cash exposures to banks

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
		Property, Mortgages	Financial leasing property	securities	Other guarantees	CLN	Credit derivatives				Signature loans				
							Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities	
1. Secured balance sheet credit exposures	2,128,587	116,459	—	2,009,507	—	—	—	—	—	—	1,920	—	—	—	2,127,886
1.1 totally secured	2,118,470	116,459	—	2,000,091	—	—	—	—	—	—	1,920	—	—	—	2,118,470
- *of which impaired*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	10,117	—	—	9,416	—	—	—	—	—	—	—	—	—	—	9,416
- *of which impaired*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which impaired*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which impaired*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Secured cash exposures to customers

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
		Property, Mortgages	Financial leasing property	securities	Other guarantees	CLN	Credit derivatives				Signature loans				
							Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities	
1. Secured balance sheet credit exposures	7,230,013	522,045	—	5,053,782	30,683	—	—	—	—	—	75,441	—	4,165	687,496	6,373,612
1.1 totally secured	4,194,370	512,645	—	2,902,974	16,485	—	—	—	—	—	75,441	—	4,165	682,660	4,194,370
- of which impaired	*84,270*	*68,537*	—	*738*	—	—	—	—	—	—	—	—	—	*14,995*	*84,270*
1.2 partially secured	3,035,643	9,400	—	2,150,808	14,198	—	—	—	—	—	—	—	—	4,836	2,179,242
- of which impaired	*263,623*	—	—	*8,022*	*9,685*	—	—	—	—	—	—	—	—	—	*17,707*
2. Secured off-balance sheet credit exposures	679,490	27,561	—	14,626	—	—	—	—	—	—	4,576	—	—	573,312	620,075
2.1 totally secured	616,255	27,561	—	10,806	—	—	—	—	—	—	4,576	—	—	573,312	616,255
- of which impaired	*2,185*	—	—	—	—	—	—	—	—	—	—	—	—	*2,185*	*2,185*
2.2 partially secured	63,235	—	—	3,820	—	—	—	—	—	—	—	—	—	—	3,820
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Exposures distribution and concentration

B.1 Cash and off-balance-sheet exposures to customers by sector (book value)

Exposures/counterparties	Governments			Other public entities			Financial companies			Insurances			Non-financial companies			Other parties		
	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments
A. Cash exposures																		
A.1 NPLs	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*
A.2 Probable default	—	—	X	—	—	X	15,298	(2,204)	X	—	—	X	356,438	(320,986)	X	—	—	X
- of which forborne exposures	—	—	*X*	—	—	*X*	*15,298*	*(2,204)*	*X*	—	—	*X*	*355,997*	*(320,920)*	*X*	—	—	*X*
A.3 Bad debts past due	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*
A.4 Performing exposures	6,949,032	X	—	229,363	X	—	9,693,980	X	(14,284)	1,252,889	X	(1,823)	7,135,577	X	(28,978)	3,205	X	—
- of which forborne exposures	—	*X*	—	—	*X*	—	*225,579*	*X*	*(10,422)*	—	*X*	—	*56,964*	*X*	*(1,600)*	—	*X*	—
Total A	6,949,032	—	—	229,363	—	—	9,709,278	(2,204)	(14,284)	1,252,889	—	(1,823)	7,492,015	(320,986)	(28,978)	3,205	—	—
B. Off-balance-sheet exposures																		
B.1 NPLs	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.2 Probable default	—	—	X	—	—	X	2,185	(13,874)	X	—	—	X	15,141	(39,730)	X	—	—	X
B.3 Other bad debts	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.4 Performing exposures	738,263	X	—	61,441	X	—	10,827,625	X	(2,738)	758,749	X	(278)	12,131,087	X	(11,036)	64,022	X	—
Total B	738,263	—	—	61,441	—	—	10,829,810	(13,874)	(2,738)	758,749	—	(278)	12,146,228	(39,730)	(11,036)	64,022	—	—
Total (A+B) 30/6/17	7,687,295	—	—	290,804	—	—	20,539,088	(16,078)	(17,022)	2,011,638	—	(2,101)	19,638,243	(360,716)	(40,014)	67,227	—	—
Total (A+B) 30/6/16	10,811,043	—	—	757,143	—	(7)	18,570,775	(2,518)	(17,958)	1,858,307	—	(2,226)	19,503,225	(377,094)	(54,492)	31,418	—	—

B.2 Cash and off-balance-sheet exposures to customers by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 NPLs	—	—	—	—	—	—	—	—	—	—
A.2 Probable default	370,085	(322,917)	1,651	(273)	—	—	—	—	—	—
A.3 Bad debts past due	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	18,677,538	(30,961)	6,183,773	(14,124)	397,811	—	—	—	4,924	—
Total A	19,047,623	(353,878)	6,185,424	(14,397)	397,811	—	—	—	4,924	—
B. Off-balance-sheet exposures										
B.1 NPLs	—	—	—	—	—	—	—	—	—	—
B.2 Probable default	6,674	(2,209)	10,652	(51,395)	—	—	—	—	—	—
B.3 Other bad debts	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	10,409,768	(3,052)	13,714,527	(8,935)	456,892	(2,065)	—	—	—	—
Total B	10,416,442	(5,261)	13,725,179	(60,330)	456,892	(2,065)	—	—	—	—
Total A+B 30/6/17	29,464,065	(359,139)	19,910,603	(74,727)	854,703	(2,065)	—	—	4,924	—
Total A+B 30/6/16	33,240,567	(360,407)	17,039,533	(86,666)	1,236,243	(7,222)	—	—	15,568	—

B.3 Cash and off-balance-sheet exposures to banks by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 NPLs	—	—	—	—	—	—	—	—	—	—
A.2 Probable default	—	—	—	—	—	—	—	—	—	—
A.3 Bad debts past due	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	14,592,219	(2,746)	6,897,426	(1,040)	64,417	(7)	148	—	1	—
Total A	14,592,219	(2,746)	6,897,426	(1,040)	64,417	(7)	148	—	1	—
B. Off-balance-sheet exposures										
B.1 NPLs	—	—	—	—	—	—	—	—	—	—
B.2 Probable default	—	—	—	—	—	—	—	—	—	—
B.3 Other bad debts	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	11,720,960	(137)	30,012,982	—	213	—	—	—	—	—
Total B	11,720,960	(137)	30,012,982	—	213	—	—	—	—	—
Total A+B 30/6/17	26,313,179	(2,883)	36,910,408	(1,040)	64,630	(7)	148	—	1	—
Total A+B 30/6/16	15,092,402	(1,667)	36,940,430	(468)	773,643	(10)	14,028	(23)	1	—

B.4 Large risks

	30/6/17	30/6/16
a) Book value	10,975,849	9,614,822
b) Weighted value	7,733,160	6,353,267
c) No. of exposures	9	11

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of nine groups of clients were in excess of 10% of the regulatory capital, two fewer than at end-June 2016, for a gross exposure of €11bn (€7.7bn taking into account guarantees and weightings), higher than twelve months previously when the figures were €9.6bn and €6.4bn respectively, due to an increase in short-term treasury operations (secured financing) with other regulated intermediaries. In detail the nine exposures are to three industrial groups, one insurer and five banking groups.

C. Securitizations

QUALITATIVE INFORMATION

The bulk of the portfolio consists of the Group's senior securitizations, with €2,627m in Quarzo bonds, with performing Compass receivables as the underlying instrument, and €98m in Quarzo CQS notes (which have Futuro salary-backed finance receivables as the underlying instrument).

The Bank also holds a portfolio of securities deriving from securitizations by other issuers totalled €314.3m (almost entirely part of the banking book), higher than the €204.5m reported last year, following new acquisitions of €227.4m and disposals and redemptions totalling €120.6m.

Almost all the portfolio is concentrated in the banking book (AFS and HTM) and consists of senior-ranking securities (over 98%); three mezzanine deals are also featured, with a book value of €24.8m, the most significant of which involves a transaction originated by the Intesa group with from salary-backed finance products receivables as the underlying instrument, and two junior-ranking securities carried at €4.6m, including a new €3.7m issue in connection with the Bank's role as sponsor (cf. below).

The balance of trading securities declined during the twelve months, from €43.2m to €2.3m, and involves only three issues; all the other positions have been disposed of at fair value (either sold on the market or transferred to the banking book), generating gains of approx. €1m.

Asset-backed securities (ABS) performed stably during the year under review, helped by the European Central Bank's expansive monetary policy and despite the fall in new issuance (the EU ABS market was down 13%).

Apart from the consumer credit deals (€2,747.3m) the portfolio increased as a result of the addition of three bilateral deals worth a total of €194.7m, with non-performing Italian and Spanish mortgage loans as the underlying instrument. The main deal featured, with an investment of approx. €100m, involves the securitization of Banca Intesa group non-performing loans, in which Mediobanca acted as sponsor alongside various international funds in structuring the transaction and recognizing a 5% retention stake as an asset on its balance sheet (including the junior note). The twelve months under review also featured the early redemption of the only synthetic instrument held on the books (ELM).

The rest of the portfolio remains concentrated on domestic collateralized securities deriving from mortgage receivables (€32.7m) and state-owned properties (€65.2m).

Mediobanca invested €12.2m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Atlante II [1], so far drawn as to €10.8m in respect of deals involving NPLs of the Etruria, Chieti, Marche and Ferrara savings banks (also known as the four "good" banks).

QUANTITATIVE INFORMATION

C.2 Exposures deriving from principal third-party securitizations by underlying asset and type of exposure

Type of securitized asset/ Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	93,808	59	3,223	77	920	26
B. Other receivables	—	—	21,573	365	—	—
C. Other receivables held by Group's entities	2,725,739	—	—	—	—	—
D. NPLs Italy	96,847	—	—	—	3,666	—
E. NPLs Spain (residential mortgages and real estates)	94,261	—	—	—	—	—
Total 30/6/17	3,010,655	59	24,796	442	4,586	26
Total 30/6/16	2,945,182	166	24,229	(647)	894	(15)

[1] Closed, alternative investment fund (FIA) incorporated under Italian law and managed by Quaestio Capital Management SGR.

C.4 Securitization SPVs not consolidated

In the second half of the financial year, Mediobanca took part as arranger and sponsor in the structuring of a securitization in which the Intesa SanPaolo Group was the originator and which involved the sale of a portfolio of performing loans worth a nominal €2bn to the newly-incorporated vehicle company (SPV Project 1702 Srl. Under the terms of the transaction, a senior tranche in an amount of €97.9m and a junior tranche in an amount of €73.9m will be issued for a total of €170.8m invested by the SPV to acquire the underlying portfolio.

To ensure the net economic interest in the securitization does not fall below 5% (as required by Article 405 of Regulation (EU) 585/2013 on prudential requirements for credit institutions), Mediobanca has invested in 100% of the senior tranche (€97.9m) and 5% of the junior tranche (€3.69m). The other 95% of the junior tranche has been placed with specialist funds.

D. Disclosure on 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. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Financial assets sold but not derecognized: book value and full value**

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	
							30/6/17	30/6/16
A. Balance sheet assets	1,865,882	—	1,122,267	525,504	—	264,038	3,777,691	3,230,475
1. Debt securities	1,576,041	—	1,122,267	525,504	—	—	3,223,812	2,439,965
2. Equity securities	289,841	—	—	X	X	X	289,841	617,827
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	264,038	264,038	172,683
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/17	1,865,882	—	1,122,267	525,504	—	264,038	3,777,691	X
of which: impaired	—	—	—	—	—	—	—	X
Total 30/6/16	1,304,498	—	1,396,610	356,684	—	172,683	X	3,230,475
of which: impaired	—	—	—	—	—	—	X	—

* Includes only sold financial assets which are still fully recognized.

E.2 Financial liabilities in respect of financial assets sold but not derecognized: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	114,952	—	146,087	280,293	—	—	541,332
a) Related to fully recognized assets	114,952	—	146,087	280,293	—	—	541,332
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	1,729,749	—	847,139	217,454	—	220,947	3,015,289
a) Related to fully recognized assets	1,729,749	—	847,139	217,454	—	220,947	3,015,289
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/17	1,844,701	—	993,226	497,747	—	220,947	3,556,621
Total 30/6/16	1,034,103	—	1,022,455	306,897	—	277,756	2,641,211

E.3 Disposals with liabilities referring exclusively to assets sold: fair value * [1]

Instruments/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments (fair value)	Due from banks (fair value)	Due from customers (fair value)	Total	
							30/6/17	30/6/16
A. Cash assets	1,865,882	—	1,122,267	539,309	—	264,038	3,791,496	3,238,927
1. Debt securities	1,576,041	—	1,122,267	539,309	—	—	3,237,617	2,444,594
2. Equities	289,841	—	—	X	X	X	289,841	617,827
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	264,038	264,038	176,506
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	1,865,882	—	1,122,267	539,309	—	264,038	3,791,496	3,238,927
C. Associated liabilities	1,856,504	—	1,109,106	536,847	—	220,947	X	X
1. Due from customers	113,265	—	145,851	278,943	—	—	X	X
2. Due from banks	1,743,239	—	963,255	257,904	—	220,947	X	X
Total liabilities	1,856,504	—	1,109,106	536,847	—	220,947	3,723,404	2,976,227
Net value 30/6/17	9,378	—	13,161	2,462	—	43,091	68,092	X
Net value 30/6/16	96,058	—	265,576	2,316	—	(101,250)	X	262,700

* Includes only sold financial assets which are still fully recognized.

[1] The table includes collateralized liability transactions: repos, securities lending and other secured financing transactions.

SECTION 2

Market risks

2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to market risk on the trading book is measured in operating terms on a daily basis by calculating the following main indicators:

- Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;
- Value-at-risk calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out once a month 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 but historically accurate changes in market variables.

In addition to these metrics, other complementary but more specific risk indicators are also used in order to capture other risks on trading positions which are not fully measured by VaR and sensitivity analysis more effectively. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

The VaR methodology used by the Bank to monitor the limits approved is the historical simulation method, over a time horizon of one day with a 99% confidence level and a decay factor for the weights of past observations (parameter λ) of 0.992. The VaR readings based on the Monte Carlo simulation method and the expected shortfall (or conditional VaR) in the historical simulation at the 99th percentile are calculated in any case and made available to traders for comparison. The latter represents the expected loss in the 1% of the scenarios not included in the VaR calculation.

With reference to market risks, the value-at-risk on the trading ranged from a low of €1.3m (May 2017) and a high of approx. €5.7m (September 2016). The average reading for the twelve months was €3m, down sharply on the average figure for last year (€6.2m). The high volatility levels which affected markets following the Brexit vote began to be mitigated as from autumn 2016, in part due to a policy of gradually reducing or hedging the directional risks on the trading portfolio, bringing VaR into a range between €2m and €4m before falling to the lows recorded at the start of May 2017. The point-in-time figure observed at the reporting date was up again to approx. €4.5m, solely as a result of the addition of one major directional equity position.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €7.5m to €4m, as a result of the lower volatility on markets which gradually reduced the impact of the historically extreme scenarios, along with the reduction in the weight of directional positions during the twelve months already mentioned.

The results of the daily back-testing based on calculations of theoretical profits and losses, show no days on which losses in excess of the VaR were observed.

Table 1: Overview of trends in main sensitivities for trading book

Risk factors (€ '000)	12 mths to 30/6/17				12 mths to 30/6/16
	30/6	Min	Max	Avg.	Avg.
Interest rates	426	426	2,094	916	2,672
Credit	608	556	5,014	1,201	2,760
Share prices	2,618	643	3,942	2,006	3,226
Exchange rates	159	81	2,258	581	1,249
Inflation	217	75	1,523	649	1,726
Volatility	695	630	2,698	1,394	1,796
Diversification effect *	(1,560)	—	—	(3,703)	(7,221)
Total	3,163	1,268	5,685	3,044	6,207
Expected Shortfall	3,971	1,665	8,677	4,504	7,476

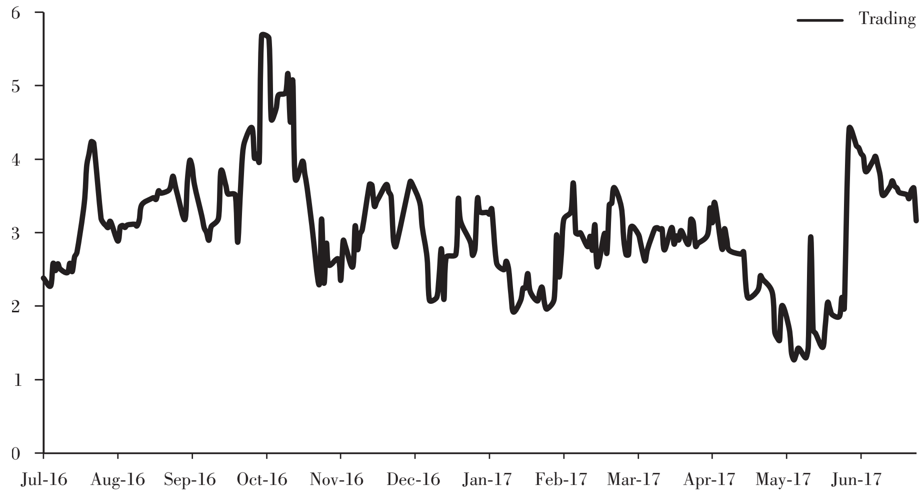
* Due to mismatch between risk factors.

Apart from the overall VaR limit for the trading book and general HFT portfolio, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the 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 volatility). The equity desks structurally show long delta and short vega positions. The exposure to interest rates ranged from minus €206,000 to €171,000, with a low average reading of approx. €36,000, reflecting the trading book's negligible exposure to swap and Euribor interest rates. The exchange rate showed just a few spikes for brief periods of time, while the average readings were very low.

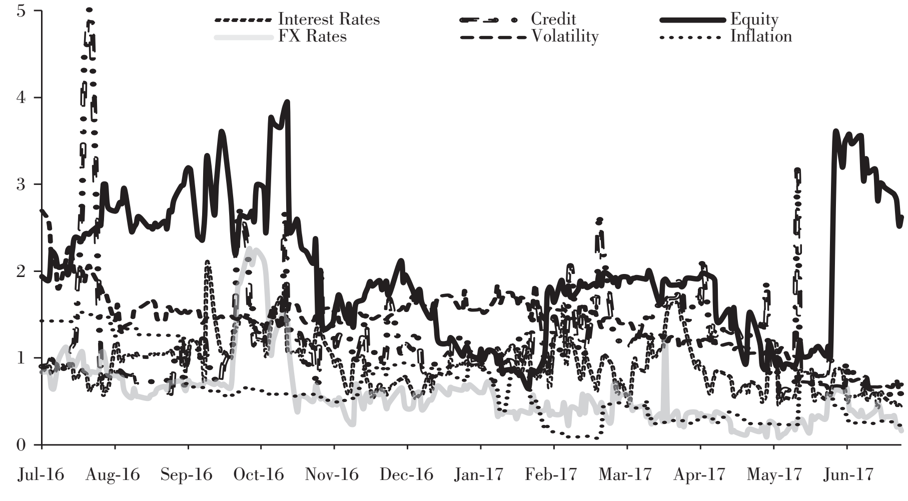
Table 2: Value-at-risk and expected shortfall: trading book

Risk factors (€ '000)	12 mths to 30/6/17			
	30/6	Min	Max	Avg.
Equity delta (+1%)	1,009	276	1,662	758
Equity vega (+1%)	(27)	(710)	269	(221)
Interest rate delta (+1bp)	35	(206)	171	(36)
Inflation delta (+1bp)	19	(8)	111	27
Exchange rate delta (+1%)	(391)	(1,030)	463	(175)
Credit delta (+1bp)	112	36	483	200

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by residual maturity (repricing date) of financial cash assets and liabilities and financial derivatives

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	—	70,662	900,489	47,827	1,092,247	127,763	91,491	—
1.1 Debt securities	—	70,662	900,489	47,827	1,092,247	127,763	91,491	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	—	70,662	900,489	47,827	1,092,247	127,763	91,491	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	—	17,856	103,204	38,818	1,935,389	4,738	55,462	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	17,856	103,204	38,818	1,935,389	4,738	55,462	—
3. Financial derivatives	100,000	103,062,252	69,469,598	11,940,870	59,900,560	17,509,679	9,221,793	—
3.1 With underlying securities	—	228,946	—	—	105,600	24,038	—	—
– Options	—	—	—	—	105,600	—	—	—
+ long positions	—	—	—	—	52,800	—	—	—
+ short positions	—	—	—	—	52,800	—	—	—
– Others	—	228,946	—	—	—	24,038	—	—
+ long positions	—	114,473	—	—	—	12,019	—	—
+ short positions	—	114,473	—	—	—	12,019	—	—
3.2 Without underlying securities	100,000	102,833,306	69,469,598	11,940,870	59,794,960	17,485,641	9,221,793	—
– Options	—	25,936,470	36,862,300	640,000	1,880,000	792,000	1,280,000	—
+ long positions	—	12,968,235	18,431,150	320,000	940,000	396,000	640,000	—
+ short positions	—	12,968,235	18,431,150	320,000	940,000	396,000	640,000	—
– Others	100,000	76,896,836	32,607,298	11,300,870	57,914,960	16,693,641	7,941,793	—
+ long positions	—	39,190,233	13,845,833	6,115,918	29,994,688	8,103,957	4,477,071	—
+ short positions	100,000	37,706,603	18,761,465	5,184,952	27,920,272	8,589,684	3,464,722	—

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	1,375,919	—	54,253
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	10,524
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	10,524
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	93,736	—	—
- harmonized	74,506	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	19,230	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	1,469,655	—	64,777

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities; over 98% of the next exposure regards other European countries.

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 a parallel and simultaneous 100 bps shock in the interest rate curve on current earnings. The latter is calculated by comparing the discounted value of expected cash flows using the yield curve at the current date with the value obtained using a yield curve which is 200 bps higher or lower (parallel shock).

With reference to the positions held as part of the banking book as at 30 June 2017, if interest rates were to rise, net interest income would decrease by some €23.5m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, a 200 basis-point positive shock would generate a loss of €162m. In the opposite scenario, i.e. if interest rates reduce, net interest income would increase by €47.3m.

The data described above are summarized in the table below:

(€m)

Data at 30/6/17		**Banking Book Mediobanca S.p.A.**
Net interest income sensitivity	+ 100 bps	(23.50)
	- 100 bps	0.89
Discount cash flows sensitivity	+ 200 bps	(162.02)
	- 200 bps	47.34

The values obtained in both scenarios continue to remain within the limits set by both the monitoring regulations and operational controls, which are respectively 7.5% (net interest income sensitivity/regulatory capital) and 15% (economic value sensitivity/regulatory capital).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Bank seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months) [2].

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 AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

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

[2] 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.

deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Mediobanca also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual maturity (by 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	2,750,818	23,005,158	4,034,054	2,552,513	10,249,510	1,902,530	281,450	13,860
1.1 Debt securities	—	3,690,133	434,282	982,396	4,171,395	1,482,633	3,438	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	3,690,133	434,282	982,396	4,171,395	1,482,633	3,438	—
1.2 Loans to banks	2,396,319	11,015,249	1,038,175	933,798	4,269,842	190,000	275,523	1,449
1.3 Loans to customers	354,499	8,299,776	2,561,597	636,319	1,808,273	229,897	2,489	12,411
– current accounts	2	—	—	—	421,783	—	—	—
– other loans	354,497	8,299,776	2,561,597	636,319	1,386,490	229,897	2,489	12,411
– with early repayment option	—	—	—	—	—	—	—	—
– others	354,497	8,299,776	2,561,597	636,319	1,386,490	229,897	2,489	12,411
2. Cash liabilities	16,287,154	9,834,772	2,757,720	2,508,350	11,180,839	2,585,778	70,873	1,659
2.1 Due to customers	1,677,408	670,241	—	983	—	—	—	1,477
– current accounts	1,671,527	—	—	—	—	—	—	—
– other amounts due	5,881	670,241	—	983	—	—	—	1,477
– with early repayment option	—	—	—	—	—	—	—	—
– others	5,881	670,241	—	983	—	—	—	1,477
2.2 Due to banks	14,333,309	2,046,205	701,295	448,407	6,513,705	—	7,126	182
– current accounts	13,633,740	—	—	—	—	—	—	—
– other amounts due	699,569	2,046,205	701,295	448,407	6,513,705	—	7,126	182
2.3 Debt securities	276,437	7,118,326	2,056,425	2,058,960	4,667,134	2,585,778	63,747	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	276,437	7,118,326	2,056,425	2,058,960	4,667,134	2,585,778	63,747	—
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	16,688,942	3,916,525	2,133,945	8,600,737	3,884,832	344,506	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	16,688,942	3,916,525	2,133,945	8,600,737	3,884,832	344,506	—
– Options	—	—	—	—	200,000	—	160,000	—
+ long positions	—	—	—	—	100,000	—	80,000	—
+ short positions	—	—	—	—	100,000	—	80,000	—
– Others	—	16,688,942	3,916,525	2,133,945	8,400,737	3,884,832	184,506	—
+ long positions	—	3,901,069	2,906,025	2,023,945	5,683,437	3,001,764	88,503	—
+ short positions	—	12,787,873	1,010,500	110,000	2,717,300	883,068	96,003	—
4. Other OTC trades	341,168	5,517,560	605,846	1,245,486	17,781,368	1,043,047	1,107,733	—
+ long positions	170,584	2,584,867	605,846	380,194	8,906,135	473,574	699,904	—
+ short positions	170,584	2,932,693	—	865,292	8,875,233	569,473	407,829	—

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	399,317	—	23,025
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	110,211
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	101,626
- reserved	—	—	—
- speculative	—	—	8,585
B.2 Other EU states	—	—	124,646
- harmonized	—	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	—	—	124,646
B.3 Non-EU states	—	—	2,275
- open	—	—	—
- closed	—	—	2,275
Total	399,317	—	260,157

[1] Of which 80% Italian and 20% other EU countries.

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. [448] 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. Financial assets, liabilities and derivatives by currency

Line items	Currency					
	US dollars	Pounds sterling	Japanese yen	Canadian dollars	Swiss francs	Other
A. Financial assets	1,862,854	880,330	21,237	5,987	51,896	20,136
A.1 Debt securities	554,406	5,801	—	—	3,665	—
A.2 Equities	24,611	226,121	—	—	6,329	—
A.3 Loans and advances to banks	1,013,996	642,657	21,228	872	35,001	15,439
A.4 Loans and advances to customers	269,841	5,751	9	5,115	6,901	4,697
A.5 Other financial assets	—	—	—	—	—	—
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	(2,320,774)	(564,719)	(18,265)	(31,798)	(51,713)	(29,885)
C.1 Due to banks	(707,478)	(122,452)	(18,265)	(31,203)	(50,544)	(27,742)
C.2 Due to customers	(90,823)	(2,769)	—	(4)	(1,169)	(2,143)
C.3 Debt securities	(1,522,473)	(439,498)	—	(591)	—	—
C.4 Other financial liabilities	—	—	—	—	—	—
D. Other liabilities	—	—	—	—	—	—
E. Financial derivative products	521,873	(299,585)	(3,131)	26,023	5,490	28,249
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	521,873	(299,585)	(3,131)	26,023	5,490	28,249
+ Long positions	3,699,361	612,353	7,671	31,603	146,624	247,340
+ Short positions	(3,177,488)	(911,938)	(10,802)	(5,580)	(141,134)	(219,091)
Total assets	5,562,215	1,492,683	28,908	37,590	198,520	267,476
Total liabilities	(5,498,262)	(1,476,657)	(29,067)	(37,378)	(192,847)	(248,976)
Difference (+/-)	63,953	16,026	(159)	212	5,673	18,500

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, directional positions taken on exchange rates were kept under control, with hedges being implemented to contain the exposure where necessary. The VaR for the forex component at the aggregate level showed an average reading of approx. €6.5m, some €2m higher than the average reading recorded one year previously. The VaR reading was impacted by the strong volatility reflected by this asset class in the summer months of 2016 following the Brexit vote. The reading reflected some other temporary spikes in conjunction with the US elections up to the end of 2016, but returned to close to average levels for the last six months of the financial year. The point-in-time reading as at 30 June 2017 was €9.4m.

2.4 DERIVATIVE FINANCIAL INSTRUMNTS

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: reporting-date notional values

Underlying assets/ Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	94,752,501	31,570,511	105,332,655	88,455,146
a) Options	52,800	30,721,864	52,800	87,729,988
b) Swap	92,003,701	—	100,363,855	—
c) Forward	—	—	—	—
d) Futures	—	848,647	—	725,158
e) Others	2,696,000	—	4,916,000	—
2. Equity instruments and stock indexes	14,632,399	11,250,774	15,321,570	11,742,610
a) Options	13,644,647	11,011,994	14,349,303	11,508,167
b) Swap	836,349	—	972,267	—
c) Forward	151,403	—	—	—
d) Futures	—	238,780	—	234,443
e) Others	—	—	—	—
3. Gold and currencies	9,279,363	—	10,444,593	—
a) Options	277,521	—	1,735,370	—
b) Swap	3,670,869	—	4,011,000	—
c) Forward	5,330,973	—	4,698,223	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	118,664,263	42,821,285	131,098,818	100,197,756

A.2 Banking book: reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets/ Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	17,784,743	—	17,704,716	—
a) Options	—	—	—	—
b) Swap	17,604,743	—	17,346,319	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	180,000	—	358,397	—
2. Equity instruments and stock indexes	240,048	—	85,708	—
a) Options	29	—	29	—
b) Swap	—	—	—	—
c) Forward	240,019	—	85,679	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	18,024,791	—	17,790,424	—

A.2.2 Other derivatives

Underlying assets/ Type of derivatives	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	460,974	—	162,251	—
a) Options	—	—	—	—
b) Swap	460,974	—	162,251	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equity instruments and stock indexes	1,822,928	—	1,871,672	—
a) Options	1,822,928	—	1,871,672	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,283,902	—	2,033,923	—

A.3 Financial derivatives: gross positive fair value, by product

Portfolios/Types of derivatives	Positive fair value			
	30/6/17		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	2,322,734	462,562	3,908,716	632,131
a) Options	312,589	455,566	420,200	629,729
b) Interest rate swap	1,674,937	—	2,969,608	—
c) Cross currency swap	197,844	—	245,092	—
d) Equity Swap	30,597	—	75,252	—
e) Forward	106,767	—	198,564	—
f) Futures	—	6,996	—	2,402
g) Other	—	—	—	—
B. Banking book - Hedging derivatives	462,596	—	936,702	—
a) Options	—	—	—	—
b) Interest rate swap	462,596	—	930,079	—
c) Cross currency swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	6,623	—
f) Futures	—	—	—	—
g) Other	—	—	—	—
C. Banking book - Other derivatives	310,755	—	471,783	—
a) Options	310,755	—	471,783	—
b) Interest rate swap	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	3,096,085	462,562	5,317,201	632,131

A.4 Financial derivatives: gross negative fair value, by product

Portfolios/Type of derivatives	**Negative fair value**			
	30/6/17		**30/6/16**	
	Over the counter	**Clearing House**	**Over the counter**	**Clearing House**
A. Regulatory trading portfolio	(2,379,946)	(496,834)	(3,878,016)	(660,552)
a) Options	(313,652)	(492,721)	(466,810)	(649,353)
b) Interest rate swap	(1,605,338)	—	(2,922,382)	—
c) Cross currency swap	(210,103)	—	(267,668)	—
d) Equity swap	(21,032)	—	(17,044)	—
e) Forward	(229,821)	—	(204,112)	—
f) Futures	—	(4,113)	—	(11,199)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(498,679)	—	(726,273)	—
a) Options	(2,452)	—	(4,525)	—
b) Interest rate swap	(460,656)	—	(721,748)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	(35,571)	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(325,650)	—	(483,033)	—
a) Options	(325,650)	—	(483,033)	—
b) Interest rate swap	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(3,204,275)	(496,834)	(5,087,322)	(660,552)

A.5 OTC financial derivatives regulatory trading book: gross fair values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	728,441	860,926	—	144,918	—
- positive fair value	—	—	11,155	9,683	—	318	—
- negative fair value	—	—	(13,253)	(5,515)	—	(95)	—
- future exposure	—	—	10,927	3,692	—	1,125	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	489,965	—	—
- positive fair value	—	—	—	—	708	—	—
- negative fair value	—	—	—	—	(160)	—	—
- future exposure	—	—	—	—	29,441	—	—
3. Gold and currencies							
- notional amount	—	—	—	4,260	—	65,485	—
- positive fair value	—	—	—	588	—	2,098	—
- negative fair value	—	—	—	—	—	(529)	—
- future exposure	—	—	—	213	—	625	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives regulatory trading book: gross fair values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts not included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	37,468,844	49,338,037	716,039	5,495,295	—
- positive fair value	—	—	1,055,275	342,537	66,909	286,851	—
- negative fair value	—	—	(1,141,079)	(493,323)	(1,990)	(26,187)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	6,281,661	6,010,003	334,648	1,516,123	—
- positive fair value	—	—	114,076	43,153	1,752	82,001	—
- negative fair value	—	—	(258,771)	(52,556)	(22,568)	(25,495)	—
3. Gold and currencies							
- notional amount	83,246	—	4,992,539	1,698,510	345,814	2,089,508	—
- positive fair value	—	—	137,327	110,738	130	57,436	—
- negative fair value	(4,921)	—	(150,005)	(12,928)	(10,913)	(159,659)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives banking book: notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	—	65,000	—	—	—
- positive fair value	—	—	—	324	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	75	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	29
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	2
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives banking book: notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts not included in netting agreement	**Governments and central banks**	**Other public-sector entities**	**Banks**	**Financial companies**	**Insurance companies**	**Non-financial companies**	**Other entities**
1. Debt securities and interest rate indexes							
- notional amount	—	—	10,454,652	6,915,091	—	350,000	—
- positive fair value	—	—	412,711	49,561	—	—	—
- negative fair value	—	—	(404,540)	(26,112)	—	(32,456)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	240,019	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	(35,571)	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.9 OTC financial derivatives by outstanding life: notional values

Underlyng/ residual	**Up to 1 year**	**Over 1 year up to 5 year**	**Over 5 year**	**Total**
A. Regulatory trading book	28,767,832	63,435,094	26,461,338	118,664,264
A.1 Financial derivative contracts on debt securities and interest rates	16,637,104	52,860,768	25,254,629	94,752,501
A.2 Financial derivative contracts on equity securities and stock indexes	6,776,670	7,708,308	147,421	14,632,399
A.3 Financial derivative contracts on exchange rates and gold	5,354,058	2,866,018	1,059,288	9,279,364
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	3,321,012	12,662,443	4,325,238	20,308,693
B.1 Financial derivative contracts on debt securities and interest rates	2,869,123	11,070,297	4,306,297	18,245,717
B.2 Financial derivative contracts on equity securities and stock indexes	451,889	1,592,146	18,941	2,062,976
B.3 Financial derivative contracts on exchange rates and gold	—	—	—	—
B.4 Financial derivative contracts on other values	—	—	—	—
Total 30/6/17	32,088,844	76,097,537	30,786,576	138,972,957
Total 30/6/16	29,026,329	86,202,394	35,694,440	150,923,163

B. CREDIT DERIVATIVES

B.1 Credit derivatives: reporting-date notional values

Type of transaction	Regulatory trading portfolio		Banking book	
	with a single counterparty	with more than one counterparty (basket)	with a single counterparty	with more than one counterparty (basket)
1. Protection buyer's contracts				
a) Credit default products	1,643,772	6,413,088	217,900	5,000
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/17	1,643,772	6,413,088	217,900	5,000
Total 30/6/16	1,710,631	6,422,250	117,400	5,000
2. Protection seller's contracts				
a) Credit default products	1,328,247	6,692,490	12,649	3,653,007
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/17	1,328,247	6,692,490	12,649	3,653,007
Total 30/6/16	1,261,237	6,712,010	20,000	2,371,937

B.2 OTC credit derivatives: gross positive fair value, by product

Portfolio/Type of derivatives	Positive Fair Value	
	30/6/17	30/6/16
A. Regulatory trading book	160,171	168,204
a) Credit default products	160,171	168,204
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	12,952	23,632
a) Credit default products	12,952	23,632
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	173,123	191,836

B.3 OTC credit derivatives: gross negative fair value, by product

Portfolio/Type of derivatives	Negative fair value	
	30/6/17	**30/6/16**
A. Regulatory trading book	(412.051)	(383.009)
a) Credit default products [1]	(412.051)	(383.009)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(11.591)	(12.804)
a) Credit default products	(11.591)	(12.804)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(423.642)	(395.813)

[1] Of which certificates in an amount of €219,804,000 and €180,163,000 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty, contracts not forming part of netting arrangement

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	500,000	—	—	—	—
- positive fair value	—	—	14,856	—	—	—	—
- negative fair value	—	—	(219,804)	—	—	—	—
- future exposure	—	—	25,000	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty, contracts forming part of netting arrangement

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	4,042,039	3,314,820	200,000	—	—
- positive fair value	—	—	518	186	3,172	—	—
- negative fair value	—	—	(124,097)	(66,770)	—	—	—
2. Protection sale							
- notional amount	—	—	5,325,932	2,694,805	—	—	—
- positive fair value	—	—	80,122	61,317	—	—	—
- negative fair value	—	—	(1,309)	(71)	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included.

B.6 Credit derivatives by outstanding duration: notional value

Underlying / Residual	Up to 1 year	From 1 year up to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	3,310,568	8,254,747	4,512,282	16,077,597
A.1 Credit derivatives with "qualified" "reference obligation"	192,850	1,624,427	1,004,200	2,821,477
A.2 Credit derivatives with "not qualified" "reference obligation"	3,117,718	6,630,320	3,508,082	13,256,120
B. Banking portfolio	466,526	1,578,140	1,843,890	3,888,556
B.1 Credit derivatives with "qualified" "reference obligation"	93,400	34,300	36,700	164,400
B.2 Credit derivatives with "not qualified" "reference obligation"	373,126	1,543,840	1,807,190	3,724,156
Total 30/6/17	3,777,094	9,832,887	6,356,172	19,966,153
Total 30/6/16	1,323,078	16,090,186	1,207,200	18,620,464

C. CREDIT AND FINANCIAL DERIVATIVES

*C.1 OTC credit and financial derivatives: net fair values and future exposure by counterparty **

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to financial derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to credit derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross product netting agreements							
- positive fair value	—	—	228,557	137,187	53,732	338,037	—
- negative fair value	(4,921)	—	(710,958)	(262,675)	(17,243)	(218,654)	—
- future exposure	333	—	428,472	326,069	22,806	168,161	—
- net counterparty risk	333	—	445,145	367,316	49,283	464,348	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €376,931,000, €211,885,000 of which in respect of banks, €95,940,000 of financial companies, €27,256,000 of insurances and €41,850,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €518,088,000 was paid in, €379,008,000 of which in respect of banks, €131,930,000 of financial companies, and €7,150,000 of insurances.

SECTION 3

Liquidity risk

QUALITATIVE INFORMATION

Mediobanca monitors and manages liquidity risk in accordance with the regulatory provisions in force in this area (Bank of Italy circular nos. 285 and 286 as amended, CRR/CRD IV/Commission Delegated Regulation on liquidity coverage ratio by the European Parliament and the Council of the European Union, and technical standards and guidelines issued by the European Banking Authority) as defined in the "Group liquidity risk management policy" (the "Regulations").

The main principles on which the Regulations are based are:

- Identifying the parties, responsibilities and duties for controlling liquidity risk for the Group as a whole and for the individual Group companies;
- Defining and monitoring the short-term risk limits (operating liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of up to twelve months;
- Defining and monitoring medium-/long-term liquidity (structural liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of over twelve months;
- Defining a pricing system of internal fund transfers between the Bank's various units and companies.

The Bank'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 present maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. Specifically, monitoring operating liquidity is intended to ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term.

In this connection the metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB) and the cumulative net cash outflows. Through use of maturity ladder reports, i.e. projections of the net financial position over time, the underlying methodology consists of evaluating the entire Bank's ability to withstand a liquidity crisis in the event of a system or specific crisis situation occurring. This ability is calculated assuming there are no changes in the Bank's business structure or asset profile.

The starting point in the process is quantifying certain and uncertain/ estimated cash inflows and outflows, and the resulting mismatches or surpluses, in the various brackets of duration outstanding which make up the operational maturity ladder (time horizon up to three months). Cash flows are determined in two analysis scenarios, namely the ongoing concern and the specific and systemic stress scenarios.

Stress testing assumes extraordinary factors such as a) drawdowns on committed lines granted to customers, b) reductions in the debt security funding or interbank funding channels, c) renewal of only part of the retail funding expiring, d) full disbursement of lending deals in the pipeline. The liquidity risk tolerance threshold is defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

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 movements in both directions on the interbank market and a table showing the Group's funding balances by individual form. This monitoring instrument forms a point of contact with the other operational metrics used and promotes dialogue with the regulatory bodies regarding the trends influencing the liquidity risk profile over time. 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 inflows cover 100% of outflows for maturities of more than one year, reduced to 90% of outflows for maturities of more than five years.

Throughout the entire twelve months under review, both indicators, short- and long-term, were at all times above the limits set in the policy.

The objectives and metrics described above are addressed through the preparation of the Group Funding Plan, involving sustainable analysis of sources and applications, short-term and structural, and through definition of the Group Risk Appetite Framework, which involves defining the Group's appetite for risk.

Throughout the twelve months under review, the regulatory indicators (the liquidity coverage ratio and net stable funding ratio) and the other indicators established in the Group Risk Appetite Framework were well above the set limits at all times.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Liquidity 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 Group 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.

Before a contingency situation develops, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to a deterioration in the Group's liquidity position deriving from external factors (market or sector) or from situations which are specific to the Banking Group itself.

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	2,755,349	874,668	375,155	1,067,543	3,368,347	1,868,699	3,637,410	25,410,330	8,376,845	171,052
A.1 Government securities	—	850	364	223,942	9,606	336,202	386,575	4,940,262	1,022,175	—
A.2 Other debt securities	1,169	781	4,013	5,550	72,999	34,660	218,700	4,641,219	1,207,744	—
A.3 UCITS units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	2,754,180	873,037	370,778	838,051	3,285,742	1,497,837	3,032,135	15,828,849	6,146,926	171,052
– to banks	2,396,319	514,184	161,752	419,593	1,691,705	778,234	1,442,406	8,177,836	4,619,725	158,641
– to customers	357,861	358,853	209,026	418,458	1,594,037	719,603	1,589,729	7,651,013	1,527,201	12,411
Cash liabilities	16,011,951	984,049	301,062	111,643	1,208,054	2,788,999	2,029,797	19,738,641	4,329,744	1,659
B.1 Deposits and currentaccounts	15,304,984	—	—	—	—	—	—	—	—	—
– to banks	13,633,457	—	—	—	—	—	—	—	—	—
– to customers	1,671,527	—	—	—	—	—	—	—	—	—
B.2 Debt securities	1,261	216	995	5,631	572,792	2,217,537	1,479,932	10,571,502	4,219,470	—
B.3 Other liabilities	705,706	983,833	300,067	106,012	635,262	571,462	549,865	9,167,139	110,274	1,659
Off-balance-sheet transactions	5,079,613	5,324,524	625,047	1,455,408	2,651,824	2,283,249	2,169,676	15,839,288	4,844,997	—
C.1 Financial derivatives with exchange of principal	—	1,654,680	399,070	1,196,616	1,621,907	1,205,378	668,621	4,197,739	1,187,168	—
– long positions	—	898,484	321,980	811,151	779,905	787,116	181,411	1,003,647	64,693	—
– short positions	—	756,196	77,090	385,465	842,002	418,262	487,210	3,194,092	1,122,475	—
C.2 Financial derivatives without principal exchange of	4,857,616	10,720	4,299	12,649	72,982	106,182	144,260	—	—	—
– long positions	2,505,387	4,565	2,741	4,408	49,816	37,098	72,286	—	—	—
– short positions	2,352,229	6,155	1,558	8,241	23,166	69,084	71,974	—	—	—
C.3 Deposits and loans for collection	—	1,754,969	116,111	156,415	767,688	222,491	792,586	4,373,852	924,463	—
– long positions	—	1,753,405	116,111	156,415	767,688	105,152	713,985	941,531	—	—
– short positions	—	1,564	—	—	—	117,339	78,601	3,432,321	924,463	—
C.4 Irrevocable commitments to disburse funds *	—	1,904,155	105,567	89,728	188,347	548,498	332,409	3,888,832	699,993	—
– long positions	—	—	—	21,007	12,567	—	78,561	3,066,636	699,993	—
– short positions	—	1,904,155	105,567	68,721	175,780	548,498	253,848	822,196	—	—
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	900	200,700	231,800	3,378,865	2,033,373	—
- long positions	—	—	—	—	450	85,700	93,400	1,685,896	1,057,373	—
- short positions	—	—	—	—	450	115,000	138,400	1,692,969	976,000	—
C.8 Credit derivatives without exchange of principal	221,997	—	—	—	—	—	—	—	—	—
- long positions	107,885	—	—	—	—	—	—	—	—	—
- short positions	114,112	—	—	—	—	—	—	—	—	—

* Includes hedge sales perfectly matched by purchases for the same amount.

SECTION 4

Operational risks

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 requirements for 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 the reporting date was €114.9m

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.

In general, the operating losses recorded have been very low, accounting for less than 1% of the Group's total revenues.

With reference to IT risk in particular, the Group has instituted an IT Governance unit which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans).

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 407 – 409.

Other risks

As part of the process of assessing the current and future capital required for the company to perform its business (ICAAP) required by the regulations in force, the Group has identified the following types of risk as relevant (in addition to those discussed previously, i.e. credit risk, counterparty risk, market risk, interest rate risk, liquidity risk and operational risk:

- 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);
- Expected shortfall on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;

– Strategic risk, both in the sense of risk deriving from 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);
– Basis risk: in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;
– Compliance risk, i.e. the risk 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, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities;
– Residual risk, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
– Country and transfer risk – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

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.

Part F - Information on capital

SECTION 1

Capital of the company

QUANTITATIVE INFORMATION

B.1 Net equity: composition

Net equity constituents	30/6/17	30/6/16
1. Share capital	440,606	435,510
2. Share premium	2,187,580	2,152,829
3. Reserves	2,284,194	2,217,335
- of gains	2,148,015	2,093,126
a) legal	87,102	86,720
b) statutory	1,288,162	1,233,655
c) treasury shares	197,709	197,982
d) others	575,042	574,769
- others	136,179	124,209
4. Equity instruments	—	—
5. (Treasury shares)	(197,709)	(197,982)
6. Valuation reserves:	285,167	379,538
- AFS securities	312,932	368,294
- Property, plant and equipment	—	—
- Intangible assets	—	—
- Foreign investment hedges	—	—
- Cash flow hedges	(33,590)	6,163
- Exchange rate difference	—	—
- Non-current assets being sold	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(3,807)	(4,551)
- Share of valuation reserves represented by equity-accounted companies	—	—
- Special valuation laws	9,632	9,632
7. Gain (loss) for the period	318,326	288,038
Total	5,318,164	5,275,268

For further information, please see Section 14 “Capital of the company – Headings 130, 150, 160, 170, 180, 190 and 200”.

B.2 AFS valuation reserves: composition

Assets/amounts	30/6/17		30/6/16	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	99,936	(3,981)	115,276	(11,129)
2. Equity securities	190,210	(43)	250,065	(40)
3. UCITS units	27,217	(406)	15,344	(1,222)
4. Loans and advances	—	—	—	—
Total	317,363	(4,430)	380,685	(12,391)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	104,147	250,025	14,122	—
2. Additions	35,501	69,877	13,731	—
2.1 Increases in fair value	29,753	69,877	13,731	—
2.2 Negative reserves charged back to profit and loss as a result of	5,748	—	—	—
– impairment	—	—	—	—
– disposals	5,748	—	—	—
2.3 Other additions	—	—	—	—
3. Reductions	43,693	129,735	1,042	—
3.1 Reductions in fair value	15,832	4	1,042	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	27,861	129,731	—	—
3.4 Other reductions	—	—	—	—
4. Balance at end of period	95,955	190,167	26,811	—

SECTION 2

Regulatory 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 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 Bank equity

Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in June 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285 of December 2013, Mediobanca has applied the phase-in regime, and in particular, once the requisite clearance was obtained, it proceeded to weight the investment Assicurazioni Generali at 370% as permitted by Article 471 of the CRR.

As from 30 June 2016, authorization to weight the Assicurazioni Generali investment at 370% is confined to the part required in order to comply with the concentration limit of 25% of regulatory capital; a level which is met comfortably.

As from 31 December 2016, regulatory capital has also included the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets, as permitted by the phase-in regulations.

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 €223.5m, or 80%, of the positive AFS reserves, €42.3m of which sovereign debt securities) and profit for the period (€318.3m net of the dividend for the year (€320.2m, calculated based on a dividend of €0.37 per share. From this amount the following items are deducted: treasury shares (€198m), intangible assets (€17.4m), and the other prudential adjustments (€39.9m) in connection with the values of financial instruments (AVAs and DVAs), plus €23.3m in interests in financial companies (banks and insurances) exceeding the limits set under the regime.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes the liabilities issued (€2,036.4m) plus 10% of the positive reserves for AFS securities (€22.6m) which does not include the net gain of EU member states' government securities subject to neutralization (€52.9m). Deductions of €450.6m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies, and the share of the investments in financial companies, based on the provisions of the phase-in regime.

Issue	**30/6/17**		
	ISIN	**Nominal value**	**Book value ***
MB Subordinato Mar 29	XS1579416741	50,000	48,501
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	613,502	404,679
MB OPERA 3.75 2026	IT0005188351	298,666	291,163
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	395,636	305,158
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,701	491,347
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,691	495,554
Total subordinated debt securities		**2,353,196**	**2,036,402**

* The calculated value differs from the book value for items recognized at fair value and amortized cost and for buyback commitments.

Subordinated liabilities fell from €2,103.8m to €2,036.4m, due to movements for the period plus the repayment share (€274.3m). During the year under review, partial buyback of the two subordinated issues, MB Secondo Atto and MB Quarto Atto, was completed which entered the repayment stage in amounts totalling €193.8m and €80.5m and now written off by nominal amounts of €131.4m and €100m, the majority of which was offset by the issue of a new subordinated bond, MB Opera, in an amount totalling €300m, plus another, private €50m issue. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUALITATIVE INFORMATION

	30/6/17	30/6/16
A. Common equity tier 1 (CET1) prior to application of prudential filters	4,997,939	5,044,354
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(39,877)	(55,390)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	4,958,062	4,988,964
D. Items to be deducted from CET1	(45,508)	(68,844)
E. Phase-in regime - impact on CET1 (+/-)	(51,063)	(171,484)
F. Total common equity tieer 1 (CET1) (C - D +/- E)	4,861,491	4,748,636
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-)	—	—
L. Total Additional Tier 1 (AT1) gross of items to be deducted and effects of phase-in regime (G - H +/- I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	2,036,402	2,103,802
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(443,914)	(587,853)
O. Phase-in regime - Impact on T2 (+/-)	15,943	36,416
P. Total T2 (M - N +/- O)	1,608,431	1,552,365
Q. Total own funds (F+L+P)	6,469,922	6,301,001

2.3 Capital adequacy

A. QUALITATIVE INFORMATION

As at 30 June 2017, the Bank's Common Equity Ratio, calculated as Tier 1 capital as a percentage of total risk-weighted assets, amounted to 15.00%, higher than last year (12.94%) due to the reduction in RWAs (from €36.7bn to €32.4bn) chiefly due to the contraction in market risks, which at the reporting date totalled €2.2bn (€4bn). There was also an equivalent rise in the total capital ratio, from 17.17% to 19.97%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/17	30/6/16	30/6/17	30/6/16
A. RISK ASSETS				
A.1 Credit and counterpart risk	59,176,180	56,176,075	28,071,129	30,519,282
1. Standard methodology	58,863,501	56,014,758	27,785,723	30,126,344
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	312,679	161,317	285,406	392,938
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			2,245,690	2,441,543
B.2 Credit valuation risk			60,262	65,223
B.3 Settlement risk				—
B.4 Market risk			171,126	311,669
1. Standard methodology			171,126	311,669
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risk			114,886	117,821
1. Basic Indicator Approach (BIA)			114,886	117,821
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			2,591,965	2,936,255
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			32,399,561	36,703,193
C.2 CET 1 capital/risk-weighted assets (CET 1 capital ratio)			15.0%	12.94%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			15.0%	12.94%
C.4 Total own funds/risk-weighted assets (Total capital ratio)			19.97%	17.17%

Part H - Related party disclosure

1. Board member and senior management remuneration

Remuneration paid to directors, statutory auditors and management with strategic responsibilities

	Compensation			
	Emoluments payable in connection with post	Non-cash benefits*	Bonuses and other incentives	Other compensation
BOARD OF DIRECTORS[1]	2,590.1	1,224.3	1,675.4	6,090.0
of which: management	*500.0*	*1,224.3*	*1,675.4*	*5,490.0*
MANAGEMENT with strategic responsibilities[2]	—	231.6	1,094.2	2,420.9
STATUTORY AUDIT COMMITTEE[3]	350.0	—	—	—

* 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 €2.6m.
[1] Includes eighteen directors in office at 30 June 2017.
[2] Includes five strategic managers at 30 June 2017.
[3] Includes three statutory auditors in office at 30 June 2017.

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.

Thereafter the Board of Directors, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, 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 procedure came into force on 31 December 2012 and was updated in May 2016. The document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A (Accounting policies) of the notes to the accounts.

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

In November 2016, the Board of Directors adopted a resolution, after the Related Parties Committee expressed a favourable opinion, to participate with the role of Global Co-ordinator in the underwriting syndicate for the capital increase implemented by Unicredit S.p.A. up to a maximum exposure of €3bn (the effective guarantee actually issued subsequently was €1.15bn). The financial terms and conditions of the involvement were equivalent to those granted to other banks with equivalent roles in the underwriting syndicate.

1.2 Quantitative information

The exposure to non-Group companies (representing the sum of assets plus guarantees and commitments) fell during the year under review, from €1.6bn to €1bn, and now represents approx. 1.6% of total assets, while the percentage of net interest income reported in the profit and loss account represented by related parties fell from 4.7% to 3.9%.

Situation at 30 June 2017

(€m)

	Group companies	**Directors, statutory auditors and strategic management**	**Associates**	**Other related parties**	**Total**
Assets	20,094.7	—	491.3	426.5	21,012.5
of which: other assets	*4,459.4*	—	*291.1*	*194.5*	*4,945.0*
loans and advances	*15,635.3*	—	*200.2*	*232.0*	*16,067.5*
Liabilities	15,352.2	—	—	139.4	15,491.6
Guarantees and commitments	9,167.1	—	—	63.3	9,230.4
Interest income	337.9	—	21.7	10.7	370.3
Interest expense	(207.9)	—	—	(0.2)	(208.1)
Net fee income	23.7	—	4.1	55.6	83.4
Other income (costs)	(110.9) [1]	(17.7) [2]	(10.4)	34.0	(105.0)

[1] Includes €65m in respect of hedge derivatives.

[2] Of which: short-term benefits amounting to €15.1m and performance shares worth €2.6m. The figure includes five management staff with strategic responsibilities.

Situation at 30 June 2016

(€m)

	Group companies	**Directors, statutory auditors and strategic management**	**Associates**	**Other related parties**	**Total**
Assets	16,032.6	—	574.0	846.6	17,453.2
of which: other assets	*3,696.7*	—	*368.5*	*325.6*	*4,390.8*
loans and advances	*12,335.9*	—	*205.5*	*521.0*	*13,062.4*
Liabilities	12,132.1	—	0.5	413.6	12,546.2
Guarantees and commitments	17,953.0	—	—	163.2	18,116.2
Interest income	322.1	—	25.7	17.8	365.6
Interest expense	(351.8)	—	—	(0.1)	(351.9)
Net fee income	21.1	—	7.6	13.0	41.7
Other income (costs)	168.3 [1]	(16.2) [2]	(4.7)	(4.9)	142.5

[1] Includes €199.6m in respect of hedge derivatives.

[2] Of which: short-term benefits amounting to €13,4m and performance shares worth €2.7m. The figure includes five management staff with strategic responsibilities.

Part I - Share-based payment schemes

QUALITATIVE INFORMATION

1. *Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments*

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved reflect the following situation:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
Stock options schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
of which to directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
Performance Share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,022,262 [3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] 2,000,000 of which granted to one former director.

[3] In respect of awards made in 2013, 2014, 2015 and 2016.

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 the dual purpose of 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 allotted are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

Under the terms of the scheme, under certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

- Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
- Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued; the 15,758,511 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2016 financial year, a total of 2,056,260 performance shares were awarded (net of the 52,558 recovered); the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches (up to 933,541 in FY 2018/19, up to 590,915 in FY 2019/20, up to 416,408 in FY 2020/21, and up to 115,396 in FY 2021/22).

Beneficiaries were also awarded a total of 4,457,799 shares, 21,726 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2010.

Subsequently, as part of staff variable remuneration for the 2017 financial year, a total of 1,599,789 performance shares were awarded, at a notional cost of €12.6m, in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available in tranches in November 2019 (up to 735,812), November 2020 (up to 442,661), November 2021 (up to 323,722) and November 2022 (up to 97,594).

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/17			30/6/16		
	No. of performance shares	Avg. price	Avg. expiry	No. of performance shares	Avg. price	Avg. expiry
A. Balance at start of period	10,097,500	6.55	August 18	21,246,000	8.51	August 17
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Reductions						
C.1 Performance shares cancelled	—	—	X	9,806,000	10.78	X
C.2 Performance shares made available	5,685,000	6.57	X	1,342,500	6.53	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	4,412,500	6.53	August 18	10,097,500	6.55	August 18
E. Performance shares exercisable as at reporting date	4,412,500	6.53	X	10,097,500	6.55	X

2. Changes to performance share scheme during the period

	30/6/17		30/6/16	
	No. of performance shares	Avg. price	No. of performance shares	Avg. price
A. Balance at start of period	7,235,821	5.23	7,909,124	4.18
B. Additions				
B.1 New issues	2,108,818	5.05	1,788,256	8.21
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	4,457,799	3.91	2,461,559	4.62
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	52,558	5.10	—	—
D. Balance at end of period	4,834,282	6.38	7,235,821	5.23

ANNEXES

New restated balance sheet: reconciliation

With the presentation of the new three-year strategic plan, it has been decided to adopt a new internal balance sheet format which is more closely aligned with the official reporting schemes (Finrep), in particular with respect to Total Assets, for which the definitions now match perfectly to ensure that a single figure is used to calculate the various indicators.

There are three main changes compared to the previous format:

1. The heading "Net treasury assets" has been split into four new headings (two on the asset and two on the liability side), which include investments in securities and derivatives (treated as assets or liabilities depending on the respective fair value), and treasury liquidity operations (deposits, repos and securities lending) which are treated as amounts due from and/or to banks or customers;
2. Hedge derivatives are no longer represented according to the instrument hedge but on the basis of the accounting sign;
3. AFS debt securities have all been allocated to a single heading together.

The scheme for reconciliation of the balance-sheet data for the periods ending 30 June 2016 is as follows:

Consolidated Balance Sheet as at 30 June 2016

(€m)

Assets and Liabilities	Net treasury funds	AFS securities	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	**Total assets**	Funding	Other liabilities	Provisions	**Total liabilities**
Financial assets held for trading	9,505.3	—	—	—	—	—	—	**9,505.3**	—	—	—	**—**
Treasury financial assets	8,407.9	—	—	—	—	—	—	**8,407.9**	—	—	—	**—**
AFS equities	—	914.3	—	—	—	—	—	**914.3**	—	—	—	**—**
Banking book securities	—	7,725.1	2,165.2	—	—	—	—	**9,890.3**	—	—	—	**—**
Customer loans	—	—	—	34,738.7	—	—	—	**34,738.7**	—	—	—	**—**
Equity investments	—	—	—	—	3,193.3	—	—	**3,193.3**	—	—	—	**—**
Tangible and intangible assets	—	—	—	—	—	757.8	—	**757.8**	—	—	—	**—**
Other assets	—	—	—	—	—	—	1,484.6	**1,484.6**	926.4	—	—	**926.4**
Total assets	**17,913.2**	**8,639.4**	**2,165.2**	**34,738.7**	**3,193.3**	**757.8**	**1,484.6**	**68,892.2**	**926.4**	**—**	**—**	**926.4**
Funding	—	—	—	—	—	—	—	**—**	46,658.4	—	—	**46,658.4**
Treasury financial liabilities	5,254.7	—	—	—	—	—	—	**5,254.7**	—	—	—	**—**
Financial liabilities held for trading	7,141.5	—	—	—	—	—	—	**7,141.5**	—	—	—	**—**
Other liabilities	—	—	—	146.0	—	—	—	**146.0**	201.8	1,314.1	—	**1,515.9**
Provisions	—	—	—	—	—	—	—	**—**	—	—	180.3	**180.3**
Total liabilities	**12,396.2**	**—**	**—**	**146.0**	**—**	**—**	**—**	**12,542.2**	**46,860.2**	**1,314.1**	**180.3**	**48,354.6**
Total	**5,517.0**	**8,639.4**	**2,165.2**	**34,592.7**	**3,193.3**	**757.8**	**1,484.6**	**56,350.0**	**(45,933.8)**	**(1,314.1)**	**(180.3)**	**(47,428.2)**

MB S.p.A. Balance Sheet as at 30 June 2016

(€m)

Assets and Liabilities	Net treasury funds	AFS securities	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets	Funding	Other liabilities	Provisions	Total liabilities
Financial assets held for trading	8,535.2	—	—	—	—	—	—	**8,535.2**	—	—	—	**—**
Treasury financial assets	8,444.4	—	—	—	—	—	—	**8,444.4**	—	—	—	**—**
AFS equities	—	851.9	—	—	—	—	—	**851.9**	—	—	—	**—**
Banking book securities	—	6,816.2	4,918.9	—	—	—	—	**11,735.1**	—	—	—	**—**
Customer loans	—	—	—	23,238.8	—	—	—	**23,238.8**	—	—	—	**—**
Equity investments	—	—	—	—	2,687.7	—	—	**2,687.7**	—	—	—	**—**
Tangible and intangible assets	—	—	—	—	—	132.0	—	**132.0**	—	—	—	**—**
Other assets	—	—	—	—	—	—	452.3	**452.3**	930.0	—	—	**930.0**
Total assets	**16,979.6**	**7,668.1**	**4,918.9**	**23,238.8**	**2,687.7**	**132.0**	**452.3**	**56,077.4**	**930.0**	**—**	**—**	**930.0**
Funding	—	—	—	—	—	—	—	**—**	37,468.2	—	—	**37,468.2**
Treasury financial liabilities	5,666.8	—	—	—	—	—	—	**5,666.8**	—	—	—	**—**
Financial liabilities held for trading	7,043.0	—	—	—	—	—	—	**7,043.0**	—	—	—	**—**
Other liabilities	—	—	—	181.9	—	—	—	**181.9**	623.5	608.9	—	**1,232.4**
Provisions	—	—	—	—	—	—	—	**—**	—	—	139.9	**139.9**
Total liabilities	**12,709.8**	**—**	**—**	**181.9**	**—**	**—**	**—**	**12,891.7**	**38,091.7**	**608.9**	**139.9**	**38,840.5**
Total	**4,269.8**	**7,668.1**	**4,918.9**	**23,056.9**	**2,687.7**	**132.0**	**452.3**	**43,185.7**	**(37,161.7)**	**(608.9)**	**(139.9)**	**(37,910.5)**

Reconciliation between new and old divisions

The reconciliation of the main profit-and-loss account items and RWAs between the old and new divisions for the periods ended 30 June 2016 are shown below.

Revenues (€m)

30 June 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	of which Leasing	Writeoffs and IC	Total
Corporate & Investment Banking (CIB)	**568.2**	**—**	**56.8**	**—**	**—**	**—**	**—**	**—**	**625.0**
of which Wholesale banking	*568.2*	—	—	—	—	—	—	—	*568.2*
Specialty Finance	—	—	*56.8*	—	—	—	—	—	*56.8*
Consumer Banking (CB)	**—**	**—**	**873.0**	**—**	**—**	**—**	**—**	**—**	**873.0**
Wealth Management (WM)	**—**	**141.7**	**—**	**192.4**	**—**	**—**	**—**	**—**	**334.1**
of which Private Banking	—	*141.7*	—	—	—	—	—	—	*141.7*
Chebanca!	—	—	—	*192.4*	—	—	—	—	*192.4*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**284.2**	**—**	**—**	**—**	**284.2**
Holding Functions (HF)	**(71.3)**	**—**	**—**	**—**	**—**	**64.1**	***54.6***	**0.7**	**(6.5)**
of which Leasing	—	—	—	—	—	*54.6*	*54.6*	—	*54.6*
Writeoffs and IC	—	—	(5.3)	—	—	—	—	—	(5.3)
Total revenues	**496.9**	**141.7**	**924.5**	**192.4**	**284.2**	**64.1**	***54.6***	**0.7**	**2.104.5**

Costs (€m)

30 June 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	of which Leasing	Writeoffs and IC	Total
Corporate & Investmenti Banking (CIB)	**(211.5)**	**—**	**(28.3)**	**—**	**—**	**—**	**—**	**—**	**(239.8)**
of which Wholesale banking	*(211.5)*	—	—	—	—	—	—	—	*(211.5)*
Specialty Finance	—	—	*(28.3)*	—	—	—	—	—	*(28.3)*
Consumer Banking (CB)	**—**	**—**	**(274.0)**	**—**	**—**	**—**	**—**	**—**	**(274.0)**
Wealth Management (WM)	**—**	**(106.1)**	**—**	**(163.3)**	**—**	**—**	**—**	**1.0**	**(268.4)**
of which Private Banking	—	*(106.1)*	—	—	—	—	—	—	*(106.1)*
Chebanca!	—	—	—	*(163.3)*	—	—	—	*1.0*	*(162.3)*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**(8.9)**	**—**	**—**	**3.0**	**(5.9)**
Holding Functions (HF)	**(94.3)**	**—**	**—**	**—**	**—**	**(67.9)**	***(28.7)***	**—**	**(162.2)**
of which Leasing	—	—	—	—	—	*(28.7)*	*(28.7)*	—	*(28.7)*
Writeoffs and IC	4.1	—	6.0	—	—	—	—	—	*10.1*
Total costs	**(301.7)**	**(106.1)**	**(296.3)**	**(163.3)**	**(8.9)**	**(67.9)**	***(28.7)***	**4.0**	**(940.2)**

Net profit (loss)

(€m)

30 June 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	of which Leasing	Writeoffs and IC	Total
Corporate & Investmenti Banking (CIB)	**206.8**	**—**	**16.0**	**—**	**—**	**—**	**—**	**—**	**222.8**
of which Wholesale banking	*206.8*	—	—	—	—	—	—	—	*206.8*
Specialty Finance	—	—	*16.0*	—	—	—	—	—	*16.0*
Consumer Banking (CB)	**—**	**—**	**153.8**	**—**	**—**	**—**	**—**	**—**	**153.8**
Wealth Management (WM)	**—**	**29.5**	**—**	**7.5**	**—**	**—**	**—**	**1**	**38.0**
of which Private Banking	—	*29.5*	—	—	—	—	—	—	*29.5*
Chebanca!	—	—	—	*7.5*	—	—	—	*1*	*8.5*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**370.2**	**—**	**—**	**3**	**373.2**
Holding Functions (HF)	**(107.7)**	**—**	**—**	**—**	**—**	**(77.0)**	***4.6***	**—**	**(184.7)**
of which Leasing	—	—	—	—	—	*4.6*	*4.6*	—	*4.6*
Writeoffs and IC	5.4	—	0.7	—	—	—	—	(4.7)	1.4
Net profit/(loss) for the period	**104.5**	**29.5**	**170.5**	**7.5**	**370.2**	**(77.0)**	***4.6***	**(0.7)**	**604.5**

RWA

(€m)

30 June 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	Total
Corporate & Investmenti Banking (CIB)	**26,326.3**	**—**	**903.4**	**—**	**—**	**—**	**27,229.7**
of which Wholesale banking	*26,305.3*	—	—	—	—	—	*26,305.3*
Specialty Finance	*21.0*	—	*903.4*	—	—	—	*924.4*
Consumer Banking (CB)	**376.2**	**—**	**10,872.2**	**—**	**—**	**—**	**11,248.4**
Whealth Management (WM)	**400.8**	**1,837.3**	**—**	**2,118.0**	**—**	**—**	**4,356.1**
of which CheBanca!	*394.3*	—	—	*2,118.0*	—	—	*2,512.3*
Private Bankig	*6.5*	*1,837.3*	—	—	—	—	*1,843.8*
Principal Investing (PI)	**183.8**	**—**	**—**	**—**	**6,572.5**	**—**	**6,756.3**
Holding Functions (HF)	**2,038.8**	**—**	**—**	**—**	**—**	**2,232.3**	**4,271.1**
Total RWA	**29,325.9**	**1,837.3**	**11,775.6**	**2,118.0**	**6,572.5**	**2,232.3**	**53,861.6**

Consolidated Balance Sheet/Profit and Loss Accounts Reconciliation between Reclassified Balance Sheet and mandatory Balance Sheet pursuant to Bank of Italy Circular 262/2005.

The Balance Sheet provided on p. 27 reflects the following restatements:

for which regards Assets:

– *Treasury funds* comprises asset headings 10 “Cash and cash equivalents”; current account and demand deposits, repos, as well as other time deposits and other hedging under heading 60 “Due from banks” and 70 “Due from customers”; and also other items under heading 160 “Other assets”;

– *Banking book securities* comprises debt securities under heading 40 “Financial assets available-for-sale”, heading 50 “Financial assets held-to-maturity”, heading 6o “Due from banks” and heading 70 “Due from customers”;

– *Loans and advances to customers* comprises heading 60 “Due from banks” and 70 “Due from customers”, except for amounts directly reclassified in other headings;

– *Other assets* comprises the entire heading 160 “Other assets”, heading 140 “Tax assets”, heading 80 “Hedging derivatives” and other debtors under heading 60 “Due from banks” and 70 “Due from customers”;

for which regards Liabilities:

– *Funding* comprises heading 10 “Due to banks” and 20 “Due to customers”, except from items that are comprised into Treasury funding and other creditors which are comprised into *Other liabilities*;

– *Treasury funding* comprises current account and demand deposits, repos, as well as other time deposits and other hedging under heading 10 “Due to banks” and 20 “Due to customers”;

– *Other liabilities* comprises other creditors under heading 10 “Due to banks” and 20 “Due to customers”, heading 60 “Hedging derivatives”, heading 80 “Tax liabilities” and heading 130 “Insurance reserves”.

Consolidated Balance Sheet as at 30 June 2017

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,330.2	—	—	—	—	—	—	**1,330.2**
20. Financials assets held for trading	7,833.9	—	—	—	—	—	—	—	**7,833.9**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	786.1	5,606.6	—	—	—	—	**6,392.7**
50. Financial assets held-to-maturity	—	—	—	2,400.2	—	—	—	—	**2,400.2**
60. Due from banks	—	6,883.0	—	—	1,066.6	—	—	10.3	**7,959.9**
70. Due from customers	—	1,207.6	—	350.9	37,124.3	—	—	80.3	**38,763.1**
80. Hedging derivatives	—	—	—	—	—	—	—	462.3	**462.3**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,036.5	—	—	**3,036.5**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	305.6	—	**305.6**
130. Intangible assets	—	—	—	—	—	—	552.2	—	**552.2**
140. Tax assets	—	—	—	—	—	—	—	847.4	**847.4**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	14.3	—	—	—	—	—	547.2	**561.5**
Total assets	**7,833.9**	**9,435.1**	**786.1**	**8,357.7**	**38,190.9**	**3,036.5**	**857.8**	**1,947.5**	**70,445.5**

Consolidated Balance Sheet as at 30 June 2017

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	9,423.9	3,263.4	—	2.3	—	—	**12,689.6**
20. Due to customers	19,588.0	773.8	—	4.2	—	—	**20,366.0**
30, Debt securities in issue	20,108.7	—	—	—	—	—	**20,108.7**
40. Trading liabilities	—	—	5,920.6	—	—	—	**5,920.6**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	341.2	—	—	**341.2**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	560.0	—	—	**560.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	846.2	—	—	**846.2**
110. Staff severance indemnity provision	—	—	—	—	29.8	—	**29.8**
120. Provisions	—	—	—	—	225.8	—	**225.8**
130. Insurance reserves	—	—	—	166.0	—	—	**166.0**
140. Revaluation reserves	—	—	—	—	—	871.4	**871.4**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,056.8	**5,056.8**
180. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
190. Share capital	—	—	—	—	—	440.6	**440.6**
200. Treasury shares	—	—	—	—	—	(197.7)	**(197.7)**
210. Minority interest	—	—	—	—	—	82.7	**82.7**
220. Profit for the period	—	—	—	—	—	750.2	**750.2**
Total liabilities and net equity	**49,120.6**	**4,037.2**	**5,920.6**	**1,919.9**	**255.6**	**9,191.6**	**70,445.5**

Consolidated Balance Sheet as at 30 June 2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangiible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	156.3	—	—	—	—	—	—	**156.3**
20. Financials assets held for trading	9,505.3	—	—	—	—	—	—	—	**9,505.3**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	914.3	7,725.1	—	—	—	—	**8,639.4**
50. Financial assets held-to-maturity	—	—	—	1,975.4	—	—	—	—	**1,975.4**
60. Due from banks	—	3,964.2	—	—	1,390.6	—	—	31.8	**5,386.6**
70. Due from customers	—	4,278.7	—	189.8	33,348.1	—	—	65.0	**37,881.5**
80. Hedging derivatives	—	—	—	—	—	—	—	933.4	**933.4**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,193.3	—	—	**3,193.3**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	304.9	—	**304.8**
130. Intangible assets	—	—	—	—	—	—	452.9	—	**452.9**
140. Tax assets	—	—	—	—	—	—	—	961.5	**988.7**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	8.7	—	—	—	—	—	419.3	**400.8**
Total assets	**9,505.3**	**8,407.9**	**914.3**	**9,890.3**	**34,738.7**	**3,193.3**	**757.8**	**2,411.0**	**69,818.6**

Consolidated Balance Sheet as at 30 June 2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	9,407.1	2,532.2	—	0.9	—	—	**11,940.3**
20. Due to customers	15,438.2	2,722.5	—	3.8	—	—	**18,164.5**
30. Debt securities in issue	21,813.1	—	—	0.1	—	—	**21,813.1**
40. Trading liabilities	—	—	7,141.5	—	—	—	**7,141.5**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	339.9	—	—	**339.9**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	572.7	—	—	**573.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	596.6	—	—	**596.3**
110. Staff severance indemnity provision	—	—	—	—	29.0	—	**29.0**
120. Provisions	—	—	—	—	151.3	—	**151.3**
130. Insurance reserves	—	—	—	147.9	—	—	**147.9**
140. Revaluation reserves	—	—	—	—	—	1,145.0	**1,145.0**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	4,692.8	**4,692.7**
180. Share premium reserve	—	—	—	—	—	2,152.8	**2,152.8**
190. Share capital	—	—	—	—	—	435.5	**435.5**
200. Treasury shares	—	—	—	—	—	(198.0)	**(198.0)**
210. Minority interest	—	—	—	—	—	89.2	**89.2**
220. Profit for the period	—	—	—	—	—	604.5	**604.5**
Total liabilities and net equity	**46,658.4**	**5,254.7**	**7,141.5**	**1,661.8**	**180.3**	**8,921.8**	**69,818.6**

Reconciliation between Reclassified Profit and Loss and mandatory Profit and Loss pursuant to Bank of Italy Circular 262/2005.

The Profit and Loss provided on p. 26 reflects the following restatements:

- *Net interest margin* comprises heading 10 “Interest and similar income”, heading 20 “Interest expenses and similar charges”, hedging derivatives differentials related to held-for-trading securities of heading 80 “Net trading income” and the net result from hedging activities of loans to customers and of funding of heading 90 “Net hedging income (expense)”;
- *Treasury income* comprises heading 70 “Dividends and similar income”, heading 80 “Net trading income” (except for the amount under the *net margin interest*), the result of the b*anking book securities* included in heading 100 “Gain (loss) on disposal/repurchase” and the share of repos in headings 40 “Fee and commission income” and 50 “Fee and commission expense”;
- *Net fee and commission income* comprises heading 60 “Net fee and commission income”, the operating incomes of heading 220 “Other operating income (expenses)” and the reversal on purchased NPL exposures of heading 130 “Adjustments for impairment”;
- *Loan loss provisions* comprise heading 130 “Adjustments for impairment” (apart from NPL write-backs) and the losses on credit disposal included in the heading 100 “Gain (loss) on disposal/repurchase ”;
- *Other profits (losses)* comprise the non-recurring costs of heading 180 “Administrative costs”, especially the contributes to the SRF and the DGS, the provisions for restructuring and impairment of tangible and intangible assets.

Consolidated Profit and Loss for the 12 mths ended 30 June 2017

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,916.4	—	—	—	—	—	—	—	—	—	—	1916.4
20. Interest expense and similar charges	(638.9)	—	—	—	—	—	—	—	—	—	—	(638.9)
30. Net interest income	**1,277.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,277.5**
40. Fee and commission income	—	4.6	477.9	—	—	—	—	—	—	—	—	482.5
50. Fee and commission expense	—	(3.9)	(100.7)	—	—	—	—	—	—	—	—	(104.6)
60. Net fee and commission income	**—**	**0.7**	**377.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**377.9**
70. Dividends and similar income	—	81.4	—	—	—	—	—	—	—	—	—	81.4
80. Net trading income	(5.5)	39.7	—	—	—	—	—	—	—	—	—	34.2
90. Net hedging income (expense)	15.8	—	—	—	—	—	—	—	—	—	—	15.8
100. Gain (loss) on disposal/repurchase	—	(0.5)	—	—	—	168.6	(11.7)	—	—	—	—	156.4
120. Total income	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(11.7)**	**—**	**—**	**—**	**—**	**1,943.2**
130. Adjustments for impairment	—	—	—	—	—	—	(287.5)	(6.2)	—	—	—	(293.7)
140. Net income from financial operations	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,649.6**
150. Net premium earned (net)	—	—	52.3	—	—	—	—	—	—	—	—	52.3
160. Other income (net) from insurance activities	—	—	(14.4)	—	—	—	—	—	—	—	—	(14.4)
170. Net profit from financial and insurance activities	**1,287.8**	**121.3**	**415.1**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,687.5**
180. Administrative expenses	—	—	—	—	(1,028.2)	—	—	—	(189.8)	—	—	(1,218.0)
190. Net transfers to provisions	—	—	—	—	(3.9)	—	—	—	(12.5)	—	—	(16.4)
200. Net adjustment to tangible assets	—	—	—	—	(17.6)	—	—	—	—	—	—	(17.6)
210. Net adjustment to intangible assets	—	—	—	—	(27.0)	—	—	—	—	—	—	(27.0)
220. Other operating income (expenses)	—	—	107.5	—	53.0	—	(17.6)	—	100.4	—	—	243.3
230. Operating costs	**—**	**—**	**107.5**	**—**	**(1,023.7)**	**—**	**(17.6)**	**—**	**(101.9)**	**—**	**—**	**(1,035.7)**
240. Gain (loss) on equity investments	—	—	—	263.9	—	—	—	(0.4)	—	—	—	263.5
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	(1.3)	—	—	—	(1.3)
280. Profit (loss) on ordinary activity before tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**—**	**—**	**914.0**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(171.7)	—	(171.7)
300. Profit (loss) on ordinary activities after tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	7.9	7.9
340. Net profit (loss) for the period attributable to Mediobanca	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**7.9**	**750.2**

Consolidated Profit and Loss for the 12 mths ended 30 June 2016

€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,906.6	—	—	—	—	—	—	—	—	—	—	1906.6
20. Interest expense and similar charges	(706.1)	—	—	—	—	—	—	—	—	—	—	(706.1)
30. Net interest income	**1,200.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,200.5**
40. Fee and commission income	—	1.2	405.6	—	—	—	—	—	—	—	—	406.8
50. Fee and commission expense	—	(2.2)	(81.8)	—	—	—	—	—	—	—	—	(84.0)
60. Net fee and commission income	**—**	**(1.0)**	**323.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**322.7**
70. Dividends and similar income	—	80.5	—	—	—	—	—	—	—	—	—	80.5
80. Net trading income	(2.1)	40.7	—	—	—	—	—	—	—	—	—	38.6
90. Net hedging income (expense)	8.3	—	—	—	—	—	—	—	—	—	—	8.3
100. Gain (loss) on disposal/repurchase	—	13.0	—	—	—	104.2	(20.9)	—	—	—	—	96.3
120. Total income	**1,206.7**	**133.1**	**323.7**	**—**	**—**	**104.2**	**(20.9)**	**—**	**—**	**—**	**—**	**1,747.0**
130. Adjustments for impairment	—	—	—	—	—	—	(398.0)	(19.4)	0.1	—	—	(417.4)
140. Net income from financial operations	**1,206.7**	**133.1**	**323.7**	**—**	**—**	**104.2**	**(418.9)**	**(19.4)**	**0.1**	**—**	**—**	**1,329.6**
150. Net premium earned (net)	—	—	46.8	—	—	—	—	—	—	—	—	46.8
160. Other income (net) from insurance activities	—	—	(15.6)	—	—	—	—	—	—	—	—	(15.6)
170. Net profit from financial and insurance activities	**1,206.7**	**133.1**	**355.0**	**—**	**—**	**104.2**	**(418.9)**	**(19.4)**	**0.1**	**—**	**—**	**1,360.8**
180. Administrative expenses	—	—	(0.4)	—	(897.9)	—	—	—	(102.4)	—	—	(1,000.6)
190. Net transfers to provisions	—	—	—	—	(3.0)	—	—	—	(2.0)	—	—	(5.0)
200. Net adjustment to tangible assets	—	—	—	—	(20.6)	—	—	—	—	—	—	(20.6)
210. Net adjustment to intangible assets	—	—	—	—	(19.8)	—	—	—	—	—	—	(19.8)
220. Other operating income (expenses)	—	—	95.5	—	49.4	—	—	—	—	—	—	144.9
230. Operating costs	**—**	**—**	**95.2**	**—**	**(891.9)**	**—**	**—**	**—**	**(104.4)**	**—**	**—**	**(901.1)**
240. Gain (loss) on equity investments	—	—	—	256.7	—	20.0	—	—	—	—	—	276.7
270. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
280. Profit (loss) on ordinary activity before tax	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**—**	**—**	**736.3**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(128.7)		(128.7)
300. Profit (loss) on ordinary activities after tax	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**—**	**607.6**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**—**	**607.6**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(3.1)	(3.1)
340. Net profit (loss) for the period attributable to Mediobanca	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**(3.1)**	**604.5**

Mediobanca S.p.A: Balance sheet/Profit and loss Account Reconciliation between reclassified Balance Sheet and mandatory Balance Sheet pursuant to Bank of Italy circular 262/2005 *

Mediobanca S.p.A. Balance Sheet as at 30 June 2017

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,255.6	—	—	—	—	—	—	**1,255.6**
20. Financial assets held for trading	7,271.3	—	—	—	—	—	—	—	**7,271.3**
40. Financial assets available-for-sale	—	—	659.5	5,004.9	—	—	—	—	**5,664.4**
50. Financial assets held-to-maturity	—	—	—	2,394.9	—	—	—	—	**2,394.9**
60. Due from banks	—	6,272.6	—	287.8	13,832.1	—	—	16.2	**20,408.7**
70. Due from customers	—	2,503.6	—	3,076.7	11,394.6	—	—	16.4	**16,991.3**
80. Hedging derivatives	—	—	—	—	—	—	—	462.6	**462.6**
100. Equity investments	—	—	—	—	—	3,057.0	—	—	**3,057.0**
120. Property, plant and equipment	—	—	—	—	—	—	118.1	—	**118.1**
130. Intangible assets	—	—	—	—	—	—	14.2	—	**14.2**
140. Tax assets	—	—	—	—	—	—	—	207.5	**207.5**
150. Other assets	—	—	—	—	—	—	—	63.3	**63.3**
Total assets	**7,271.3**	**10,031.8**	**659.5**	**10,764.3**	**25,226.7**	**3,057.0**	**132.3**	**766.0**	**57,908.9**

Mediobanca S.p.A. Balance Sheet as at 30 June 2017

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	20,562.2	3,676.8	—	3.9	—	—	**24,242.9**
20. Due to customers	1,573.4	774.4	—	2.5	—	—	**2,350.3**
30. Debt securities in issue	18,902.6	—	—	—	—	—	**18,902.6**
40. Trading liabilities	—	—	5,859.2	—	—	—	**5,859.2**
60. Hedging derivatives	—	—	—	498.7	—	—	**498.7**
80. Tax liabilities	—	—	—	412.8	—	—	**412.8**
100. Other liabilities	—	—	—	218.5	—	—	**218.5**
110. Staff severance indemnity provision	—	—	—	—	8.9	—	**8.9**
120. Provisions	—	—	—	—	96.8	—	**96.8**
130. Revaluation reserves	—	—	—	—	—	285.2	**285.2**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,284.2	**2,284.2**
170. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
180. Share capital	—	—	—	—	—	440.6	**440.6**
190. Treasury shares (-)	—	—	—	—	—	(197.7)	**(197.7)**
200. Profit for the period (+/-)	—	—	—	—	—	318.3	**318.3**
Total liabilities and net equity	**41,038.2**	**4,451.2**	**5,859.2**	**1,136.4**	**105.7**	**5,318.2**	**57,908.9**

(*) Riconciliation with schemes reported on page 291

Mediobanca S.p.A. Balance Sheet as at 30 June 2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	102.2	—	—	—	—	—	—	**102.2**
20. Financial assets held for trading	8,535.2	—	—	—	—	—	—	—	**8,535.2**
30. Financial assets at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	851.9	6,816.2	—	—	—	—	**7,668.1**
50. Financial assets held-to-maturity	—	—	—	1,963.3	—	—	—	—	**1,963.3**
60. Due from banks	—	4,042.7	—	—	10,959.1	—	—	28.0	**15,029.8**
70. Due from customers	—	4,299.4	—	2,955.6	12,279.7	—	—	17.6	**19,552.3**
80. Hedging derivatives	—	—	—	—	—	—	—	936.7	**936.7**
100. Equity investments	—	—	—	—	—	2,687.7	—	—	**2,687.7**
110. Property, plant and equipment	—	—	—	—	—	—	119.4	—	**119.4**
120. Intangible assets	—	—	—	—	—	—	12.7	—	**12.7**
130. Tax assets	—	—	—	—	—	—	—	295.1	**295.1**
150. Other assets	—	—	—	—	—	—	—	105.0	**105.0**
Total assets	**8,535.2**	**8,444.3**	**851.9**	**11,735.0**	**23,238.8**	**2,687.7**	**132.0**	**1,382.4**	**57,007.4**

Mediobanca S.p.A. Balance Sheet as at 30 June 2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	16,803.2	2,941.3	—	4.0	—	—	**19,748.6**
20. Due to customers	1,128.5	2,724.1	—	2.6	—	—	**3,855.3**
30. Debt securities in issue	19,536.4	—	—	0.1	—	—	**19,536.5**
40. Trading liabilities	—	—	7,043.0	—	—	—	**7,043.0**
60. Hedging derivatives	—	—	—	726.3	—	—	**726.3**
70. Change in fair value or portfolio hedged items	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	447.1	—	—	**447.1**
100. Other liabilities	—	1.3	—	234.2	—	—	**235.5**
110. Staff severance indemnity provision	—	—	—	—	9.6	—	**9.6**
120. Provisions	—	—	—	—	130.3	—	**130.3**
130. Revaluation reserves	—	—	—	—	—	379.5	**379.5**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,217.3	**2,217.3**
170. Share premium reserve	—	—	—	—	—	2,152.8	**2,152.8**
180. Share capital	—	—	—	—	—	435.5	**435.5**
190. Treasury shares (-)	—	—	—	—	—	(198.0)	**(198.0)**
200. Profit for the period (+/-)	—	—	—	—	—	288.0	**288.0**
Total liabilities and net equity	**37,468.2**	**5,666.8**	**7,043.0**	**1,414.2**	**139.9**	**5,275.3**	**57,007.4**

Reconciliation between reclassified Profit and loss Account and mandatory Profit and Loss pursuant to Bank of Italy circular 262/2005

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 2017

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	813.1	—	—	—	—	—	—	—	—	—	—	813.1
20. Interest expense and similar cherges	(742.0)	—	—	—	—	—	—	—	—	—	—	(742.0)
30. Net interest income	**71.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**71.1**
40. Fee and commission income	5.4	4.8	208.9	—	—	—	—	—	—	—	—	219.1
50. Fee and commission expense	—	(4.3)	(12.6)	—	—	—	—	—	—	—	—	(16.9)
60. Net fee and commission income	**5.4**	**0.5**	**196.3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**202.2**
70. Dividend and similar income	—	81.0	—	162.2	—	—	—	—	—	—	—	243.2
80. Net trading income	(2.6)	44.0	—	—	—		—	—	—	—	—	41.4
90. Net hedging income (expense)	10.7	—	—	—	—	—	—	—	—	—	—	10.7
100. Gain (loss) on disposal/repurchase	—	(9.2)	—	—	—	161.6	—	—	—	—	—	152.4
120. Total income	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**—**	**—**	**—**	**—**	**—**	**721.0**
130. Adjustment for impairment	—	—	—	—	—	—	13.1	(4.1)		—	—	9.0
140. Net income from financial operations	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**13.1**	**(4.1)**	**—**	**—**	**—**	**730.0**
150. Administrative expenses	—	—	—	—	(334.0)	—	—	—	—	(62.8)	—	(396.8)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	15.0	—	15.0
170. Net adjustments to tangible assets	—	—		—	(3.5)	—	—	—	—	—	—	(3.5)
180. Net adjustments to intangible assets	—	—	—	—	(8.7)	—	—	—	—	—	—	(8.7)
190. Other operating income (expenses)	—		15.4	—	(2.2)		—	—	—	—	—	13.2
200. Operating costs	**—**	**—**	**15.4**	**—**	**(348.4)**	**—**	**—**	**—**	**—**	**(47.8)**	**—**	**(380.8)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(0.9)	—	—	(0.9)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—		—	—	—
250. Profit (loss) on ordinary activities before tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**—**	**348.3**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—		—	(30.0)	(30.0)
270. Profit (loss) on ordinary activities after tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**
290 Net profit (loss) for the period	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	902.5	—	—	—	—	—	—	—	—	—	—	902.5
20. Interest expense and similar cherges	(770.3)	—	—	—	—	—	—	—	—	—	—	(770.3)
30. Net interest income	**132.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**132.2**
40. Fee and commission income	—	2.3	209.4	—	—	—	—	—	—	—	—	211.6
50. Fee and commission expense	—	(2.2)	(12.3)	—	—	—	—	—	—	—	—	(14.5)
60. Net fee and commission income	**—**	**—**	**197.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**197.1**
70. Dividend and similar income	—	80.3	—	146.0	—	—	—	—	—	—	—	226.3
80. Net trading income	7.4	35.9	—	—	—	—	—	—	—	—	—	43.3
90. Net hedging income (expense)	7.6	—	—	—	—	—	—	—	—	—	—	7.6
100. Gain (loss) on disposal/repurchase	—	11.7	—	—	—	99.8	—	—	—	—	—	111.4
120. Total income	**147.2**	**127.9**	**197.1**	**146.0**	**—**	**99.8**	**—**	**—**	**—**	**—**	**—**	**718.0**
130. Adjustment for impairment	—	—	—	—	—	—	(29.5)	(19.3)	—	—	—	(48.8)
140. Net income from financial operations	**147.2**	**127.9**	**197.1**	**146.0**	**—**	**99.8**	**(29.5)**	**(19.3)**	**—**	**—**	**—**	**669.2**
150. Administrative expenses	—	—	(0.4)	—	(323.6)	—	—	—	—	(81.8)	—	(405.8)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	—	—	—
170. Net adjustments to tangible assets	—	—	—	—	(3.7)	—	—	—	—	—	—	(3.7)
180. Net adjustments to intangible assets	—	—	—	—	(6.0)	—	—	—	—	—	—	(6.0)
190. Other operating income (expenses)	—	—	24.7	—	(4.0)	—	—	—	—	—	—	20.7
200. Operating costs	**—**	**—**	**24.3**	**—**	**(337.3)**	**—**	**—**	**—**	**—**	**(81.8)**	**—**	**(394.7)**
210. Gain (loss) on equity investments	—	—	—	—	—	41.6	—	—	(2.5)	—	—	39.1
240. Gain (loss) on disposal of investments	—	—	—	—	—		—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**—**	**313.6**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—		—	(25.6)	(25.6)
270. Profit (loss) on ordinary activities after tax	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**(25.6)**	**288.0**
290 Net profit (loss) for the period	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**(25.6)**	**288.0**

Table A

Asset Revaluation Statement

(€)

Revalued assets	Original revaluation	Decrease due to disposal or writedown	Current revaluation
– property in Piazzetta Enrico Cuccia 1 (formerly Via Filodrammatici 6-8-10)			
revaluation effected under Law no. 576 of 2 december 1975	2,609,651.24	—	2,609,651.24
revaluation effected under Law no. 72 of 19 march 1983	11,620,280.23	—	11,620,280.23
revaluation effected under Law no. 413 of 30 december 1991	4,174,707.04	—	4,174,707.04
			18,404,638.51
– property in Piazza Paolo Ferrari 6			
revaluation effected under Law no. 72 of 19 march 1983	815,743.67	—	815,743.67
			815,743.67

Balance sheets and profit and loss accounts of investments in Group undertakings (including indirect investments)

Banks (IAS/IFRS) Table B

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	2,379	70,706	1,350
20.	Financial assets held for trading	253,492	—	—
40.	AFS securities	565,789	161,710	1,255
60.	Due from banks	1,919,980	10,758,523	116,966
70.	Due from customers	1,229,433	7,991,404	10,540,696
80.	Hedging derivatives	1,260	39,233	140
100.	Equity investments	48	69	103,681
110.	Property, plant and equipment	19,528	3,712	13,247
120.	Intangible assets	9,246	23,164	355,803
	of which:			
	- goodwill	*6,624*	—	*354,033*
130.	Tax assets	—	40,548	512,546
	- Current	—	*2,455*	*15,234*
	- Advance	—	*38,093*	*497,312*
	- of which pursuant to Italian Law 214/11	—	*22,625*	*486,777*
150.	Other assets	17,018	220,144	44,436
	TOTAL ASSETS	**4,018,173**	**19,309,213**	**11,690,120**

		COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
	LIABILITIES			
10.	Due to banks	40,204	5,199,937	9,795,867
20.	Due to customers	3,190,061	13,353,292	105,416
40.	Financial liabilities	358	—	—
60.	Hedging derivatives	—	1,848	9,923
80.	Tax liabilities	—	8,488	22,978
	- Current	—	*190*	*20,326*
	- Deferred	—	*8,298*	*2,652*
100.	Other liabilities	34,007	308,940	166,384
110.	Staff severance indemnity provision	—	2,123	8,364
120.	Provisions	4,669	89,468	2,726
	- post-employment and similar benefits	—	—	—
	- other provisions	*4,669*	*89,468*	*2,726*
130.	Valuation reserves	3,746	665	(17,611)
140.	Redeemable shares	—	—	—
150.	Equity instruments (-)	—	—	—
160.	Reserves	591,413	(131,955)	807,395
170.	Share premium reserve	4,573	233,750	—
180.	Share capital	111,110	226,250	587,500
190.	Treasury shares (-)	—	—	—
200.	Profit (loss) for the period	38,032	16,407	201,178
	TOTAL LIABILITIES AND NET EQUITY	**4,018,173**	**19,309,213**	**11,690,120**

* Table compiled in accordante with the regulation provided under the Article 36 of CONSOB Market Regultation and Article 2, 6, 2 C12.

Banks (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	COMPAGNIE MONEGASQUE DE BANQUE *	CHEBANCA!	COMPASS BANCA
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	44,341	336,570	922,275
20. Interest and similar expense	(11,530)	(132,597)	(166,122)
30. Net interest income	**32,811**	**203,973**	**756,153**
40. Fee and commission income	51,787	81,811	58,728
50. Fee and commission expense	(7,399)	(13,250)	(51,337)
60. Net fee and commission income	**44,388**	**68,561**	**7,391**
70. Dividends and similar income	18	77	9
80. Net trading income (expense)	8,175	347	—
90. Net hedging income (expense)	—	1,322	—
100. Gain (loss) on repurchase (disposal) of:	8,484	—	(11,663)
a) loans and advances	—	—	*(11,663)*
b) AFS securities	*8,484*	—	—
c) financial assets held to maturity	—	—	—
d) financial liabilities	—	—	—
110. Net income from financial assets and liabilities recognized at fair value	—	—	—
120. Total income	**93,876**	**274,280**	**751,890**
130. Value adjustments for impairment of:	(5)	(21,592)	(259,556)
a) loans and advances	*(5)*	*(19,384)*	*(251,155)*
b) AFS securities	—	*(2,208)*	—
c) financial assets held to maturity	—	—	—
d) other financial assets	—	—	*(8,401)*
140. Net income from financial operations	**93,871**	**252,688**	**492,334**
150. Administrative expenses	(44,462)	(328,520)	(294,525)
- labour costs	*(30,377)*	*(105,658)*	*(88,989)*
- other administrative expenses	*(14,085)*	*(222,862)*	*(205,536)*
160. Net transfers to provisions	530	(24,966)	(1,807)
170. Net adjustments on tangible assets	(2,158)	(1,138)	(1,947)
180. Net adjustments on intangible assets	(4,415)	(5,224)	(1,857)
190. Other operating incomes (expenses)	2,496	125,341	104,959
200. Operating costs	**(48,009)**	**(234,507)**	**(195,177)**
210. Gairn (loss) on equity investments	—	(2)	—
220. Net result of fair value recognition of tangible and intangible assets	—	—	—
230. Goodwill write-offs	—	—	—
240. Gain (loss) on disposal of investments	(1,225)	1	—
250. Profit (loss) on ordinary activity before tax	**44,637**	**18,180**	**297,157**
260. Income tax on ordinary activity	(6,605)	(1,773)	(95,979)
270. Profit (loss) on ordinary activity after tax	**38,032**	**16,407**	**201,178**
280. Gain (loss) on groups of assets being sold	—	—	—
290. Net profit (loss) for the period	**38,032**	**16,407**	**201,178**

* Table compiled in accordante with the regulation provided under the Article 36 of CONSOB Market Regultation and Article 2, 6, 2 C12.

BALANCE SHEETS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
	ASSETS	
10.	Cash and cash equivalents	7,222
20.	Financial assets held for trading	345,345
50.	Financial assets held to maturity	59,324
60.	Due from banks	1,290,119
70.	Due from customers	3,299,878
80.	Hedging derivatives	192,321
100.	Equity investments	4,150
110.	Property, plant and equipment	14
120.	Intangible assets	—
130.	Tax assets	—
	- Current	—
	- Advance	—
	- of which pursuant to Italian Law 214/11	—
150.	Other assets	7,581
	TOTAL ASSETS	**5,205,954**
	LIABILITIES	
10.	Due to banks	2,248,877
20.	Due to customers	962,523
30.	Debt securities in issue	1,317,433
40.	Financial liabilities	333,474
60.	Hedging derivatives	—
80.	Tax liabilities	11,100
	- Current	*10,320*
	- Deferred	*780*
100.	Other liabilities	3,995
110.	Staff severance indemnity provision	—
120.	Provisions	—
	- post-employment and similar benefits	—
	- other provisions	—
130.	Valuation reserves	—
160.	Reserves	297,773
170.	Share premium reserve	—
180.	Treasury shares (-)	10,000
200.	Profit (loss) for the period	20,779
	TOTAL LIABILITIES AND NET EQUITY	**5,205,954**

Banks (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG)
		(€/000)
10.	Interest and similar income	105,857
20.	Interest and similar expense	(67,305)
30.	**Net interest income**	**38,552**
40.	Fee and commission income	14,485
50.	Fee and commission expense	(13,514)
60.	**Net fee and commission income**	**971**
70.	Dividends and similar income	—
80.	Net trading income (expense)	(3,705)
90.	Net hedging income (expense)	49
100.	Gain (loss) on repurchase (disposal) of:	329
	a) loans and advances	*279*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) financial liabilities	*50*
110.	Net income from financial assets and liabilities recognized at fair value	—
120.	**Total income**	**36,196**
130.	Value adjustments for impairment of:	788
	a) loans and advances	*475*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) other financial assets	*313*
140.	**Net income from financial operations**	**36,984**
150.	Administrative expenses	(8,524)
	- labour costs	*(1,303)*
	- other administrative expenses	*(7,221)*
160.	Net transfers to provisions	—
170.	Net adjustments on tangible assets	(11)
180.	Net adjustments on intangible assets	—
190.	Other operating incomes (expenses)	35
200.	**Operating costs**	**(8,500)**
210.	Gairn (loss) on equity investments	—
240.	Gain (loss) on disposal of investments	—
250.	**Profit (loss) on ordinary activity before tax**	**28,484**
260.	Income tax on ordinary activity	(7,705)
270.	**Profit (loss) on ordinary activity after tax**	**20,779**
280.	Gain (loss) on groups of assets being sold	—
290.	**Net profit (loss) for the period**	**20,779**

Banks (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		BANCA ESPERIA 31.12.2016 (€/000)
	ASSETS	
10.	Cash and cash equivalents	133
20.	Financial assets held for trading	426,670
40.	AFS securities	367,471
50.	Financial assets held to maturity	—
60.	Due from banks	49,583
70.	Due from customers	966,319
80.	Hedging derivatives	—
100.	Equity investments	16,875
110.	Property, plant and equipment	639
120.	Intangible assets	1,800
130.	Tax assets	6,883
	- Current	*1,471*
	- Advance	*5,412*
	- of which pursuant to Italian Law 214/11	—
150.	Other assets	62,963
	TOTAL ASSETS	**1,899,336**
	LIABILITIES	
10.	Due to banks	61,428
20.	Due to customers	1,421,309
30.	Debt securities in issue	201,590
40.	Financial liabilities	6,769
60.	Hedging derivatives	—
80.	Tax liabilities	1,921
	- Current	—
	- Deferred	*1,921*
100.	Other liabilities	31,542
110.	Staff severance indemnity provision	952
120.	Provisions	10,812
	- post-employment and similar benefits	—
	- other provisions	*10,812*
130.	Valuation reserves	(1,109)
160.	Reserves	54,553
170.	Share premium reserve	38,646
180.	Share capital	63,000
200.	Profit (loss) for the period	7,923
	TOTAL LIABILITIES AND NET EQUITIES	**1,899,336**

PROFIT AND LOSS ACCOUNTS

		BANCA ESPERIA 31.12.2016 (€/000)
10.	Interest and similar income	18,954
20.	Interest and similar expense	(7,325)
30.	**Net interest income**	**11,629**
40.	Fee and commission income	43,799
50.	Fee and commission expense	(5,291)
60.	**Net fee and commission income**	**38,508**
70.	Dividends and similar income	11,115
80.	Net trading income (expense)	(823)
90.	Net hedging income (expense)	—
100.	Gain (loss) on repurchase (disposal) of:	10,187
	a) loans and advances	—
	b) AFS securities	*10,198*
	d) financial liabilities	*(11)*
110.	Net income from financial assets and liabilities recognized at fair value	—
120.	**Total income**	**70,616**
130.	Value adjustments for impairment of:	(483)
	a) loans and advances	*134*
	b) AFS securities	*(614)*
	c) financial assets held to maturity	—
	d) other financial assets	*(3)*
140.	**Net income from financial operations**	**70,133**
150.	Administrative expenses	(61,662)
	- labour costs	*(39,172)*
	- other administrative expenses	*(22,490)*
160.	Net transfers to provisions	(967)
170.	Net adjustments on tangible assets	(349)
180.	Net adjustments on intangible assets	(1,190)
190.	Other operating incomes (expenses)	2,214
200.	**Operating costs**	**(61,954)**
210.	Gairn (loss) on equity investments	50
240.	Gain (loss) on disposal of investments	—
250.	**Profit (loss) on ordinary activity before tax**	**8,228**
260.	Income tax on ordinary activity	(305)
270.	**Profit (loss) on ordinary activity after tax**	**7,923**
280.	Gain (loss) on groups of assets being sold	—
290.	**Net profit (loss) for the period**	**7,923**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
	ASSETS		
10.	Cash and cash equivalents	1	2
20.	Financial assets held for trading	—	—
30.	Financial assets recognized at fair value	—	—
40.	AFS securities	—	—
50.	Financial assets held to maturity	—	699
60.	Amounts receivables	1,645,088	150,283
70.	Hedging derivatives	1,834	—
90.	Equity investments	9	—
100.	Property, plant and equipment	37	215
110.	Intangible assets	232	851
120.	Tax assets	4,650	16,078
	- Current	*1,646*	*2,386*
	- Advance	*3,004*	*13,692*
	- of which pursuant to Italian Law 214/11	*1,914*	*12,643*
140.	Other assets	4,519	18,946
	TOTAL ASSETS	**1,656,370**	**187,074**
	LIABILITIES		
10.	Amounts payable	1,516,490	51,541
20.	Debt securities in issue	—	—
30.	Trading liabilities	—	—
40	Financial liabilities designated at fair value	—	—
50.	Hedging derivatives	3,073	—
70.	Tax liabilities	3,065	2,281
	- Current	*2,551*	*2,281*
	- Deferred	*514*	—
90.	Other liabilities	23,084	9,077
100.	Staff severance indemnity provision	128	3,625
110.	Provisions	1,177	3,077
	- post-employment and similar benefits	—	—
	- other provisions	*1,177*	*3,077*
120.	Share capital	14,800	32,500
130.	Treasury shares (-)	—	—
140.	Equity instruments (-)	—	—
150.	Share premium reserve	—	—
160.	Reserves	72,555	66,388
170.	Valuation reserves	(519)	(396)
180.	Profit (loss) for the period	22,517	18,981
	TOTAL LIABILITIES AND NET EQUITY	**1,656,370**	**187,074**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
10. Interest and similar income	88,470	36,751
20. Interest and similar expense	(28,967)	(1,236)
Net interest income	**59,503**	**35,515**
30. Fee and commission income	1,541	32,229
40. Fee and commission expense	(4,151)	(9,983)
Net fee and commission income	**(2,610)**	**22,246**
50. Dividends and similar income	—	—
60. Net trading income (expense)	—	2
70. Net hedging income (expense)	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—
a) financial assets	—	—
b) financial liabilities	—	—
Total income	**56,893**	**57,763**
100. Value adjustments for impairment of:	(4,976)	(2,079)
a) financial assets	*(4,872)*	*(2,079)*
b) other financial operations	*(104)*	—
110. Administrative expenses	(15,730)	(33,358)
- labour costs	*(4,724)*	*(15,203)*
- other administrative expenses	*(11,006)*	*(18,155)*
120. Net adjustments on tangible assets	(17)	(51)
130. Net adjustments on intangible assets	(164)	(720)
140. Net result of fair value recognition of tangible and intangible assets	—	—
150. Net transfers to provisions	(194)	340
160. Other operating incomes (expenses)	(2,502)	2,183
Operating profit (loss)	**33,310**	**24,078**
170. Gairn (loss) on equity investments	—	—
180. Gain (loss) on disposal of investments	—	(7)
Profit (loss) on ordinary activity before tax	**33,310**	**24,071**
190. Income tax on ordinary activity	(10,793)	(5,090)
Profit (loss) on ordinary activity after tax	**22,517**	**18,981**
200. Gain (loss) on groups of assets being sold	—	—
Net profit (loss) for the period	**22,517**	**18,981**

Financial companies (IAS/IFRS)

BALANCE SHEETS

		SELMABIPIEMME LEASING
		(€/000)
	ASSETS	
10.	Cash and cash equivalents	5
20.	Financial assets held for trading	—
30.	Financial assets recognized at fair value	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	2,311,217
70.	Hedging derivatives	—
90.	Equity investments	13
100.	Property, plant and equipment	59,441
110.	Intangible assets	692
120.	Tax assets	39,201
	- Current	*1,535*
	- Advance	*37,666*
	- of which pursuant to Italian Law 214/11	*29,386*
140.	Other assets	74,851
	TOTAL ASSETS	**2,485,420**
	LIABILITIES	
10.	Amounts payable	2,203,523
20.	Debt securities in issue	—
30.	Trading liabilities	587
40.	Financial liabilities designated at fair value	—
50.	Hedging derivatives	14,088
70.	Tax liabilities	10,602
	- Current	*2,216*
	- Deferred	*8,386*
90.	Other liabilities	41,845
100.	Staff severance indemnity provision	2,313
110.	Provisions	5,638
	- post-employment and similar benefits	—
	- other provisions	*5,638*
120.	Share capital	41,305
130.	Treasury shares (-)	—
140.	Equity instruments (-)	—
150.	Share premium reserve	4,620
160.	Reserves	189,766
170.	Valuation reserves	(9,045)
180.	Profit (loss) for the period	(19,822)
	TOTAL LIABILITIES AND NET EQUITY	**2,485,420**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		SELMABIPIEMME LEASING (€/000)
10.	Interest and similar income	63,891
20.	Interest and similar expense	(16,436)
	Net interest income	**47,455**
30.	Fee and commission income	1,591
40.	Fee and commission expense	(1,569)
	Net fee and commission income	**22**
50.	Dividends and similar income	—
60.	Net trading income (expense)	231
70.	Net hedging income (expense)	(167)
80.	Net income from financial assets and liabilities recognized at fair value	—
90.	Gain (loss) on repurchase (disposal) of:	—
	a) financial assets	—
	b) financial liabilities	—
	Total income	**47,541**
100.	Value adjustments for impairment of:	(11,995)
	a) financial assets	*(11,995)*
	b) other financial operations	—
110.	Administrative expenses	(47,576)
	- labour costs	*(14,178)*
	- other administrative expenses	*(33,398)*
120.	Net adjustments on tangible assets	(1,717)
130.	Net adjustments on intangible assets	(3)
140.	Net result of fair value recognition of tangible and intangible assets	—
150.	Net transfers to provisions	(3,418)
160.	Other operating incomes (expenses)	223
	Operating profit (loss)	**(16,945)**
170.	Gairn (loss) on equity investments	(14)
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**(16,959)**
190.	Income tax on ordinary activity	(2,863)
	Profit (loss) on ordinary activity after tax	**(19,822)**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**(19,822)**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

	PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. 31.12.2016
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
ASSETS					
10. Cash and cash equivalents	—	—	430	—	1,661
20. Financial assets held for trading	—	—	—	—	—
30. Financial assets recognized at fair value	—	—	—	—	—
40. AFS securities	—	—	—	1,415	—
50. Financial assets held to maturity	—	—	—	—	—
60. Amounts receivables	4,400	52	200,000	5,453	57
70. Hedging derivatives	—	—	—	—	—
90. Equity investments	—	—	—	—	—
100. Property, plant and equipment	—	1,850	—	263	40
110. Intangible assets	—	—	—	—	—
120. Tax assets	559	15	—	—	—
- Current	*559*	*15*	—	—	—
- Advance	—	—	—	—	—
- of which pursuant to Italian Law 214/11	—	—	—	—	—
140. Other assets	73	10	95	7,805	2
TOTAL ASSETS	**5,032**	**1,927**	**200,525**	**14,936**	**1,760**
LIABILITIES					
10. Amounts payable	2,786	224	—	—	307
20. Debt securities in issue	—	—	200,028	—	—
30. Trading liabilities	—	—	—	72	—
40. Financial liabilities designated at fair value	—	—	—	—	—
50. Hedging derivatives	—	—	—	—	—
70. Tax liabilities	127	12	—	1,122	—
- Current	*127*	*12*	—	*1,013*	—
- Deferred	—	—	—	*109*	—
80. Liabilities associated with assets under divestment	—	—	—	—	—
90. Other liabilities	4,464	—	66	4,010	58
100. Staff severance indemnity provision	133	—	—	—	—
110. Provisions	520	—	—	—	—
- post-employment and similar benefits	—	—	—	—	—
- other provisions	*520*	—	—	—	—
120. Share capital	743	40	431	—	3,000
130. Treasury shares (-)	—	—	—	—	—
140. Equity instruments (-)	—	—	—	—	—
150. Share premium reserve	—	—	—	5,000	—
160. Reserves	(2,583)	1,627	—	2,535	(575)
170. Valuation reserves	—	—	—	114	—
180. Profit (loss) for the period	(1,158)	24	—	2,083	(1,030)
TOTAL LIABILITIES AND NET EQUITY	**5,032**	**1,927**	**200,525**	**14,936**	**1,760**

* Table compiled in accordante with the regulation provided under the Article 36 of CONSOB Market Regultation and Article 2, 6, 2 C12.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. 31.12.2016
		(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
10.	Interest and similar income	—	—	217	9	28
20.	Interest and similar expense	(16)	(16)	(217)	(15)	—
	Net interest income	**(16)**	**(16)**	**—**	**(6)**	**28**
30.	Fee and commission income	101	—	—	23,662	73
40.	Fee and commission expense	(62)	(2)	—	—	—
	Net fee and commission income	**39**	**(2)**	**—**	**23,662**	**73**
50.	Dividends and similar income	—	—	—	171	—
60.	Net trading income (expense)	—	—	—	209	—
70.	Net hedging income (expense)	—	—	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—	—	—	—
	a) financial assets	—	—	—	—	—
	b) financial liabilities	—	—	—	—	—
	Total income	**23**	**(18)**	**—**	**24,036**	**101**
100.	Value adjustments for impairment of:	—	—	—	(2)	—
	a) financial assets	—	—	—	—	—
	b) other financial operations	—	—	—	*(2)*	—
110.	Administrative expenses	(1,375)	(35)	(67)	(20,824)	(1,131)
	- labour costs	*(596)*	—	—	*(13,802)*	*(914)*
	- other administrative expenses	*(779)*	*(35)*	*(67)*	*(7,022)*	*(217)*
120.	Net adjustments on tangible assets	—	(83)	—	(79)	—
130.	Net adjustments on intangible assets	—	—	—	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—	—	—	—
150.	Net transfers to provisions	—	—	—	—	—
160.	Other operating incomes (expenses)	194	163	67	(254)	—
	Operating profit (loss)	**(1,158)**	**27**	**—**	**2,877**	**(1,030)**
170.	Gairn (loss) on equity investments	—	—	—	—	—
180.	Gain (loss) on disposal of investments	—	—	—	—	—
	Profit (loss) on ordinary activity before tax	**(1,158)**	**27**	**—**	**2,877**	**(1,030)**
190.	Income tax on ordinary activity	—	(3)	—	(794)	—
	Profit (loss) on ordinary activity after tax	**(1,158)**	**24**	**—**	**2,083**	**(1,030)**
200.	Gain (loss) on groups of assets being sold	—	—	—	—	—
	Net profit (loss) for the period	**(1,158)**	**24**	**—**	**2,083**	**(1,030)**

* Table compiled in accordante with the regulation provided under the Article 36 of CONSOB Market Regultation and Article 2, 6, 2 C12.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
	ASSETS		
10.	Cash and cash equivalents	—	—
20.	Financial assets held for trading	—	—
30.	Financial assets recognized at fair value	—	—
40.	AFS securities	—	—
50.	Financial assets held to maturity	—	—
60.	Amounts receivables	1,510	7,468
70.	Hedging derivatives	—	—
90.	Equity investments	—	—
100.	Property, plant and equipment	34	25
110.	Intangible assets	—	—
120.	Tax assets	600	402
	- Current	—	—
	- Advance	*600*	*402*
140.	Other assets	105	62
	TOTAL ASSETS	**2,249**	**7,957**
	LIABILITIES		
10.	Amounts payable	78	2,016
20.	Debt securities in issue	—	—
30.	Trading liabilities	—	—
40.	Financial liabilities designated at fair value	—	—
50.	Hedging derivatives	—	—
70.	Tax liabilities	266	82
	- Current	—	*82*
	- Deferred	*266*	—
90.	Other liabilities	21	1,207
100.	Staff severance indemnity provision	—	—
110.	Provisions	—	—
	- post-employment and similar benefits	—	—
	- other provisions	—	—
120.	Share capital	14,040	2,250
130.	Treasury shares (-)	—	—
140.	Equity instruments (-)	—	—
150.	Share premium reserve	—	—
160.	Reserves	(6,652)	1,547
170.	Valuation reserves	—	—
180.	Profit (loss) for the period	(5,504)	855
	TOTAL LIABILITIES AND NET EQUITY	**2,249**	**7,957**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
10.	Interest and similar income	138	—
20.	Interest and similar expense	—	—
	Net interest income	**138**	**—**
30.	Fee and commission income	59	3,996
40.	Fee and commission expense	—	—
	Net fee and commission income	**59**	**3,996**
50.	Dividends and similar income	—	—
60.	Net trading income (expense)	—	—
70.	Net hedging income (expense)	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—
	a) financial assets	—	—
	b) financial liabilities	—	—
	Total income	**197**	**3,996**
100.	Value adjustments for impairment of:	—	—
	a) financial assets	—	—
	b) other financial operations	—	—
110.	Administrative expenses	(5,592)	(2,525)
	- labour costs	*(4,117)*	*(1,628)*
	- other administrative expenses	*(1,475)*	*(897)*
120.	Net adjustments on tangible assets	(100)	—
130.	Net adjustments on intangible assets	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—
150.	Net transfers to provisions	—	—
160.	Other operating incomes (expenses)	(9)	—
	Operating profit (loss)	**(5,504)**	**1,471**
170.	Gairn (loss) on equity investments	—	—
180.	Gain (loss) on disposal of investments	—	—
	Profit (loss) on ordinary activity before tax	**(5,504)**	**1,471**
190.	Income tax on ordinary activity	—	(616)
	Profit (loss) on ordinary activity after tax	**(5,504)**	**855**
200.	Gain (loss) on groups of assets being sold	—	—
	Net profit (loss) for the period	**(5,504)**	**855**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	—	6	1
20.	Financial assets held for trading	—	—	—
40.	AFS securities	—	—	—
50.	Financial assets held to maturity	—	4,629	—
60.	Amounts receivables	1,536,859	22,038	773
70.	Hedging derivatives	—	—	—
90.	Equity investments	—	20,973	—
100.	Property, plant and equipment	27	15	—
110.	Intangible assets	—	4,863	92
120.	Tax assets	2,483	1,893	99
	- Current	*158*	*772*	—
	- Advance	*2,325*	*1,121*	*99*
	- of which pursuant to Italian Law 214/11	—	—	—
140.	Other assets	586	4,164	28
	TOTAL ASSETS	**1,539,955**	**58,581**	**993**
	LIABILITIES			
10.	Amounts payable	1,445,052	98	—
20.	Debt securities in issue	—	—	—
30.	Trading liabilities	—	—	—
40.	Financial liabilities designated at fair value	—	—	—
70.	Tax liabilities	13	1,212	7
	- Current	—	*1,212*	*7*
	- Deferred	*13*	—	—
90.	Other liabilities	6,540	7,374	237
100.	Staff severance indemnity provision	129	985	20
110.	Provisions	91	—	—
	- post-employment and similar benefits	—	—	—
	- other provisions	*91*	—	—
120.	Share capital	85,500	6,100	1,000
150.	Share premium reserve	—	3,500	—
160.	Reserves	33	38,278	(4)
170.	Valuation reserves	3	(70)	1
180.	Profit (loss) for the period	2,594	1,104	(268)
	TOTAL LIABILITIES AND NET EQUITY	**1,539,955**	**58,581**	**993**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
10.	Interest and similar income	8,901	311	—
20.	Interest and similar expense	(392)	—	—
	Net interest income	**8,509**	**311**	**—**
30.	Fee and commission income	1,145	9,112	362
40.	Fee and commission expense	(375)	(1,063)	—
	Net fee and commission income	**770**	**8,049**	**362**
50.	Dividends and similar income	—	—	—
60.	Net trading income (expense)	(71)	—	—
70.	Net hedging income (expense)	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	109	—
	a) financial assets	—	*109*	—
	b) financial liabilities	—	—	—
	Total income	**9,208**	**8,469**	**362**
100.	Value adjustments for impairment of:	(3,244)	—	—
	a) financial assets	*(3,244)*	—	—
	b) other financial operations	—	—	—
	Net income from financial operations	**5,964**	**8,469**	**362**
110.	Administrative expenses	(2,051)	(8,720)	(722)
	- labour costs	*(652)*	*(5,477)*	*(610)*
	- other administrative expenses	*(1,399)*	*(3,243)*	*(112)*
120.	Net adjustments on tangible assets	(3)	(7)	—
130.	Net adjustments on intangible assets	—	(201)	—
160.	Other operating incomes (expenses)	35	2,217	—
	Operating profit (loss)	**3,945**	**1,758**	**(360)**
170.	Gairn (loss) on equity investments	—	—	—
	Profit (loss) on ordinary activity before tax	**3,945**	**1,758**	**(360)**
190.	Income tax on ordinary activity	(1,351)	(654)	92
	Profit (loss) on ordinary activity after tax	**2,594**	**1,104**	**(268)**
200.	Gain (loss) on groups of assets being sold	—	—	—
	Net profit (loss) for the period	**2,594**	**1,104**	**(268)**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

	MEDIOBANCA COVERED BOND (€/000)	QUARZO LEASE (€/000)	QUARZO (€/000)	QUARZO CQS (€/000)	QUARZO MB (€/000)
ASSETS					
10. Cash and cash equivalents	—	—	—	—	—
20. Financial assets held for trading	—	—	—	—	—
40. AFS securities	—	—	—	—	—
50. Financial assets held to maturity	—	—	—	—	—
60. Amounts receivables	100	39	10	10	2
70. Hedging derivatives	—	—	—	—	—
90. Equity investments	—	—	—	—	—
100. Property, plant and equipment	—	—	—	—	—
110. Intangible assets	—	—	—	—	—
120. Tax assets	—	3	1	—	—
- Current	—	*3*	*1*	—	—
- Advance	—	—	—	—	—
- of which pursuant to Italian Law 214/11	—	—	—	—	—
140. Other assets	300	—	316	243	—
TOTAL ASSETS	**400**	**42**	**327**	**253**	**2**
LIABILITIES					
10. Amounts payable	—	—	—	—	—
20. Debt securities in issue	—	—	—	—	—
30. Trading liabilities	—	—	—	—	—
40. Financial liabilities designated at fair value	—	—	—	—	—
50. Hedging derivatives	—	—	—	—	—
70. Tax liabilities	—	—	1	—	—
- Current	—	—	*1*	—	—
- Deferred	—	—	—	—	—
90. Other liabilities	324	28	313	243	22
100. Staff severance indemnity provision	—	—	—	—	—
110. Provisions	—	—	—	—	—
120. Share capital	100	30	10	10	10
160. Reserves	(24)	12	3	—	—
170. Valuation reserves	—	—	—	—	—
180. Profit (loss) for the period	—	(28)	—	—	(30)
TOTAL LIABILITIES AND NET EQUITY	**400**	**42**	**327**	**253**	**2**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	MEDIOBANCA COVERED BOND	QUARZO LEASE	QUARZO	QUARZO CQS	QUARZO MB
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
10. Interest and similar income	—	—	—	—	—
20. Interest and similar expense	—	—	—	—	—
Net interest income	**—**	**—**	**—**	**—**	**—**
30. Fee and commission income	—	—	—	—	—
40. Fee and commission expense	—	—	—	—	—
Net fee and commission income	**—**	**—**	**—**	**—**	**—**
50. Dividends and similar income	—	—	—	—	—
60. Net trading income (expense)	—	—	—	—	—
70. Net hedging income (expense)	—	—	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—	—	—
a) financial assets	—	—	—	—	—
b) financial liabilities	—	—	—	—	—
Total income	**—**	**—**	**—**	**—**	**—**
100. Value adjustments for impairment of:	—	—	—	—	—
a) financial assets	—	—	—	—	—
b) other financial operations	—	—	—	—	—
110. Administrative expenses	(62)	(27)	(150)	(96)	(29)
- labour costs	—	*(9)*	*(12)*	*(9)*	*(10)*
- other administrative expenses	*(62)*	*(18)*	*(138)*	*(87)*	*(19)*
120. Net adjustments on tangible assets	—	—	—	—	—
130. Net adjustments on intangible assets	—	—	—	—	—
150. Net transfers to provisions	—	—	—	—	—
160. Other operating incomes (expenses)	62	(1)	151	96	(1)
Operating profit (loss)	**—**	**(28)**	**1**	**—**	**(30)**
Profit (loss) on ordinary activity before tax	**—**	**(28)**	**1**	**—**	**(30)**
190. Income tax on ordinary activity	—	—	(1)	—	—
Profit (loss) on ordinary activity after tax					
200. Gain (loss) on groups of assets being sold	—	—	—	—	—
Net profit (loss) for the period	**—**	**(28)**	**—**	**—**	**(30)**

Non-financial undertakings

continued **Table B**

BALANCE SHEETS

	RICERCHE E STUDI S.p.A. (€/000)	MEDIOBANCA INNOVATION SERVICES S.C.p.A. (€/000)	SPAFID CONNECT (€/000)
ASSETS			
Non-current assets			
Intangible assets	—	13,067	14,661
Tangible assets	1	46,335	35
Other non-current financial assets	—	—	—
Advance tax assets	—	118	—
Total non-current assets	**1**	**59,520**	**14,696**
Current assets			
Trade receivables	6		
Other receivables	2	6,266	11,992
Sundry receivables and other current assets	186	13,399	1,171
Curret tax assets	—	798	—
Other current financial assets			
Cash and liquid assets	897	24	3,245
Total current assets	**1,091**	**20,487**	**16,408**
TOTAL ASSETS	**1,092**	**80,007**	**31,104**
LIABILITIES			
A) Shareholders' equity			
Share capital	100	35,000	14,500
Share premium reserve	—	—	4,496
Gains (losses) carried forward	—	2,603	(838)
Legal reserve	4	—	—
Gan (loss) for the period	—	2	658
Total shareholders' equity	**104**	**37,605**	**18,816**
Non-current liabilities			
Provisions	—	650	—
Staff severance	378	1,526	450
Deferred tax liabilities	—	556	—
Other non-current liabilities	—	—	—
Total non-current liabilities	**378**	**2,732**	**450**
Current liabilities			
Due to banks	—	—	—
Trade payables	12	9,879	8,843
Severance indemnity	—	2,827	—
Current tax liabilities	59	44	—
Current financial liabilities	123	24,830	—
Other current liabilities	416	2,090	2,995
Total current liabilities	**610**	**39,670**	**11,838**
TOTAL LIABILITIES AND NET EQUITY	**1,092**	**80,007**	**31,104**

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
	(€/000)	**(€/000)**	**(€/000)**
Revenues	2,039	69,467	8,601
Production costs	(547)	(34,621)	(5,468)
Personnel costs	(1,385)	(16,791)	(1,317)
Other operating income	—	(7,901)	—
Sundry operating expenses	(90)	—	—
Amortization, other intangible assets	—	(4,929)	(1,789)
Depreciation on property, plant and equipment	(1)	(5,499)	(9)
Operating result	**16**	**(274)**	**18**
Financial gains	—	—	—
Financial expenses	—	(1)	—
Other gains	—	30	—
Other expenses	—	—	(1)
Profit (loss) before taxes	**16**	**(245)**	**17**
Fiscal gain (expense)	(16)	247	641
Taxes for the period	(16)	263	641
Deffered and advance taxes	—	(16)	—
Net profit (loss) for the period	**—**	**2**	**658**

Insurance companies

continued **Table B**

BALANCE SHEETS

	COMPASS RE (€/000)
ASSETS	
A) Amounts due from shareholderes by way of unpaid amounts on capital call	**—**
B) Intangible assets	**—**
C) Fixed assets	**243,750**
I) Lands and PPEs	—
II) Investments in affiliated undertakings and partecipating interests	
3) Loans to enterprises	*189,000*
a) parent company	*77,000*
e) others	*112,000*
III) Other financial investments	54,750
6) Banks deposits	*54,750*
D) Investments for the benefit of insured parties (life)	**—**
E) Receivables	**16,838**
II Receivables arising out of reinsurance operations	16,078
III Other receivables	760
F) Other assets	**24,323**
II Cash at bank and in hand	24,323
G) Accrued income and deferred expenses	**17,396**
1. Due to interests	2,151
3. Others	15,245
TOTAL ASSETS	**302,307**
LIABILITIES	
A) Shareholders' equity	**21,798**
I Share capital	15,000
IV Legal reserve	1,500
VIII Gains (losses) carried forward	652
IX Net gain (loss) for the period	4,646
B) Subordinated liabilities	**—**
C) Technical reserves	**271,527**
I Non-life business	
1. Premiums reserve	*150,806*
2. Claims reserve	*15,168*
3. Equalization reserve	*105,553*
D) Tchnical reserves where risk is borne by insured party	**—**
E) Provisions	**39**
2) Taxation-related provisions	39
F) Deposits received from reinsurers	**—**
G) Payables and other liabilities	**8,602**
VII Other payables	
3. Due to social agencies	*8,602*
H) Accrued income and deferred expenses	**341**
3. Others accruals and deferrals	341
TOTAL LIABILITIES AND NET EQUITY	**302,307**

PROFIT AND LOSS ACCOUNTS

	COMPASS RE (€/000)
I) TECHNICAL ACCOUNT	
Gross premiums written	69,709
Change in the gross provision for unearned premiums	(17,386)
Total net premiums written	**52,323**
Gains arising from non-technical accounts investments	—
1) TOTAL REVENUES	**52,323**
Gross amount	(7,026)
Change in the provision for claims (Gross amount)	(727)
Acquisition costs	(5,295)
Change in deferred acquisition costs	(1,379)
Administrative expenses	(696)
2) TOTAL COSTS	**(15,123)**
Change in deferred acquisition costs	(31,076)
Technical-account profit (loss)	**6,124**
II) NON-TECHNICAL ACCOUNT	
Income form other investments	3,673
Gains on the realisation of investments	365
Investment management charges, including interest	(23)
Value adjustments on investments	(546)
Losses on the realisation of investments	(338)
Underwriting profit (loss)	**3,131**
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX	**9,255**
Income taxes for the period	(4,471)
Other taxes not shown under the preceding items	(138)
NET PROFIT (LOSS) FOR THE PERIOD	**4,646**

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE BANQUE 31.12.2016 (€/000)
	ASSETS	
10.	Cash and cash equivalents	32,256
20.	Financial assets held for trading	737,821
30.	Financial assets recognized at fair value	
40.	AFS securities	636,542
50.	Financial assets held to maturity	
60.	Due from banks	1,688,119
70.	Due from customers	1,192,190
80.	Hedging derivatives	—
100.	Equity investments	9,912
110.	Property, plant and equipment	21,678
120.	Intangible assets	8,070
130.	Tax assets	—
	- Current	—
	- Advance	—
140.	Non-current assets and groups of assets being sold	—
150.	Other assets	13,822
	TOTAL ASSETS	**4,340,410**
	LIABILITIES	
10.	Due to banks	15,146
20.	Due to customers	3,565,254
30.	Debt securities in issue	—
40.	Financial liabilities	—
50.	Financial liabilities designated at fair value	—
60.	Hedging derivatives	—
80.	Tax liabilities	—
	- Current	—
	- Deferred	—
90.	Liabilities associated with assets being sold	—
100.	Other liabilities	28,916
110.	Staff severance indemnity provision	—
120.	Provisions	28,518
	- post-employment and similar benefits	—
	- other provisions	*28,518*
130.	Valuation reserves	—
140.	Redeemable shares	—
150.	Equity instruments (-)	—
160.	Reserves	578,179
170.	Share premium reserve	4,573
180.	Share capital	111,110
190.	Treasury shares (-)	—
200.	Profit (loss) for the period	8,714
	TOTAL LIABILITIES AND NET EQUITY	**4,340,410**

PROFIT AND LOSS ACCOUNTS

	COMPAGNIE MONEGASQUE DE BANQUE 31.12.2016 (€/000)
10. Interest and similar income	31,877
20. Interest and similar expense	(10,287)
30. Net interest income	**21,590**
40. Fee and commission income	41,675
50. Fee and commission expense	(2,676)
60. Net fee and commission income	**38,999**
70. Dividends and similar income	10,018
80. Net trading income (expense)	18,679
90. Net hedging income (expense)	—
100. Gain (loss) on repurchase (disposal) of:	768
a) loans and advances	*768*
b) AFS securities	—
c) financial assets held to maturity	—
d) financial liabilities	—
110. *Net income from financial assets and liabilities recognized at fair value*	—
120. Total income	**90,054**
130. Value adjustments for impairment of:	(1,783)
a) loans and advances	*(1,783)*
b) AFS securities	—
c) financial assets held to maturity	—
d) other financial assets	—
140. Net income from financial operations	**88,271**
150. Administrative expenses	(37,498)
- labour costs	*(25,753)*
- other administrative expenses	*(11,745)*
160. Net transfers to provisions	(22,500)
170. Net adjustments on tangible assets	(2,094)
180. Net adjustments on intangible assets	(6,473)
190. Other operating incomes (expenses)	(4,079)
200. Operating costs	**(72,644)**
210. Gairn (loss) on equity investments	(2,586)
220. Net result of fair value recognition of tangible and intangible assets	—
230. Goodwill write-offs	—
240. Gain (loss) on disposal of investments	—
250. Profit (loss) on ordinary activity before tax	**13,041**
260. Income tax on ordinary activity	(4,327)
270. Profit (loss) on ordinary activity after tax	**8,714**
280. Gain (loss) on groups of assets being sold	—
290. Net profit (loss) for the period	**8,714**

Financial companies

continued **Table B**

BALANCE SHEETS

	Société Monégasque d'Etudes Financières 31.12.2016 (€/000)	CMB Asset Management S.A.M. 31.12.2016 (€/000)	COMPAGNIE MONEGASQUE DE GESTION 31.12.2016 (€/000)
ASSETS			
10. Cash and cash equivalents	—	—	—
20. Financial assets held for trading	—	—	—
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	—	—	399
50. Financial assets held to maturity	—	—	—
60. Amounts receivables	152	503	6,119
70. Hedging derivatives	—	—	—
90. Equity investments	—	—	—
100. Property, plant and equipment	—	—	—
110. Intangible assets	—	—	—
120. Tax assets	254	219	—
- Current	*254*	*219*	—
- Advance	—	—	—
140. Other assets	102	705	2,964
TOTAL ASSETS	**508**	**1,427**	**9,482**
TOTAL LIABILITIES			
10. Amounts payable	—	—	—
20. Debt securities in issue	—	—	—
30. Trading liabilities	—	—	—
40. Financial liabilities designated at fair value	—	—	—
50. Hedging derivatives	—	—	—
70. Tax liabilities	—	96	605
- Current	—	*96*	*605*
- Deferred	—	—	—
80. Liabilities associated with assets being sold	—	—	—
90. Other liabilities	8	1,115	6,994
100. Staff severance indemnity provision	—	—	—
110. Provisions	—	—	—
- post-employment and similar benefits	—	—	—
- other provisions	—	—	—
120. Share capital	775	150	600
130. Treasury shares (-)	—	—	—
140. Equity instruments (-)	—	—	—
150. Share premium reserve	—	—	—
160. Reserves	(1,058)	59	73
170. Valuation reserves	—	—	—
180. Profit (loss) for the period	783	7	1,210
TOTAL LIABILITIES AND NET EQUITY	**508**	**1,427**	**9,482**

Financial companies

PROFIT AND LOSS ACCOUNTS

	Société Monégasque d'Etudes Financières 31.12.2016	CMB Asset Management S.A.M. 31.12.2016	COMPAGNIE MONEGASQUE DE GESTION 31.12.2016
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	8
20. Interest and similar expense	(1)	—	(5)
Net interest income	**(1)**	**—**	**3**
30. Fee and commission income	5	2,199	10,778
40. Fee and commission expense	(8)	—	—
Net fee and commission income	**(3)**	**2,199**	**10,778**
50. Dividends and similar income	—	—	—
60. Net trading income (expense)	—	—	—
70. Net hedging income (expense)	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—
a) financial assets	—	—	—
b) financial liabilities	—	—	—
Total income	**(4)**	**2,199**	**10,781**
100. Value adjustments for impairment of:	—	—	—
a) financial assets	—	—	—
b) other financial operations	—	—	—
110. Administrative expenses	(1,105)	(2,189)	(8,966)
- labour costs	—	*(1,898)*	*(1,300)*
- other administrative expenses	*(1,105)*	*(291)*	*(7,666)*
120. Net adjustments on tangible assets	—	—	—
130. Net adjustments on intangible assets	—	—	—
140. Net result of fair value recognition of tangible and intangible assets	—	—	—
150. Net transfers to provisions	—	—	—
160. Other operating incomes (expenses)	—	—	—
Operating profit (loss)	**(1,109)**	**10**	**1,815**
170. Gairn (loss) on equity investments	—	—	—
180. Gain (loss) on disposal of investments	—	—	—
Profit (loss) on ordinary activity before tax	**(1,109)**	**10**	**1,815**
190. Income tax on ordinary activity	—	(3)	(605)
Profit (loss) on ordinary activity after tax	**(1,109)**	**7**	**1,210**
200. Gain (loss) on groups of assets being sold	1,892	—	—
Net profit (loss) for the period	**783**	**7**	**1,210**

Financial companies

BALANCE SHEETS

	CAIRN CAPITAL GROUP LTD 31.12.2016 (£/000)	CAIRN CAPITAL LTD 31.12.2016 (£/000)
Non-current assets		
Intangible assets	—	—
Tangible assets	61	—
Equity interests	3,386	—
Total non-current assets	**3,447**	**—**
Current assets		
Trade receivables	5,850	7,493
Cash and liquid assets	2,130	661
Trade payables	(6,092)	—
Financial assets/liabilities	—	(3,028)
Total current assets	**1,888**	**5,126**
Financial liabilities	—	(1,000)
Net assets	**5,335**	**4,126**
Provisions	(100)	—
Net equity		
Share capital	5,000	1,200
Legal reserve	—	—
Other reserves	—	—
Gains (losses) carried forward	197	3,238
Gain (loss) for the period	38	(312)
Total net equity	**5,235**	**4,126**

PROFIT AND LOSS ACCOUNTS

	CAIRN CAPITAL GROUP LTD (£/000)	CAIRN CAPITAL LTD (£/000)
Revenues	1,983	13,658
Administrative expenses	(1,979)	(13,919)
Operating result	**4**	**(261)**
Interest receivables and similar income	116	8
Interest payables and similar charges	—	(102)
Gain (loss) for the period before tax	**120**	**(355)**
Income tax	(82)	43
Gain (loss) for the period after tax	**38**	**(312)**

Associate companies

Table C

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.p.A. 31.12.2016 (€/000)
ASSETS	
A) Subscribed capital unpaid	—
B) Total intangible assets	33,197
C) Investments	
I) Land and buildings (total)	116,276
II) Investments in Group and other undertakings (total)	30,391,629
III) Other financial investments	
1) Shares and stock units	26,924
2) Mutual fund units	504,824
3) Bonds and other fixed-income securities	2,140,073
4) Loans	4,068
6) Deposits with banks	126,571
7) Other financial investments	7,549
Total other financial investments	2,810,009
IV) Deposits with reinsurers	7,680,393
Total investments (C)	40,998,307
D) Investments for the benefit of life policyholders who carry the risk and deriving from pension fund management (total)	3,456,300
Dbis) Reinsurers' share of technical reserves	
I) General business (total)	518,026
II) Life business (total)	396,196
Total reinsurers' share of technical reserves (Dbis)	914,222
E) Accounts receivable	
I) Amounts due in respect of primary insurances (total)	131,217
II) Amount due in respect of reinsurances (total)	487,717
III) Other accounts receivable	1,140,847
Total accounts receivable (E)	1,759,781
F) Other assets	
I) Tangible assets and inventories (total)	5,024
II) Cash (total)	655,065
IV) Other assets (total)	253,049
Total other assets (F)	913,138
G) Accruals and prepayments (total)	209,238
TOTAL ASSETS (B+C+D+Dbis+E+F+G)	**48,284,183**

Associate companies

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.p.A. 31.12.2016 (€/000)
LIABILITIES AND SHAREHOLDERS' EQUITY	
A) Shareholders' equity	
I) Share capital or equivalent fund	1,559,883
II-VII) Reserves (total)	12,017,281
IX) Profit (loss) for year	1,096,261
X) Negative reserve for treasury shares	(3,040)
Total shareholders' equity (A)	**14,670,385**
B) Subordinated liabilities	7,089,925
C) Technical reserves	
I) General business (total)	2,609,004
II) Life business (total)	8,909,901
Total technical reserves (C)	**11,518,905**
D) Technical reserves where investment risk is carried by policyholders and reserves arising from pension fund management (total)	3,454,111
E) Provisions for risks and charges (total)	113,298
F) Deposits received from reinsurers	307,642
G) Accounts payable and other liabilities	
I) Amounts payable in respect of primary insurances	19,354
II) Amounts payable in respect of reinsurance	229,852
III) Bond issues	3,255,539
IV) Amounts payable to banks and financial institutions	838,962
VI) Loans and other debt	3,593,359
VII) Staff termination indemnity provision	5,228
VIII) Other accounts payable	2,269,141
IX) Other liabilities	534,913
Total accounts payable and other liabilities (G)	**10,746,348**
H) Accruals and deferrals (total)	383,569
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G+H)	**48,284,183**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS (non-technical account)

	ASSICURAZIONI GENERALI S.p.A. 31.12.2016
	(€/000)
1) Underwriting profit (loss) from general business	218,440
2) Underwriting profit (loss) from life business	361,275
3) Investment income in general business	
a) Dividends	897,629
b) Other investment income (total)	86,690
c) Writebacks in book value of investments	19,747
d) Gain on disposal of investments	14,099
Total investment income in general business	1,018,165
4) (+) Portion of investment income transferred from technical accounts of life business	682,393
5) Operating and financial expenses in general business (3)	
a) Investment management expenses and interest paid	62,709
b) Writedowns to investments	77,020
c) Loss on disposal of investments	63,015
Total operating and financial expenses in general business (5)	202,744
6) Portion of investment income transferred from technical accounts of general business	123,006
7) Other income	491,556
8) Other expenditure	1,574,803
9) Profit (loss) on ordinary operations	871,276
10) Extraordinary income	79,590
11) Extraordinary expenditure	44,817
12) Net extraordinary income (expenditure) (10-11)	34,773
13) Earnings before tax	906,049
14) Taxation for the year	(190,212)
15) Profit (loss) for the year (13-14)	**1,096,261**

Associate companies

continued **Table C**

BALANCE SHEETS

	Burgo Group S.p.A. 31.12.2016 (€/000)
ASSETS	
Non-current assets	**1,036,464**
Tangible assets	**536,874**
Property, plant and equipment	536,455
Real-estate investments	419
Intangible assets	**23,622**
Goodwill	20,691
Other intangible assets with defined life	2,931
Investments in subsidiaries, associates and other non-current	**404,451**
Investments in subsidiaries	398,191
Investments in associates	6,125
Other investments	135
Other non-current financial assets	**4,111**
Financial receivables from subsidiaries	2,800
Non-current financial receivables	1,311
Anticipated-taxes assets	**67,406**
Current assets	**420,708**
Inventories	103,326
Trade receivables	203,684
Sundry receivables and other current assets	18,009
Available-for-sale financial assets	814
Other current financial assets	54,052
Cash and liquid assets	40,823
TOTAL ASSETS	**1,457,172**
LIABILITIES AND SHAREHOLDERS' EQUITY	
Shareholders' equity	**386,083**
Share capital	20,000
Reserves	349,354
Gains (losses) carried forward	14,214
Gain (loss) for the period	2,515
Non-current liabilities	**637,490**
Non-current financial liabilities	580,097
Severance provision and other employees-related provisions	32,861
Provisions	24,532
Current liabilities	**433,599**
Financial current liabilities	84,601
Trade payables	318,055
Current-taxes liabilities	6,722
Other payables and other current liabilities	24,221
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,457,172**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	Burgo Group S.p.A. 31.12.2016 (€/000)
Revenues	1,196,799
Other gains	30,336
Total revenues and operating gains	**1,227,135**
Raw-materials and services-related costs	1,029,372
Employees costs	101,132
Other operating costs	17,890
Variation in inventories (±)	9,841
Costs for improvements, capitalized	(746)
Total operating costs	**1,157,489**
Earnings before depreciations, amortizations and non-recurring restructuring expenses	**69,646**
Depreciations	59,769
Write-offs (write-backs) on tangible assets	169
Proceeds from sale of plants and equipments	1,278
Net non-recurring expenses	9,350
Operating result before financial items	**1,636**
Financial expenses	29,154
Proceeds from investments	21,297
Gain (loss) before taxes	**(6,221)**
Taxes	8,736
Gain (loss) for the period	**2,515**

Associate companies

continued **Table C**

BALANCE SHEETS

	GB Holding S.r.l. 31.12.2016 (€/000)
ASSETS	
B) Fixed assets:	
I) Intangible	—
II) Tangible	—
III) Financial	8,790
Total B	**8,790**
C) Current assets:	
II) Receivables:	
Due w/i 12 months	3
Total receivables	3
IV) Cash and liquid assets	**21**
Total C	24
TOTAL ASSETS (B+C)	**8,814**
LIABILITIES AND NET EQUITY	
A) Shareholders' equity:	
I) Share capital	97
II) Share-premium reserve	9,872
IV) Legal reserve	20
VII) Other reserves	—
IX) Gain (loss) for the period	(1,189)
Total A	**8,800**
D) Payables:	
Due w/i 12 months	6
Due w/o 12 months	**8**
Total D	14
TOTAL LIABILITIES AND NET EQUITY (A+D)	**8,814**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	GB Holding S.r.l. 31.12.2016 (€/000)
A) Revenues:	
Other gains	—
Total revenues and other gains (A)	**—**
B) Production costs:	
7) Services-related	10
14) Other production costs	3
Total production costs (B)	**13**
Operating result (A-B)	**(13)**
C) Financial gains (expenses)	
15) Proceeds from investments	83
Total financial gains (expenses) (C)	**83**
D) Writedowns on financial assets	
19) Writedowns	
a) on investments	1,259
Total writedowns on financial assets (D)	**1,259**
Gain (loss) before taxes (A - B ± C ± D)	**(1,189)**
Gain (loss) for the period	**(1,189)**

BALANCE SHEETS

	Istituto Europeo di Oncologia 31.12.2016 (€/000)
ASSETS	
A) SUBSCRIBED CAPITAL UNPAID	—
B) FIXED ASSETS	
I - INTANGIBLE ASSETS	
3) Industrial patents right-of-use	55
4) Concessions, licences, brands and similar rights	1,443
6) Work-in-progress investments and advances	1,502
7) Others	52
TOTAL INTANGIBLE ASSETS	**3,052**
II - TANGIBLE ASSETS	
1) Lands and buildings	21,654
2) Plants and equipments	5,143
3) Industrial and commercial machineries	21,718
4) Other goods	4,937
5) Work-in-progress investments and advances	3,340
TOTAL TANGIBLE ASSETS	**56,792**
III - FINANCIAL ASSETS	
1) Investments in:	
a) Subsidiaries	44,624
b) Associates	96
d-bis) Others	282
Total investments	45,002
2) Receivables	
d-bis) Others	940
Total receivables	940
3) Other securities	
Total other securities	714
TOTAL FINANCIAL ASSETS	**46,656**
TOTAL INVESTMENTS (A)	**106,500**
C) CURRENT ASSETS	
I - INVENTORIES	
1) Raw-materials and consumable goods	6,995
TOTAL INVENTORIES	**6,995**
Available for sale	**79**
II - RECEIVABLES	
1) From customers	43,056
2) From subsidiaries	187
3) From associates	28
5-bis) Tax-related receivables	1,927
5-quater) From others	77
TOTAL RECEIVABLES	**45,275**
III - NON-FIXED FINANCIAL ASSETS	
6) Other securities	11,060
TOTAL NON-FIXED FINANCIAL ASSETS	**11,060**
IV - CASH AND LIQUID ASSETS	
1) Bank and postal deposits	30,739
3) Cash in hands	126
TOTAL CASH AND LIQUID ASSETS	**30,865**
TOTAL CURRENT ASSETS (C)	**94,195**
D) PREPAID INCOME AND DEFERRED EXPENSES	
Prepaid income	1,195
Deferred expenses	2,114
TOTAL PREPAID INCOME AND DEFERRED EXPENSES (D)	**3,309**
TOTAL ASSETS (B + C + D)	**204,004**

	Istituto Europeo di Oncologia 31.12.2016 (€/000)
LIABILITIES AND NET EQUITY	
A) SHAREHOLDERS' EQUITY	
I - Share capital	80,579
IV - Legal reserve	4,343
V - Statutory reserve	
- Research and development allowance	17,897
IX - Gain (loss) for the period	7,806
TOTAL SHAREHOLDERS' EQUITY (A)	**110,625**
B) PROVISIONS	
- Insurance-risks provision	4,988
- SSN-receivable provision	6,126
- Provision for other risks	565
TOTAL PROVISIONS (B)	**11,679**
EMPLOYEES SEVERANCE PROVISION (C)	**6,098**
D) PAYABLES	
7) To suppliers	37,894
9) To subsidiaries	47
10) To associates	91
12) Fiscal liabilities	3,401
13) To social-securities entities and other social entities	4,680
14) Other payables	14,862
TOTAL PAYABLES (D)	**60,975**
E) DEFERRED INCOME AND ACCRUED EXPENSES	
Deferred income	94
Accrued expenses	14,533
TOTAL DEFERRED INCOME AND ACCRUED EXPENSES (E)	**14,627**
TOTAL LIABILITIES AND NET EQUITY (A + B + C + D + E)	**204,004**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	Istituto Europeo di Oncologia 31.12.2016 (€/000)
A) REVENUES	
1) Revenues from sales and services	192,051
5) Other gains:	
- Sums received for research programmes	21,515
- Other proceeds	13,495
TOTAL REVENUES (A)	**227,061**
B) PRODUCTION COSTS	
6) Raw-materials and other goods	46,922
7) Services-related	51,952
8) Third-parties goods and services	9,097
9) Employees costs:	
a) Remunerations	65,841
b) Social costs	14,264
c) Staff-severance	3,438
e) Other costs	496
10) Depreciations, amortizations and writedowns:	
a) Amortizations	560
b) Depreciations	8,417
d) Writedowns of current financial assets and other liquid assets	800
11) Variations of inventory for raw-materials, consumables and other goods (±)	(1,553)
12) Contributions to provisions	5,631
14) Other operating expenses	16,179
TOTAL OPERATING COSTS (B)	**222,044**
OPERATING RESULT (A - B)	**5,017**
C) FINANCIAL GAINS (EXPENSES)	
16) Other financial gains	
d) gains other than preceding	
- interests on current accounts and other deposits	71
17) Interests and other financial expenses	
- others	109
17-bis) Gains and expenses on foreign exchange rates (±)	(22)
TOTAL FINANCIAL GAINS (EXPENSES) (C)	**(60)**
D) WRITEDOWNS ON FINANCIAL ASSETS	
18) Writebacks:	
a) on investments	4,095
19) Writedowns:	
a) on investments	551
TOTAL WRITEDOWNS (D)	**3,544**
GAIN (LOSS) BEFORE TAXES (A - B +/- C +/- D +/- E)	**8,501**
22) Taxes for the period (current, deferred and advance)	
- Current taxes	695
GAIN (LOSS) FOR THE PERIOD	**7,806**

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. network**
Auditing	582	—	678	387
Statements	149		30	36
Other services	8	—	100	—
– *Observation and analysis of the administrative/accounting internal control system*	—	—	—	—
– Other	8	—	100	—
Total	**739**	**—**	**808**	**423**

* Group companies and other companies consolidated line-by-line.

APPOINTMENT OF BOARD OF DIRECTORS FOR 2018-20 THREE-YEAR PERIOD:

a. Establishment of number of Board members
b. Appointment of Directors
c. Establishment of their remuneration

The mandate of the Board of Directors currently in office expires with the imminent Annual General Meeting: accordingly, you are invited to appoint the new Board of Directors in accordance with the provisions of Article 15 of the company's Articles of Association and the applicable regulations.

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 Articles of Association;

c) Establish the 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 2020.

With this reappointment of the Board of Directors, the amendments to the Articles of Association approved by the shareholders in the Annual General Meeting held on 28 October 2015. In particular, the Board shall consist of between nine and fifteen members, at least two of whom shall be appointed from the minority list; and at least one-third of the members must qualify as independent according to the definition provided in Article 19 of the Articles of Association.

Furthermore, pursuant to Article 15, paragraph 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 numbered consecutively, starting from the first, who are in possession of the requisites stipulated under Article 15, paragraph 4 (who are employees with at least three years' experience working for Mediobanca Banking Group companies at senior 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 one-third (five Directors).

In view of the significant responsibilities which the Directors will be called to assume, in submitting their lists shareholders are invited to take into careful considerations the recommendations made in the Report on the qualitative and quantitative composition of the Board of Directors: recommendations to shareholders and the new Board of Directors approved by the Board of Directors at a meeting held on 14 June 2017, which illustrates the qualitative and quantitative profile which the Directors must collegiately reflect, and refers to the qualifications instituted by the applicable regulatory provisions currently in force. The Report is available on the company's website at (www.mediobanca.com, in the section entitled Corporate governance/General meeting 2017). 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 following salient points:

i) Professional qualifications in terms of:
   - Basic knowledge of the banking sector in the following areas: financial markets; regulatory framework and legal requirements; strategic planning, and an understanding of a credit institution's business strategy or business plan and implementation thereof; risk management and monitoring (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution); accounting and auditing; assessing the effectiveness of a credit institution's arrangements, ensuring effective governance, oversight and controls; and Interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures;
   - Knowledge and experience in at least one of the following areas of expertise: businesses in which the Mediobanca Group operates (Corporate Investment Banking, Wealth Management, Consumer Banking); financial accounting and reporting; macroeconomics/international economics; risk management, compliance and internal audit; information technology and security; Legal and regulatory frameworks; and managerial capabilities and entrepreneurial experience;

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. In FY 2016-17, the following were held:

- Eleven meetings of the Board of Directors;
- Thirteen meetings of the Executive Committee;
- Twelve meetings of the Risks Committee;
- Eight meetings of the Remunerations Committee;
- Eight meetings of the Appointments Committee;
- Thirteen meetings of the Related Parties Committee;
- Six induction sessions for Directors and Statutory Auditors.

iii) The numerous personal qualifications and requisites (along with the "Fit & Proper" questionnaire) set out analytically in the "Report on the qualitative and quantitative composition of the Board of Directors";

iv) 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 perform executive duties for banks, insurances or asset management companies; are members of the advisory boards of such entities; or are, directly or indirectly, a relevant shareholder (i.e. with interests of over 10%) in any banks, insurances or asset management companies.

Appointment to the Board of Directors is made on the basis of lists.

The means by which lists for appointment to the position of Director should be submitted are illustrated in detail in the Notice of Meeting.

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.

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 in terms of independence, i.e. Directors who are employees with at least three years' experience working for Mediobanca Banking Group companies at senior management level, as provided by Article 15, paragraphs three and four of the Articles of Association, 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 provision of the Articles of Association, 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.

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 out in the paragraphs above, or if 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 the Articles of Association.

The shareholders in general meeting are also called to determine the remuneration payable to the Board of Directors. 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 2014 the shareholders of Mediobanca set the aggregate gross annual compensation payable to the Board at € 2,750.000, and authorized the Board itself to decide on its allocation. The cost incurred in this respect during the last financial year was € 2,567,808.

Accordingly, the Board of Directors invites you to take the relevant decisions regarding the appointment of the new Board.

Milan, 3 August 2017

The Board of Directors

APPOINTMENT OF STATUTORY AUDIT COMMITTEE FOR 2018-20 THREE-YEAR PERIOD:

a. Appointment of Committee members and Chairman
b. Establishment of their remuneration

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 in accordance with the provisions of Article 28 of the company's Articles of Association and the applicable regulations.

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 requisites in terms of professional qualifications, assessment as fit and proper person to hold such office, and independence [1].

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 2020.

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 one-third (one standing auditor). 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.

[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 72/215. 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 Annex 2 of the Report on the qualitative and quantitative composition of the Board of Directors, available on the Bank's website at www.mediobanca.com, in the section entitled Corporate Governance/General meeting 2017. 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 asset management services, both of which as defined by Italian legislative decree 58/98 (the "Italian Finance Act").

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 Chairman of the Statutory Audit Committee.

In the event of only one list being 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 Chairman of the Statutory Audit Committee.

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.

The shareholders in general meeting are also called to determine the remuneration payable to the Statutory Audit Committee. Based on the indications provided by the outgoing Committee, it should be noted that a total of 29 Committee meetings were held during FY 2016-17, twelve of which in conjunction with the Risks Committee, and had an average duration of some three hours. The Statutory Auditors also took part in meetings of the Board of Directors, the Executive Committee and the Remunerations

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 (pursuant to paragraph 4-bis of the same Article, as amended by Italian law 183/11), in line with the Bank of Italy's instructions in respect of internal controls.

In this connection, it should be noted that for the Statutory Audit Committee currently in office, at the Annual General Meeting held on 28 October 2014 the shareholders of Mediobanca set the gross annual compensation payable to the Committee Chairman at € 140,000 and to each Standing Auditor at € 105,000. In view of the commitment required of the Committee members, we recommend that shareholders give due consideration to the possibility of increasing these amounts.

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 Statutory Audit Committee.

Milan, 3 August 2017

THE BOARD OF DIRECTORS

REPORT ON REMUNERATION SUBMITTED TO APPROVAL OF SHAREHOLDERS IN ANNUAL GENERAL MEETING ON 28 OCTOBER 2017

Dear Shareholders,

We have called you together in general meeting to:

A) Report on the remuneration policies adopted for the twelve months ended 30 June 2017 and;

B) Submit the Mediobanca Group's new remuneration policies, approved by the Board of Directors on 15 September 2017, to your approval.

This report incorporates the disclosure requirements established by both the Bank of Italy and Consob.

SECTION 1

Staff remuneration policies for FY 2016/17

Introduction

The Mediobanca Group's results for the twelve months ended 30 June 2017 reflect strong growth in profits and an enhanced business profile in terms of exposure to fee-based, capital-light, highly specialized and profitable businesses. The main highlights were as follows:

- Total revenues up 7%, to €2,196m
- Net profit up 24%, to €750m
- ROTE up from 7% to 9%, the highest among Italian banks supervised by the ECB
- Dividend per share: up 37%, to €0.37.

All the divisions delivered higher profits: Wealth Management posted 43% increases in Total Financial Assets (to €60bn), revenues (to €460m), and profit (to €55m), and accounts for 40% of the fee income and 20% of the revenues at Group level. CIB and Consumer each contributed profits of approx. €250m.

Asset quality improved further, with the Texas ratio down from 15% to 13%, and the cost of risk down 37 bps to 87 bps. The capital ratios were also stronger despite the acquisitions, deductions and higher payout (the latter up from 38% to 43%), due to careful management of RWAs and robust earnings generation. The CET1 ratio stood at 13.3% (12.1%) and the total capital ratio at 16.9% (15.3%).

The decisions regarding staff remuneration have been taken in view of the above business, which increasingly requires the contribution of high-quality professional skills.

Governance

The governing bodies and company units have governed the entire process of applying the remunerations policies.

In particular, as described in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions in the course of the year, and the meetings on average lasted around 2 hours and 15 minutes. The Committee is made up of five non-executive members, a majority of whom qualify as independent under the Code of conduct for listed companies operated by Borsa Italiana. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in the case of two meetings) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer, the head of Human Resources and the Head of Company Financial Reporting also took part as guests, along with other members of the Group's staff.

The main items on the agenda in Committee meetings, in addition to this report, are as follows: formulation of proposals to the Board of Directors regarding the variable remuneration of directors who are members of the Group's management (defining and marking their scorecards); assessment of the proposals made by the Chief Executive Officer regarding the variable remuneration of the other staff; review of the internal processes and procedures adopted in connection with the remuneration system; review of developments in the regulatory framework, with a particular focus on the remuneration of financial advisors and of staff working in the Asset Management area; analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; application of the severance policy; and drafting the new remuneration policies to be submitted to the approval of the Board of Directors and shareholders in general meeting.

The Group Human Resources department – Group HR – has provided support on the above governance activities in 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 remunerations new policies.

The Compliance unit has issued its 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 the activity of ascertaining that the gateways have been met. The Accounting and Financial Reporting and Planning and Control units also provided the data for checking the gateways and for determining the business areas' performances.

Calculation of bonus pool and allocation using risk-adjusted metrics based on sustainable results over time

The variable component remuneration component to be assigned to "identified staff" [1] constitutes the so-called "bonus pool". Payment is conditional upon certain conditions, or "gateways", which consist of the following indicators approved by shareholders at the last general meeting, being met:

a) Capital adequacy and liquidity requirements [2] adopted in the Risk Appetite Framework [3] approved by the Board of Directors;

b) Positive operating profit delivered at Group level [4].

The Chief Executive Officer allocates the aggregate bonus pool to be awarded on the basis of the Economic Profit [5] earned by the Wholesale Banking division (the area in which most staff with the potential to impact on Mediobanca's risk profile are employed) according to quantitative and qualitative indicators. The bonus pool for the individual business areas is calculated on the basis of area scorecards which generally use Economic Profit as their primary metric as well as other secondary quantitative and qualitative metrics, whereas individual awards are made on the basis of overall assessment of personal performance, with particular attention being paid to reputational and compliance issues as well. The bonus pool for staff employed by the control units and staff and support areas is established based on qualitative considerations, to limit the correlation between bonuses paid and the results delivered by the Bank and so guarantee the independence of their role. The Chief Executive Officer's decisions are illustrated to the Remunerations Committee and the Board of Directors. The remuneration

[1] The Mediobanca Group's most relevant staff as at 30 June 2017 comprised 79 employees, representing 1.65% of the total headcount of the Group and 10.4% of that of Mediobanca S.p.A., compared with 1.94 % and 10.5% at 30 June 2016.

[2] CET 1 ratio > 8,75% (SREP), Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio ≥ 100%, Net Stable Funding Ratio ≥ 100%, Retail funding ratio.

[3] 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.

[4] Operating profit is defined as total income less operating costs and loan loss provisions, as shown in the restated financial statements.

[5] 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.

paid to the head of company financial reporting and the heads of the control units is approved by the Board. For the other divisions (Consumer, and Wealth Management in the Affluent/Premier and Private Banking), the amounts are decided by the CEOs of the relevant legal entities, liaising to this end with the General Manager and Group HR of Mediobanca S.p.A.

The Group's results for the year ended 30 June 2017 were as follows:

- Gross operating profit of € 860m, up more than 17% on last year, and 52% higher than the previous three-year average;
- Revenues of € 2.2bn, up 7%, on growth of 7% in net interest income and 10% in net fee and commission income, with the cost of risk declining (from € 419m to € 317m) for the third year running.
- Net profit up 24%, to € 750m.

The Wholesale Banking division's results in the twelve months ended 30 June 2017 reflect:

- Gross operating profit of € 353m, 7% higher than last year due to the improved trend in the risk profile.
- Revenues largely stable at € 550m; the approx. 6% reduction in net interest income was due primarily to a reduced contribution from the securities portfolio, reflecting the negative interest rate trend.
- Fees and commissions flat, despite the difficult market conditions.

The performance in CIB Client business was as follows:

- Economic Profit delivered strong growth of 28%, from € 184m to € 235m;
- Revenues were resilient despite the market scenario and despite changes in their composition, with reductions in Corporate Finance (from € 57m to € 47m) and CMS (from € 105m to € 94m) offset by the increase in net interest income from lending and a higher contribution from ECM business (up from € 57m to € 69m).
- Administrative expenses were basically stable while labour costs declined as a result of increased organizational efficiency in some teams helped by the favourable GBP/EUR exchange rate trend.
- Writebacks to loans totalling € 15m, with no new bad loans taken on.

For the Consumer Banking division, the results as at 30 June 2017 reflect the following:

- Revenues up 7%, on resilient asset returns and higher volumes.
- Cost/income ratio stable.
- Further improvement in asset quality drove a reduction in loan loss provisions, from € 354m to € 276m, on the back of effective risk-taking policies and recovery action.
- Net profit up 67%, from € 154m to € 258m, with the ROAC at 25% compared with 16% one year previously.

With regard to the Wealth Management division:

- CheBanca! results reflect the Barclays' business units consolidated for ten months. This, along with the growth in asset management business (AUM up from € 3.9bn to € 7.9bn), drove growth of 43% in revenues and of 35% in gross operating profit;
- ROAC for CheBanca! came in at 5%, compared with 3.4% last year.
- In private banking, revenues were up 30% to € 185m, generating a net profit of € 28.1m, slightly lower than the previous year as a result of the integration charges for Banca Esperia following the merger;
- Principal Investing contributed a net profit of € 422m to the consolidated results, up 13% Y.o.Y. with the ROAC at 17% (19%).

All the Group's gateways for the year ended 30 June 2017 were thus met: CET 1 ratio 13.2%; leverage ratio 9.2%; AFR/ECAP 258%; liquidity coverage ratio 245%; retail funding ratio 68.8%; net stable funding ratio 107%; consolidated gross operating profit € 860m. For the individual 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 Economic Profit earned by the Wholesale Banking division as stated in the accounts, which is not one of the gateways but is used as a risk-adjusted indicator in assessing the sustainability of the WB bonus pool, totalled €245m, some 31% higher than in 2016 due to the positive trend in the cost of risk and to lower capital absorption. Economic Profit on the proprietary trading portfolio was also positive and improving.

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.

Having therefore ascertained that all the conditions precedent to the distribution of the bonus pool had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer, after consulting with the General Manager, established an aggregate variable remuneration component of € 67.5m for Mediobanca (compared to € 59.3m in 2016). Variable remuneration for the WB division was set at € 48.6m (€ 43.9m), of which € 45.7m (€ 42.7m) for CIB Client, corresponding to a payout ratio of 20% (24%) and 19% (23%) of the Economic Profit respectively.

These amounts include the variable component reserved to directors who are members of the Mediobanca Group's senior management. The variable/fixed remuneration ratio for WB division staff [6] was 99%, compared with 87% in 2016, rising to 124% (108%) if only WB staff members are considered. Considering the headcount as a whole for Mediobanca, the ratio is 75%, compared to 66% in 2016.

One of the main objectives in making the award of the variable component was to maintain a competitive compensation package for younger and business staff from a talent retention perspective. Group HR and the Compliance unit reviewed potentially relevant instances in connection with application of the compliance breach mechanism.

The relevant pools of the Consumer division CheBanca! [7] reflect excellent earnings results, including on a risk-adjusted basis.

The total variable remuneration awarded to the Consumer division was approx. € 8m, compared with € 7m in 2016, with Compass's commercial

[6] For 2016 the figures have been restated in accordance with the new divisional organization approved by the Group in the Strategic Plan.

[7] For 2017 the Consumer division no longer includes MB Credit Solutions staff members who now work for MB Facta, while CheBanca! includes all staff formerly employed at the Barclays' business unit.

network like in 2016, reached the cap instituted as part of the incentivization system. For CheBanca! the increase from €4.7m to €10.2m also reflects the growth in headcount. The cost/income and compensation/income ratios were both stable.

The bonus pool for identified staff in the Consumer division was around 57% of the fixed remuneration, compared with 44% in 2016, and for CheBanca! identified staff approx. 53%, as against 43% last year. Considering for the headcount as a whole for the Consumer division, the ratio was 10%, as against 9% in 2016, and 19% for CheBanca! (11%).

As at 30 June 2017 management with strategic responsibilities other than the executive directors and referred to in the Consob resolution issued in 2011, consisted of five persons: the three heads of the control units, the head of company financial reporting and the co-head 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.

Variable remuneration of the Chief Executive Officer and General Manager of Mediobanca S.p.A.

The annual variable remuneration component for directors who are members of the Group's senior management is included in the aggregate bonus pool and reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. In general terms, if the quantitative objectives are met, the amount of the bonus payable to the CEO and the General Manager may be between 50% and 180% of their gross annual salary. This amount may be adjusted by the BoD according to whether or not the qualitative objectives are also met (without prejudice to the 2:1 cap).

The quantitative performance indicators assigned for the financial year ended 30 June 2017 involved: for the CEO, Group risk-adjusted profitability indicators (profit before tax earned from Group banking activities/capital absorbed), Group Texas ratio, CET 1 ratio, and CIB risk-adjusted profitability indicators (CIB profit before tax/capital absorbed); and for the General Manager, Group risk-adjusted profitability indicators (profit before tax earned from Group banking activities/capital absorbed), Group Texas ratio, and Group ordinary and project-based costs. For the CEO the qualitative objectives involved identifying potential future candidates to succeed the executive directors and growth in the Group's management, plus development of Wealth Management activities; and for the General Manager, rationalization of the Group's infrastructure and support areas, optimization of capital allocation between market businesses, and management of initiatives in the mid-corp segment in support of the co-heads of CIB.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of € 2,700,000 to the CEO and of € 2,070,000 to the General Manager (equal to 150% and 138% respectively of their fixed salaries, higher than the 115% and 70% awarded last year). Contributions to the complementary pension scheme are also paid on the upfront cash component in both cases. Of the variable remuneration awarded, half in cash and half shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a two-year holding period.

Means of distributing the variable component

The means of distribution are as provided in the remuneration policies.

The bonus pool consists of the variable remuneration to be paid to identified staff and consists of the equity component ("performance shares") equal to approx. € 16m which in part will be booked to the accounts over the next four financial years under the accounting standards currently in force.

Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,754,358 performance shares [8] (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. € 8.85 per share) including those awarded to identified staff employed at Group companies (20,891 of which were awarded to identified staff of CMB in January 2017).

[8] 152,387 of which to the CEO and 116,830 to the General Manager.

New staff remuneration policies

Introduction

As in the past, the new Remunerations policies:

- Comply with the supranational and national regulations currently in force;
- Allow areas of the Bank which create value to be awarded, using objective measurement criteria;
- Enable the Group to attract and retain staff with the professional skills and capabilities required to meet its needs;
- Are in line with the policies adopted by other national and international operators.

The main change compared to the previous versions involves the introduction of specific regulations on the remuneration of staff members working in asset management and financial advisors employed as part of the Wealth Management division.

The cap of 200% of fixed remuneration has been adopted on the variable component continues to be adopted.

Governance

The governance process for the Group remuneration policy is structured across two levels: corporate and organizational.

a) Corporate governance

Under the current Articles of Association:

- Shareholders in general meeting establish 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 refunds on 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, also approve the remuneration 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.
- At the Board of Directors' proposal, shareholders in general meeting may, with the requisite majorities, establish the variable remuneration of Group staff and collaborators up to the limit of 200% of their fixed salaries or any other limit set by the regulations in force at the time.
- The Board of Directors institutes the committees envisaged by the regulations in force from among its own number, including the Remunerations Committee, establishing their composition and powers.

Under the regulations in force:

- The Remunerations Committee consists of between three and five members, all non-executive directors, at least a majority of whom qualify as independent under the terms of the Code of conduct in respect of listed companies. Proceedings at Committee meetings are co-ordinated by a chairman appointed from among the independent members. The Committee's duties include proposing compensation for staff whose remuneration and incentivization systems are decided by the Board of Directors; it serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff; it 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 area. It also prepares the documentation to be submitted to the Board of Directors for the relevant decisions; works together with the other internal committees, in particular the Risks Committee; and ensures the involvement of all relevant company units in compiling and checking the remuneration and incentivization policies and practices. It also gives its opinion, based inter alia on the information received from the relevant company units, on whether the performance objectives to which the incentivization schemes are linked have been reached and ascertains whether or not the other conditions precedent to payment of compensation have been met; it provides feedback on the activities performed to the governing bodies. To be able to perform its activities effectively and responsibly, the Remunerations Committee has access to company information relevant to such ends, 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 for which it is responsible. 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 adequate account of the Group's risks, capital and liquidity situation, liaising with the Remunerations Committee.
- The Chief Executive Officer presents the proposed Group staff remuneration and retention policies to the governing bodies, is responsible for staff management, and after consulting with the General Manager, determines the bonus pool based on the criteria established by the Board of Directors and then distributes it.

b) Organizational governance

- Group HR directs and governs the entire remuneration process, involving the governing bodies, control units and other teams responsible for verifying the Group's earnings and financial data.
- The Accounting and Financial Reporting and Planning and Control units provide the data for ascertaining that the gateways have been met and for determining the business areas' and divisions' performances based on the results achieved.
- The Risk Management unit helps in defining the metrics to be used to calculate the risk-adjusted company performance, in validating the results and the gateways, and in 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. It is also responsible, after consulting with the other control units, for checking whether or not any compliance breaches have been committed with relevance 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 makes a statement declaring that the staff remuneration and incentivization policy adopted by the Bank complies with the Instructions. 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.

All activities are documented appropriately to ensure that they may be fully tracked over time.

Definition of "identified staff"

The criteria adopted to identify relevant staff with a substantial impact on the Mediobanca Group's risk profile are those provided in the EU delegated regulation enacted by the European Commission on 4 March 2014 (published in the Official Journal of the European Union on 6 June 2014):

- Qualitative, linked to the role covered within the company organization (including non-executive directors), relevant business units, control and staff units;
- Quantitative, based on total overall remuneration received in the previous financial year [9].

[9] Mediobanca may also decide that individual staff members do not impact on the Group's risk profile despite receiving total remuneration ≥ € 500,000, as permitted by the regulations in force.

Mediobanca regularly carries out analysis of the Group's organizational structure via a documented process. At 30 June 2017 the Group's "identified staff" (including non-executive directors) broke down as follows:

Cluster	Definition	EBA Regulations	PPR no. (2017)
1) Non-executive directors	• Non-executive members of BoD, including Chairman	Article 3.2	1 (+13)
2) Directors with executive duties	• Management who are members of Executive Committee	Article 3.1	4
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	• Co Head CIB Client • Co Head CIB Client/Head Madrid • Head Principal Investing • Head Finance Division • Head Corporate Finance • Head Equity Capital Markets • Head Debt Capital Markets • Head Lending and Structured Finance • Head Capital Markets Solutions • Head Equity Markets • Head Global Coverage • Head Frankfurt • Head Paris • Head MB Turkey • CEO CMB • CEO Banca Esperia	Article 3. 3 Article 3.5 Article 3.6	16
4) Heads and senior staff of internal control units	• Compliance • Risk Management • Group Audit	Article 3. 4 Article 3.7 Article 3.15	8
5) Staff with managerial responsibilities in relevant business units	• Heads of trading desks, liquidity and trading origination • Staff with significant responsibility in the Lending and Structured Finance and Corporate Finance areas • Other heads of product areas (Equity Research) • General and Commercial Managers, Compass and CB! • CEOs of SelmaBPM and Spafid	Article 3.8 Article 3.15	20
6) Heads and senior staff in Staff and support units	• Group HR • Head of company financial reporting • Accounting/ financial reporting • Budget/Planning and control • Legal counsel • COO • CIO	Article 3. 9 Article 3.15	7
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	23
	TOTAL as at 30/6/17 [10]	**79 (92)**	
	% of total Mediobanca S.p.A. staff	10.4%	
	% of total Mediobanca Group staff	1.65%	

Management with strategic responsibilities as defined in the Consob resolution issued in 2011 other than directors (i.e. the three heads of the control units, the head of company financial reporting and the co-head of the Corporate and Investment Banking division) are all included in the definition of identified staff.

[10] As at 30 June 2016 the Mediobanca Group had a total of 78 (91) identified staff, representing 1.94% of the total Group headcount and 10.5% of that of Mediobanca S.p.A

Pay mix

The Mediobanca Group Remuneration 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. The structure of the Group's staff remuneration is based on various components, with the objective of: balancing the fixed and variable parts over time (pay mix), implementing a flexible approach to remuneration, and helping to gear compensation towards performance in view of the significance of role within the company without encouraging risky and/or short-term behaviour. Each year the staff compensation package's positioning is assessed relative to its reference market, including with the assistance of outside advisors.

a) Remuneration structure for non-executive directors

The non-executive directors' emolument is fixed by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors are covered by a D&O insurance policy which has also been extended to cover the directors of all Group companies.

b) Remuneration structure for directors who are members of the Group's senior management

The remuneration of the CEO and the General Manager is regulated by individual agreements approved by the Board of Directors. Their remuneration structure comprises:

1) A fixed salary;
2) A variable annual component (or short-term incentive) which only accrues if the gateways stipulated in the Remunerations policy are met (see below the section entitled "Determination of variable remuneration and bonus pools and correlation between risks and performance"), commensurate with the quantitative and qualitative performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being reached.

The scorecards provide for performance objectives for each individual manager's sphere of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to them by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the objectives are met, this triggers the payment of a variable bonus ranging from 50% (or lower) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 200% in the event of outstanding performances.

Of the variable component, 50% is paid in cash and 50% in equity, and 60% is deferred over a five-year time horizon. All the deferred items are subject to the performance and malus conditions stipulated in these Policies (see below the section entitled "Performance conditions, malus condition and clawback").

For the financial year ending 30 June 2018, the Chief Executive Officer has been assigned the following quantitative objectives: profit before tax (PBT); Group banking activities/capital absorbed (optimize the return on and capital absorbed by the core business); Wealth Management division revenues (with focus on growing the division); Group return on assets (ROA), with a view to maximizing profitability; and CET 1 ratio (to preserve capital adequacy). The General Manager has been assigned the following objectives: profit before tax (PBT); Group banking activities/capital absorbed (as for the CEO); Private Banking business line revenues (with focus on growing private banking activities); pre-tax result of Holding Functions division (with a view to optimizing the holding functions' activities); and Group cost/income ratio (to ensure growth in costs which is consistent with the trend in revenues).

3) 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 (long-term incentives). In such cases, the short-term scheme described under the previous point will be linked to the provisions of the long-term scheme, without prejudice to the 200% cap on variable remuneration, which must be complied with in each financial year. Like the short-term incentive scheme, the long-term incentive scheme will have specific quantitative and qualitative objectives linked to the scheme's time horizon, and will be subject to gateways.

Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component referred to above, unless provided otherwise by the Board of Directors, having consulted with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes, including any specific resolutions to be adopted in general meetings. In addition to the executive directors, other Group senior representatives may be included in the long-term incentivization scheme, with a specific pay mix identified for them between short- and long-term variable components. At present no such long-term incentivization scheme is in force.

The Chairman receives only a fixed salary. However, the Board of Directors may, having consulted with the Remunerations Committee and within the limits set by the regulations, assess the possibility of also paying him a variable component, on an exceptional basis, to be distributed in accordance with the regulations set forth in this policy.

The Group's executive directors also receive their emoluments as directors, but not those due in respect of participation in committees. (In the case of positions held on behalf of Mediobanca in subsidiaries or investee companies, any emoluments are paid to Mediobanca as the persons concerned are Bank employees.) An insurance policy is available to cover such directors, like the others, for third-party liability, and they also benefit from participation in the complementary pension scheme operated for Mediobanca Group management staff.

c) Compensation structure for staff employed in control units and staff and support areas

The remuneration package for the Group's identified staff in the control units (Group Audit, Compliance and Risk Management), Human Resources and the Head of Company Financial Reporting is structured so that the fixed component represents the majority, with a smaller variable component assigned annually based on qualitative and efficiency criteria. 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 with the Remunerations Committee in favour.

The remuneration of staff employed in the staff and support areas is normally determined on the basis of positioning vis-à-vis the reference market, which varies according to the value of the individual employee, their role, the quality of their performance and the retention strategies in place. For such staff the variable component, usually limited, is not related to the Group's earnings results but to the quality of the individual's performance.

d) Remuneration structure for other "identified staff"

– Fixed salary: this reflects technical, professional and managerial capabilities, and the related responsibilities. Mediobanca devotes continuous attention to the value of the fixed salaries it pays, which are monitored in relation to its competitors and adapted to changes in the market scenario from time to time, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.

– Variable remuneration: this functions as recognition and reward for targets set and results achieved, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking, Private Banking and Wealth Management divisions in particular) may form 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.
The variable component is paid in cash and equity instruments, in part upfront and in part in subsequent years, subject to performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes. The section entitled "Variable component structure" describes the criteria and means of deferral in more detail.

– Benefits: in line with the market, compensation package is completed by a series of fringe benefits which are evidence of the ongoing attention paid by Mediobanca to the personal needs and welfare of its own staff, even after retirement. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes are sometimes distinguished by families of professionals and geographical areas, but do not make provision for individual discretionary systems. The Bank's supplementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company. Company cars are provided only for the most senior figures.

e) Other information on remuneration structure

Under the terms of tax legislation and other relevant applicable regulations, company welfare systems may be implemented for all staff or like-for-like staff clusters. Such systems consist of the provision of non-cash services and instruments, which the Group companies make available to employees and their families. Productivity and/or performance bonuses linked to complementary company contracts may be used to this end, or other amounts earmarked for welfare purposes for like-for-like categories of staff.

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 upon 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.

Staff members are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the company's risk. The control units carry out checks to this end.

Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to avoid the regulatory provisions.

Limit on variable remuneration

Subject to approval by shareholders in general meeting, and in accordance with the national and supranational regulations, the upper limit on the variable remuneration component for all staff belonging to the Mediobanca Group [11] and hence for all identified staff has been set at 200% the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units, Human Resources and the Head of company financial reporting) [12].

[11] With the exception of staff not included in the definition of identified staff employed in business areas governed by sector regulations where there is no cap on variable remuneration under the present regulatory framework and in the absence of specific guidance from the supervisory authorities in this area.

[12] The Group's headcount currently comprises approx. 4,798 staff made up as follows: 601 in Corporate & Investment Banking (with 43 qualifying as identified staff), 2,023 in Wealth Management (8 identified staff), 1,405 in Consumer Banking (3 identified staff), 758 in Holding Functions (24 identified staff), and 11 in Principal Investing (1 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 liberalized regulatory framework;
- The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

The sustainability of this limit is guaranteed by the provisions of the remunerations policies regarding the determination of the bonus pool, the correlation between risk and performance, and the performance conditions, malus conditions and clawback provisions.

Determination of variable remuneration and the bonus pool and correlation between risks and performance

Determination of the bonus pool and the correlation between risks and performance is achieved via a process which has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, in accordance with the risk profile defined in the Risk Appetite Framework (RAF), from the perspective of business continuity and sustainable results over the long term.

In more detail:

a) Gateways

Distribution of the bonus pool (which comprises 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 [13] indicated by the risk metrics adopted in the Risk Appetite Framework [14] approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP;
b) Positive operating profit delivered at Group level [15].

b) Budgeting phase

Under the process for determining the variable remuneration and the divisional bonus pools, in preparing the budget the Board of Directors approves the 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.

c) Determination of variable remuneration and divisional bonus pools

Once the final results have been closed, the variable remuneration and the bonus pool payable to the Group's various business divisions are calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC) and on other secondary quantitative and qualitative objectives.

[13] CET 1 ratio, leverage ratio, AFR/ECAP, liquidity coverage ratio, net stable funding ratio, retail funding ratio.

[14] 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.

[15] Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

For the Wholesale Banking division,[16] (the area in which the highest number of staff with a substantial impact on Mediobanca's risk profile are employed), the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit to be used for the bonus pool and variable remuneration. The amount determined is measured against the bonus pools resulting from the scorecards for the individual business units, which may be fine-tuned to ensure that overall sustainability is maintained. The aggregate amount also reflects assessment of other quantitative parameters (Group results, Risk Appetite Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual budget objectives and the three-year business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and market share, retention of key staff, need to recruit new professional talent).

For the other divisions (Consumer, Wealth Management in the Affluent/ Premier and Private Banking segments), the amounts are determined by the Chief Executive Officers of the legal entities forming part of them, who to this end liaise with the General Manager and Human Resources department of Mediobanca S.p.A. (see section entitled "Remuneration policies for staff employed at Group companies").

The variable remuneration and bonus pool to be allocated to staff employed in the Holding Functions and the Principal Investing division are established by the Chief Executive Officer of Mediobanca, on the basis – for the former – of general earnings sustainability with limited correlation to the Group's results, and – for the latter – of qualitative criteria and specific qualitative and quantitative performance indicators.

d) Distribution and allocation of variable remuneration and bonus pools

The variable remuneration and bonus pool for the individual business units of the Wholesale Banking division and the units which provide financial services to the Group as a whole, comprised within the Holding Functions (Group

[16] 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.

Treasury and Strategic Portfolio) and the Mediobanca Private Banking business unit) are calculated on the basis of scorecards which use primarily Economic Profit or other risk-adjusted metrics depending on the nature of the business and activity, and other secondary quantitative metrics (such as reference to budget objectives and historical results performances) and qualitative metrics with the institution of a cap.

For the other divisions (see section entitled "Remuneration policies for staff employed at Group companies"), the variable remuneration and bonus pool are allocated based on internal organizational structure: for senior management, on the basis *inter alia* of individual scorecards; for the commercial branch network and credit management, based on reaching specific business indicators applicable individually or collectively by organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

e) Exceptions (bonus pools for retention purposes and floors)

The Board of Directors, at the Chief Executive Officer's proposal and with the Remunerations Committee in favour, may authorize payment of a bonus pool for identified staff for retention purposes even if the gateways have not been met. The possibility of paying a retention bonus pool is assessed in the light of the reasons why the individual gateways were not met, and the impact of the individual indicator on the Group's capital adequacy, liquidity and profitability. 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.

f) Assessment of individual quantitative and qualitative performance in the award of the annual bonus

Annual bonuses are awarded to the individual beneficiaries via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed, the bonus may either not be paid or may be reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary fully maintaining their status as an employee 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 bonus may not be split over fractions of years, hence if the employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the performance assessments are ratified individually by the Chief Executive Officer and General Manager of Mediobanca.

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. 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.

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.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Interim 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 assessment criteria.

For staff belonging to the business units, the assessment reflects:

- Earnings results achieved, e.g. reaching or not reaching budget targets and objectives in terms of improvement from the previous year, with reference to the risk/return and cost/income ratios;
- Qualitative criteria: development of product offering, professional conduct and reliability, quality in terms of customer relationships, technical and analytical skills in the field of finance, ability to control costs, importance placed on achieving operating efficiency, and co-operation with other areas of the Bank, reputational and compliance issues, and adherence to the Bank's values.

For all the other units, the main aspects of assessment are based on qualitative objectives and a broader appraisal regarding compliance with regulations, control of costs and efficient management of resources. In particular, for staff employed in the accounting, planning and control areas the following aspects are considered: all obligatory, supervisory and market disclosure requirements being complied with, all the accounting processes, related electronic procedures and tax requirements being managed efficiently and accurately. For staff employed in the internal control units, i.e. Group Audit, Compliance and Risk Management, continuous monitoring and control of the Bank's processes and operations, carried out independently and autonomously to prevent risk situations developing and ensure irregular behaviour or events is picked up swiftly; continuous assessment of compliance with the regulations in the form of appropriate audit plans, updates to internal guidance, training of internal units; correct development of models, methodologies and metrics with which to measure market, credit and operational risks, producing adequate reporting for monitoring processes and accurate analysis of new products and their risk profiles.

In close relation to the valuation process, staff may also be involved in a career advancement pathway, which may involve covering new organizational roles, promotion to a new contractual level or being assigned a new corporate title based on the experience acquired and results achieved. Promotions are proposed by the head of the business unit concerned, agreed with Human Resources and approved by the General Manager and/or the Chief Executive Officer (for middle management). For higher levels (senior management or equivalent), the process involves specific appraisal of the candidate concerned, including by other senior Bank staff from a variety of different professional backgrounds, experience and roles. The process is closely linked to that of succession planning which involves researching, identifying and managing individual candidates for senior positions (specifically executive directors, including in cases where such figures have to be replaced ahead of the scheduled expiry of their term of office, in view of the fact that under Mediobanca's current Articles of Association, some of the directors must be chosen from among staff with at least three years' experience as senior management employed by Mediobanca Banking Group companies). The process also requires a pool of possible high-potential replacements to be identified (the "senior talent pool") for key positions, including the business areas, control units, and staff and support roles, in view of likely future requirements in terms of strategic leadership and/or professional and managerial capabilities based on a global organizational approach.

The remunerations policies are therefore closely co-ordinated with the Succession planning and Staff management policies, both of which are approved by the Board of Directors.

Variable component structure: timescale for distribution 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 ascertained.

The variable component payable to directors with executive duties, to senior management (i.e. groups 2 and 3 of the table shown in the section entitled "Identified staff") and to staff employed in areas operating on financial markets, included in groups 5 and 7 of the same table, is deferred as to 60%.

For the remaining identified staff the deferred share is 40%.

The time horizon for deferral is three years, save for directors with executive duties and for senior management (i.e. groups 2 and 3 in the table shown in the section entitled "Definition of identified staff"), for whom it is five years, with annual distributions made pro rata. Deferral applies to any amount of variable remuneration.

For line managers and senior staff in the control units and staff and support areas (groups 4 and 6), deferral is applied to variable remuneration which is equal to or exceeds € 80,000.

The upfront component (i.e. paid in the same year as the award is made) and the deferred variable remuneration are distributed as to 50% in cash and as to 50% in equity instruments (ordinary shares).

After the vesting period, the shares are subject to a further retention holding period, of two years for the upfront component and one year for the deferred component.

Given the full time horizon over which the variable remuneration is distributed, in cash and shares, the economic benefit for recipients is spread across six financial years for management staff and over five years for the other identified staff.

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.

Performance conditions, malus condition and clawback

The deferred variable remuneration component is paid, provided that:

- The beneficiary is still a Group employee 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 "Determination of variable remuneration and the bonus pool and correlation between risks and performance" are met;

– The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as ratified by the Risk Management unit;

– The beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary measures under the terms, *inter alia*, of Mediobanca's Code of ethics, Organizational model, Business conduct policy and other internal regulations [17] and no losses have been incurred which were attributable to their actions.

This method is consistent with the requirement for staff, in accordance with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital base, a strong liquidity position and close control of all risks as well as positive earnings results, thus guaranteeing that the remuneration systems remain sustainable over the long term.

For staff employed at other Group companies, the Chief Executive Officer may choose to identify one or more specific economic indicators to replace those referred to above.

The Board of Directors, with the favourable opinion of the Remunerations Committee, may, at the Chief Executive Officer's proposal, authorize payment of the deferred component, including in part, even if the gateways are not achieved, either to business divisions or individuals who during the year have delivered particularly outstanding performances or who are expected to be decisive with regard to the sustainability of results over time, for retention purposes.

Mediobanca reserves the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being

[17] The relevant cases for application of compliance breaches are assessed internally, through an appraisal of the regulatory areas which are most relevant to the Bank's reputational risk and the gravity of the breach, as well as the process for evaluating them correctly and potentially taking action, involving the control units and governing bodies as well. Relevant factors for applying the malus and/or clawback mechanisms include not only the application of penalties as provided by the various disciplinary codes, but also warnings or reminders sent by the control units regarding the most relevant instances, or the outcomes of audits conducted again by the control units. The Compliance unit, after consulting with the other control units, once a year prepares a summary report of the relevant events that have taken place, at both the individual and business unit level.

established. In particular, provision for such measures is made in cases involving breach of the obligations imposed under Article 26 of the Italian banking act (company representatives – personal and professional qualifications and independence) or, where relevant to the party involved, Article 53, paras. 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Performance share schemes

In order to have ordinary shares for use as components of staff remuneration, Mediobanca has adopted a performance share scheme, approved by shareholders at the annual general meeting to be held on 28 October 2015, to which reference is made for all further details.

The scheme involves the award of Mediobanca shares to beneficiaries as the equity component of the variable remuneration granted to them as a result of the annual or long-term performance assessment process. The shares awarded are actually assigned to the beneficiaries at the end of a vesting period of at least three years – two years for the upfront component – provided that the beneficiaries are still employed by the Group and that the performance conditions stipulated in the remuneration policies in force at the time under the section entitled "Performance conditions, malus condition and clawback" regarding the sustainability of the results achieved have been met, without prejudice to the company's capital solidity and liquidity and/or proper individual conduct.

The performance shares awarded as deferred equity component, after the performance conditions for the reference year have been checked, are 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 for Mediobanca. The performance shares awarded as upfront equity component are subject to a holding period of two years prior to their actual assignation, which remains conditional upon the beneficiary continuing to work for the Group.

The Chief Executive Officer 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. 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 in force 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 beneficiary tenders their resignation or is dismissed. 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, based on the powers vested in them, particularly in cases which involve departures by mutual consent within the limits defined by the remunerations policies in force at the time. The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies, and without prejudice to any regulations providing for more favourable treatment instituted by the applicable local legislations.

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for award to Mediobanca Group staff members before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code, which was approved by shareholders on 28 October 2015. Alternatively and/or in addition, those of the 15,736,786 treasury shares held by the Bank and not reserved for other purposes may be used to this end. At present a total of 6,733,321 shares have been awarded but not assigned, 21,725 from the treasury share holdings and the other 6,711,596 from the limit approved by shareholders in general meeting.

Performance stock option scheme

At an extraordinary general meeting held on 27 June 2007, the shareholders of Mediobanca approved a capital increase involving the issue of 40,000,000 shares for use as part of a stock option scheme (to be exercised by 1 July 2022). A total of 24,464,000 are outstanding, and at present their use in the scheme is not anticipated[18]. At an ordinary general meeting held on 27 October 2007, in accordance with the provisions of the regulatory instructions, the shareholders of Mediobanca approved a resolution to adopt the scheme and its methods of implementation. At a Board meeting held on 24 June 2011, in exercise of the powers granted to them, the directors of Mediobanca revised the stock option scheme to bring it in line with the Instructions, including provision for performance conditions for exercise in addition to those of a purely temporal nature, thereby effectively transforming the scheme into a performance stock option scheme.

The essential characteristics of the scheme, which is for staff with roles key to the achievement of the Group's objectives, are: a vesting period of three years from the award date, subject to the performance conditions being met as defined in the section entitled "Performance conditions, malus condition and clawback"; an exercise period of up to the end of year 8 (three years' vesting plus five years' exercise); a holding period of at least 18 months for Mediobanca shares corresponding to at least half of the capital gain achieved, irrespective of tax issues, for certain participants in the scheme who perform significant roles. In each year the performance conditions must be met for one-third of the stock options awarded. Failure to meet the performance conditions in any one year will result in the relevant share being cancelled.

Remuneration policies for staff employed at Group companies

Mediobanca liaises constantly with its Group companies to ensure that the remuneration systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation, organizational

[18] As at 15 September 2017, a total of 4,420,000 stock options and/or performance stock options, as yet unexercised, had been assigned to Mediobanca Group staff, at an average price of €6.53 per share, from the schemes approved by the shareholders in general meetings held on 28 October 2004 and 27 June 2007. As mentioned earlier, a total of 6.733.321 performance shares have been allocated but not yet awarded on the grounds that they are still subject to either vesting or holding periods. The fully-diluted percentage of the company's share capital represented by equity instruments issued to Group staff therefore amounts to 1.2%. The impact on the shares' market value and the possible dilution of the share capital is not material, given the fact that several schemes and several instruments are in operation across different years and vesting and holding periods spread across a medium-/long-term time horizon.

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 and bonus pools for identified staff in the different companies and their allocation; establishes the objectives for the CEOs and/or General Managers of the Group companies, and ascertains 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.

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 and the Human Resources department of Mediobanca. 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 earned by the business area and/or the ROAC delivered by the business division in which they work) and other secondary, quantitative objectives. Other assessment criteria are also adopted linked to quality of performance, for example indicators of customer satisfaction, and to the achievement of individual qualitative and project-based objectives. The work once complete is subject to ratification by Mediobanca. For the commercial branch network and credit management, establishment of the variable component is based on reaching specific business indicators applicable individually or collectively by organizational unit. 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 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.

External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group, via the Wealth Management division, also uses financial advisors retained on the basis of agency contracts. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view inter alia of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components. The former is the more stable, ordinary component of their remuneration, and consists mainly of sales, maintenance or management fees (which in themselves do not serve for incentivization purposes). The latter component, meanwhile, does serve for incentivization purposes, being linked, for example, to beating certain targets in terms of funding, launch of new products, long-term incentivization schemes operative over several years, etc.

As required by the regulations in force, the Group includes staff members belonging to this category in the process of defining identified staff. The qualitative identification criteria adopted refer to the possible liability on the part of the relevant organizational units for the earnings, financial or reputational risk to which they could expose the Group. The quantitative criteria provided for by the regulations are also adopted for employees to be included in the definition of identified staff; these regulations also govern exclusion mechanisms and procedures, if any.

The same rules apply to non-recurring remuneration received by financial advisors included in the definition of identified staff as apply to the payment of variable remuneration for the other identified staff (i.e. gateways, cap, deferral, malus clause and clawback).

Asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, 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 [19]) 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 structure;
– Application of specific means of deferral between different categories of risk-takers, including provision, if any, for use of shares in investment funds;
– Caps on variable remuneration, if any, as a result of forming part of the banking group and/or relevant jurisdiction;
– Specific malus clauses and clawback mechanisms;
– Dismissal or resignation;
– Disclosure requirements.

[19] 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.

Policies in the event of employment being terminated or otherwise ending

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 of early termination, 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 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) requires 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 the failure to provide notice and other entitlements payable upon termination (severance provision, holiday leave etc.);

– A possible additional amount by way of severance: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment relationship is terminated by mutual consent, with a view to minimizing 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 pay amount

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual), as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation 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 concerned, the reasons underlying the termination of the employment relationship (which in some cases may be organizational and strategic rather than related to the question of individual performance), the performance of activities which have generated criticalities for the risk profile established by the Group, the adoption of personal conduct which 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. This amount includes any non-competition agreements. The amount 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.) referred to under the first bullet point of the foregoing point b) [20]. Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

[20] In terms of the number of years' fixed remuneration, if an employee has received variable remuneration throughout the time horizon considered equal to twice their annual fixed salary (cf. 2:1 cap), a total of six years' annual salary would be considered. This provision, which is entirely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.

Severance may not be paid in cases where the conduct of individual staff members has resulted in damages to the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

d) Timescales for payment and instruments used

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Definition of identified staff", the methods and timescales provided for in making severance payments and any compensation for non-competition agreements entered into upon terminating an employment relationship include payment of a deferred share of at least 40% over a time horizon of at least three years, 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 any variable remuneration deferred component awarded but not yet paid 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 the entitlement to any company benefits.

Cases where termination of the employment relationship is by mutual consent, for more favourable treatment in individual cases and the possibility of applying more favourable local legislations, are handled by the governing bodies within their respective areas of responsibility, namely the Board of Directors, Remunerations Committee and Chief Executive Officer, based on the powers vested in them.

f) Decisions by third parties

The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies.

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, the Chief Executive Officer and 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 relationship is terminated.

Dear Shareholders,

In view of the foregoing, we invite you to adopt the following proposed resolution (for which three separate votes will be held, one for each proposal, each with its own executive mandate):

"At an ordinary general meeting, the shareholders of Mediobanca

in view of the Staff remunerations policies for FY 2016/17 as illustrated in the Board of Directors' report,

HEREBY RESOLVE

Resolution 1: to approve the new staff remuneration policies as illustrated in the Board of Directors' report;

Resolution 2: to adopt the provision instituted in the section entitled "Limit on variable remuneration" which establishes the ratio between variable and fixed remuneration at a maximum of 2:1, without prejudice to the fact that such ratio may not in any case exceed the maximum amount permitted by the law and regulations in force;

Resolution 3: to adopt the provision instituted in the section entitled "Policies in the event of employment being terminated or otherwise ended", establishing the criteria for determining the compensation to be agreed in cases where directors or staff leave office or cease working for Mediobanca early, including the limits on such compensation in terms of the number of annual fixed salary payments to be made and the maximum amount deriving from their application;

and to confer on the Board of Directors and the Chief Executive Officer and/or the General Manager on its behalf, the broadest powers to execute all deeds and perform all measures and formalities necessary in order to implement each of the three foregoing resolutions including the power to make all amendments to the new staff remunerations policies that prove necessary to bring them into line with the law and regulations in force from time to time".

Milan, 15 September 2017

THE BOARD OF DIRECTORS

SECTION 2

TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/16	30/06/17	30/06/17	100,000	1,800,000					350,388				
											of which complementary pension scheme				
											346,409				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**				**350,388**		**2,250,388**	**–**	
	(II) Compensation from subsidiaries/associates at 30/06/2017				**8,247**		**8,247**						**8,247**		
	(III) Total				**108,247**	**1,800,000**	**1,908,247**	**–**	**–**	**–**	**350,388**	**–**	**2,258,635**	**–**	**–**
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/16	30/06/17	30/06/17	135,000		135,000						135,000		
	Member of Executive Committee	01/07/16	30/06/17	30/06/17	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**225,000**		**225,000**						**225,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**225,000**	**–**	**225,000**	**–**	**–**	**–**	**–**	**–**	**225,000**	**–**	**–**
Marco Tronchetti Provera	Deputy Chairman of Board of Directors	01/07/16	30/06/17	30/06/17	135,000		135,000						135,000		
	(I) Compensation in company preparing the accounts (1)				**135,000**	**–**	**135,000**						**135,000**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**135,000**		**135,000**	**–**	**–**	**–**	**–**	**–**	**135,000**	**–**	**–**

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Alberto Nagel	CEO	01/07/16	30/06/17	30/06/17	100,000	1,800,000	1,900,000		877,500		456,726		3,234,226	818,841	
											of which complementary pension scheme				
											451,879				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**	**–**	**877,500**	**–**	**456,726**	**–**	**3,234,226**	**818,841**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**100,000**	**1,800,000**	**1,900,000**	**–**	**877,500**	**–**	**456,726**	**–**	**3,234,226**	**818,841**	**–**
Francesco Saverio Vinci	General Manager	01/07/16	30/06/17	30/06/17	100,000	1,500,000	1,600,000		694,500		375,557	50,000	2,720,057	587,706	
											of which complementary pension scheme				
											369,119				
	(I) Compensation in company preparing the accounts (5)				**100,000**	**1,500,000**	**1,600,000**	**–**	**694,500**		**375,557**	**50,000**	**2,720,057**	**587,706**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017				**15,342**		**15,342**	**–**					**15,342**		
	(III) Total				**115,342**	**1,500,000**	**1,615,342**	**–**	**694,500**	**–**	**375,557**	**50,000**	**2,735,399**	**587,706**	**–**
Tarak Ben Ammar	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	(I) Compensation in company preparing the accounts				**100,000**	**–**	**100,000**						**100,000**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**100,000**	**–**	**100,000**	**–**	**–**	**–**	**–**	**–**	**100,000**	**–**	**–**
Gilberto Benetton	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	(I) Compensation in company preparing the accounts				**100,000**	**–**	**100,000**	**–**			**–**		**100,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**100,000**	**–**	**100,000**	**–**	**–**	**–**	**–**	**–**	**100,000**	**–**	**–**

(Continued) TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Mauro Bini	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee	01/07/16	30/06/17	30/06/17	80,000		80,000						80,000		
	Chairman of Appointments committee	01/07/16	30/06/17	30/06/17	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 30/06/2017						**–**						**–**		
	(III) Total				**200,000**	**–**	**200,000**	**–**	**–**	**–**	**–**	**–**	**200,000**	**–**	**–**
Marie Bolloré	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Appointments committee	01/07/16	30/06/17	30/06/17	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**120,000**	**–**	**120,000**	**–**			**–**		**120,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**120,000**	**–**	**120,000**	**–**	**–**	**–**	**–**	**–**	**120,000**	**–**	**–**
Maurizio Carfagna	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee	01/07/16	30/06/17	30/06/17	80,000		80,000						80,000		
	Member of Remunerations committee	01/07/16	30/06/17	30/06/17	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**210,000**	**–**	**210,000**	**–**			**–**		**210,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017				**34,247**		**34,247**	**7,589**					**41,836**		
	(III) Total				**244,247**	**–**	**244,247**	**7,589**	**–**	**–**	**–**	**–**	**251,836**	**–**	**–**
Angelo Casò	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Executive Committee	01/07/16	30/06/17	30/06/17	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**190,000**	**–**	**190,000**						**190,000**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**190,000**	**–**	**190,000**	**–**	**–**	**–**	**–**	**–**	**190,000**	**–**	**–**

(Continued) TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Maurizio Costa	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Remunerations committee	01/07/16	30/06/17	30/06/17	30,000		30,000						30,000		
	Member of Appointments committee	01/07/16	30/06/17	30/06/17	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**150,000**	–	**150,000**	–			–		**150,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**150,000**	–	**150,000**	–	–	–	–	–	**150,000**	–	–
Massimiliano Fossati	Director	01/07/16	21/09/16		22,739		22,739						22,739		
	(I) Compensation in company preparing the accounts (1)				**22,739**	–	**22,739**				–		**22,739**		
	(II) Compensation from subsidiaries/associates at 30/06/2017												–		
	(III) Total				**22,739**	–	**22,739**	–	–	–	–	–	**22,739**	–	–
Marina Natale	Director	28/10/16	30/06/17		67,398		67,398						67,398		
	(I) Compensation in company preparing the accounts (4)				**67,398**	–	**67,398**	–			–		**67,398**		
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**67,398**	–	**67,398**	–	–	–	–	–	**67,398**	–	–
Vanessa Labérenne	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Chairman of Remunerations committee	01/07/16	30/06/17	30/06/17	30,000		30,000						30,000		
	Member of Risks committee and Related parties committee	01/07/16	30/06/17	30/06/17	80,000		80,000						80,000		
	(I) Compensation in company preparing the accounts				**210,000**	–	**210,000**						**210,000**	–	–
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**210,000**	–	**210,000**	–	–	–	–	–	**210,000**	–	–

(Continued) TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Elisabetta Magistretti	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Chairman of Risks committee and Related parties committee	01/07/16	30/06/17	30/06/17	80,000		80,000						80,000		
	Member of Appointments committee	01/07/16	30/06/17	30/06/17	20,000		20,000						20,000		
	Member of Remunerations committee	01/07/16	30/06/17	30/06/17	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**230,000**	**–**	**230,000**						**230,000**	**–**	**–**
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**230,000**	**–**	**230,000**	**–**	**–**	**–**	**–**	**–**	**230,000**	**–**	**–**
Alberto Pecci	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000		
	Member of Remunerations committee	01/07/16	30/06/17	30/06/17	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**130,000**	**–**	**130,000**	**–**			**–**		**130,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2017						**–**						**–**		
	(III) Total				**130,000**	**–**	**130,000**	**–**	**–**	**–**	**–**	**–**	**130,000**	**–**	**–**
Gian Luca Sichel	Director	01/07/16	30/06/17	30/06/17	100,000		100,000						100,000	269,889	
	(I) Compensation in company preparing the accounts				**100,000**		**100,000**						**100,000**	**269,889**	
	(II) Compensation from subsidiaries/associates at 30/06/2017					**600,000**	**600,000**		**292,500**		**7,028**		**899,528**		
	(III) Total				**100,000**	**600,000**	**700,000**	**–**	**292,500**	**–**	**7,028**	**–**	**999,528**	**269,889**	**–**
Alexandra Young	Director	01/07/16	30/06/17	30/06/17	100,000	340,000	440,000		103,385		41,639		585,024	94,469	
											of which complementary pension scheme				
											36,733				
	(I) Compensation in company preparing the accounts				**100,000**	**340,000**	**440,000**		**103,385**		**41,639**		**585,024**	**94,469**	
	(II) Compensation from subsidiaries/associates at 30/06/2017														
	(III) Total				**100,000**	**340,000**	**440,000**	**–**	**103,385**	**–**	**41,639**	**–**	**585,024**	**94,469**	**–**

(Continued) TABLE 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(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 (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Management with strategic responsibilities (6)						2,420,929	2,420,929		1,094,160		231,627		3,746,716	1,049,521	
											of which complementary pension scheme				
											214,803				
	(I) Compensation in company preparing the accounts					2,420,929	2,420,929		1,094,160		231,627	–	3,746,716	1,049,521	
	(II) Compensation from subsidiaries/associates at 30/06/2017						–						–		
	(III) Total				–	2,420,929	2,420,929	–	1,094,160	–	231,627	–	3,746,716	1,049,521	–
Natale Freddi	Chairman of Statutory Audit Committee	01/07/16	30/06/17	30/06/17	140,000		140,000						140,000		
	(I) Compensation in company preparing the accounts				140,000	–	140,000		–		–		140,000	–	
	(II) Compensation from subsidiaries/associates at 30/06/2017						–						–		
	(III) Total				140,000	–	140,000	–	–	–	–	–	140,000	–	–
Laura Gualtieri	Member of Statutory Audit Committee	01/07/17	30/06/17	30/06/17	105,000		105,000						105,000		
	(I) Compensation in company preparing the accounts				105,000	–	105,000		–		–		105,000	–	
	(II) Compensation from subsidiaries/associates at 30/06/2017						–						–		
	(III) Total				105,000	–	105,000	–	–	–	–	–	105,000	–	–
Gabriele Villa	Member of Statutory Audit Committee	01/07/16	30/06/17	30/06/17	105,000		105,000						105,000		
	(I) Compensation in company preparing the accounts				105,000	–	105,000		–		–		105,000	–	
	(II) Compensation from subsidiaries/associates at 30/06/2017						–						–		
	(III) Total				105,000	–	105,000	–	–	–	–	–	105,000	–	–

1) Fees are paid directly to the company of origin.

2) Fees due in respect of position held in Banca Esperia.

3) Fees due in respect of position held in Banca Esperia and Duemme Sgr

4) Of which € 42,466 paid directly to the company of origin.

5) Other forms of compensation: fixed amount awarded for length of service (three years) as established by Company Supplementary contract.

As shown in the Report on remuneration, the definition of "management with strategic responsibilities other than directors", as at 30 June 2017 involved five staff members: the three heads of the control units, the head of company financial reporting and the co-head of the Corporate and Investment Banking division.

Table 2: Stock options granted to members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Options held at start of financial year			Options awarded during the year						Options exercised during the year			Options expired during the year	Options held at year-end	Options attributable to the year
A	**B**	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2)+(5)-(11)-(14)	(16)
Name and surname	**Post**	**Scheme**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	**Fair value at award date**	**Award date**	**Market price of shares underlying award**	**No. of options**	**Strike price**	**Market price of underlying shares at exercise date**	**No. of options**	**No. of options**	**Fair value**
Renato Pagliaro	Chairman	27/10/07	350,000	6.537	From 2 August 2013 to 1 August 2018							200,000	6.537	7.781		150,000	
Alberto Nagel	CEO	27/10/07	350,000	6.537	From 2 August 2013 to 1 August 2018											350,000	
Francesco Saverio Vinci	GM	27/10/07	250,000	6.537	From 2 August 2013 to 1 August 2018											250,000	
Managerial staff with strategic responsibilities		27/10/07	80,000	6.537	From 2 August 2013 to 1 August 2018											80,000	
(III) Total			**1,030,000**									**200,000**				**830,000**	

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 not 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	28-Oct-10	122,605 Performance shares	Nov. 2017 – Nov. 2019									261,725
		28-Oct-15	183,956 Performance shares	Nov. 2018 – Nov. 2021									242,787
					152,387 Performance Shares	1,195,562	Nov. 2019 – Nov. 2022	27/09/17	9.061				314,329
Francesco Saverio Vinci	GM	28-Oct-10	101,898 Performance shares	Nov. 2017 – Nov. 2019									225,792
		28-Oct-15	91,627 Performance shares	Nov. 2018 – Nov. 2021									120,929
					116,830 Performance Shares	916,597	Nov. 2019 – Nov. 2022	27/09/17	9.061				240,985
Gian Luca Sichel	Director	28-Oct-10	17,697 Performance Shares	Nov. 2017 – Nov. 2018							11,797	73,141	25,163
		28-Oct-10	29,970 Performance Shares	Nov. 2017 – Nov. 2019									66,410
		28-Oct-15	55,719 Performance Shares	Nov. 2018 – Nov. 2021									73,538
					50,796 Performance Shares	398,523	Nov. 2019 – Nov. 2022	27/09/17	9.061				104,778
Alexandra Young	Director	28-Oct-10	11,089 Performance Shares	Nov. 2017 – Nov. 2019									25,963
		28-Oct-15	21,181 Performance Shares	Nov. 2018 – Nov. 2021									29,363
					18,174 Performance Shares	143,214	Nov. 2019 – Nov. 2022	27/09/17	9.061				39,143
Managerial staff with strategic responsibilities		28-Oct-10	169,631 Performance Shares	Nov. 2017 – Nov. 2018							221,209	1,371,496	475,714
		28-Oct-10	100,809 Performance Shares	Nov. 2017 – Nov. 2019									228,990
		28-Oct-15	122,462 Performance Shares	Nov. 2018 – Nov. 2020									164,724
					85,676 Performance Shares	673,456	Nov. 2019 – Nov. 2021	27/09/17	9.061				180,093
Total			**1,028,644**		**423,863**	**3,327,352**					**233,006**	**1,444,637**	**2,820,426**

Included awards made on 27 September 2017 for FY ending 30 June 2017.

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)
			Bonus for the year			Previous years' bonuses			
Name and surname	Post	Scheme	(A)	(B)	(C)	(A)	(B)	(C)	Other bonuses
			Payable/ paid	Deferred	Deferral period	No longer payable	Payable/ paid	Still deferred	
Alberto Nagel	CEO	FY 2016/2017	540,000	810,000	Nov. 2018 - Nov. 2022				
		FY 2015/2016						630,000	
		FY 2014/2015					337,500	337,500	
Francesco Saverio Vinci	GM	FY 2016/2017	414,000	621,000	Nov. 2018 - Nov. 2022				
		FY 2015/2016						313,800	
		FY 2014/2015					280,500	280,500	
Gianluca Sichel	Director	FY 2016/2017	180,000	270,000	Nov. 2018 - Nov. 2022				
		FY 2015/2016						190,822.5	
		FY 2014/2015					82,500	82,500	
		FY 2013/2014						40,000	
		FY 2012/2013					30,000		
Alexandra Young	Director	FY 2016/2017	75,100	85,900	Nov. 2018 - Nov. 2022				
		FY 2015/2016						63,540	
		FY 2014/2015					28,285	21,565	
Management with strategic responsibilities		FY 2016/2017	456,400	433,600	Nov. 2018 - Nov. 2022				274,760
		FY 2015/2016						399,600	
		FY 2014/2015					363,000	182,000	
Total compensation in company preparing the accounts			**1,665,500**	**2,220,500**			**1,121,785**	**2,541,827.5**	**274,760**

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	2,600,000	200,000 [1]	300,000	2,500,000
Nagel Alberto	CEO	MEDIOBANCA	2,626,050	==	==	2,626,050
Vinci Francesco Saverio	GM	MEDIOBANCA	945,000	==	==	945,000
Maurizio Carfagna	Director	MEDIOBANCA	33,000 [2]	7,000	==	40,000 [3]
Pecci Alberto	Director	MEDIOBANCA	4,707,500	==	==	4,707,500 [4]
Gian Luca Sichel	Director	MEDIOBANCA	7,600	11,797 [5]	5,820	13,577

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 scheme
[2] of which n. 13.000 shares owned through subsidiaries
[3] of which n. 20.000 shares owned through subsidiaries
[4] Investment owned through subsidiaries
[5] Shares awarded in execution of performance share scheme

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
5 *	MEDIOBANCA	97,125	221,209 **	221,209 **	97,125

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 30.6.2017
** Shares awarded in execution of performance share scheme.

Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	Fixed Salary	Variable	% variable maximum	% variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1) Management body Supervisory function - Mediobanca	4,032,630		—	—				
2) Management body Management function - Mediobanca	4,705,342	5,992,000	200%	127%	1,209,100	1,209,100	1,786,900	1,786,900
3) Staff, Support, holding units	98,707,705	18,297,205	200%	19%	17,626,405	135,000	420,800	115,000
4) Control functions (Risk Management, Compliance, Audit)	15,498,957	2,668,883	33%	17%	2,557,458	29,400	62,425	19,600
5) Investment Banking - business	57,150,722	49,313,201	200%	86%	27,280,063	5,265,000	10,805,638	5,962,500
6) Retail e Consumer - business	76,805,640	5,829,879	200%	8%	5,301,229	207,150	183,400	138,100
7) Private Banking / Asset Management - business	22,551,700	11,611,653	200%	51%	10,140,230	327,900	813,673	329,850
	279,452,696	**93,712,821**	**–**	**33.5%**	**64,114,485**	**7,173,550**	**14,072,836**	**8,351,950**

EBA classification - Gross amounts

Includes Group companies which ended FY on 31 December 2016.

Aggregate quantitative information by the various categories of "identified staff" as required by the Bank of Italy instructions

Mediobanca Group	#	Fixed Salary	Variable	% variable maximum	% variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1) Non-executive directors (non-executive members of BoD, including Chairman)	1	1,800	—	—	—	—	—	—	—
CEO	1	1,800	2,700	200%	150%	540	540	810	810
2) GM	1	1,500	2,070	200%	138%	414	414	621	621
Other Directors with executive duties (management who are members of Executive Committee)	2	940	1,222	200%	130%	255.1	255.1	355.9	355.9
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	16	11,352	10,092.5	200%	89%	2,018.5	2,018.5	3,027.75	3,027.75
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	8	1,415	405.6	33%	29%	337.0	29.4	19.6	19.6
5) Staff with managerial responsibilities in relevant business units	20	5,412	6,990.5	200%	129%	1,664.2	1,664.2	1,831.1	1,831.1
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	7	1,524	547	200%	36%	302	105	70	70
7) Quantitative criteria	23	6,592	7,528	200%	114%	2,147.4	2,147.4	1,616.6	1,616.6
	79	**32,335**	**31,555.6**	**–**	**98%**	**7,678.15**	**7,173.55**	**8,351.95**	**8,351.95**

Gross amounts in € '000 – Performance variable FY ending 30 June 2017

For Group Directors does not include emoluments payable in respect of their office.

Includes relevant staff (one person) employed at Group company which financial year ended 31 December 16.

Group	#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in number of MB shares[1]	#	Deferred from previous years due for cash payment during the year being cancelled
1) Non-executive directors (non-executive members of BoD, including Chairman)	—	—	—	—	—	—
2) Directors with executive duties (management who are members of Executive Committee)	4	758,785	1	11,797	—	—
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	12	7,993,160	10	1,980,592	—	—
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	21	2,201,082	—	—	—	—
5) Staff with managerial responsibilities in relevant business units	—	—	8	300,280	—	—
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	2	26,000	—	—	—	—
Quantitative criteria	21	6,794,440	6	1,628,198	—	—
	60	**17,773,467**	**25**	**3,920,867**	**—**	**—**

[1] Number of Mediobanca shares.

Group	#	Treatment at start of relationship	#	Treatment at end of relationship [1]
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) Directors with executive duties (management who are members of Executive Committee)	-	-	-	-
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	-	-	-	-
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	-	-	-	-
5) Staff with managerial responsibilities in relevant business units	-	-	2	838,650 *
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	-	-	-	-
7) Quantitative criteria	1	600,000	2	687,665
	1	**600,000**	**4**	**1,526,315**

[1] With reference to the identified staff identified as of 30 June 2016.

* Of which € 94,470 by way of incentive, deferred as to 60% over the three-year cash horizon.

The highest amount paid to an individual person was € 479,000.

Total remuneration awarded over € 1 mln.	#
€ 1 million - 1,5 millions	8
€ 1,5 - 2 millions	4
€ 2 - 2,5 millions	2
€ 2,5 - 3 millions	
€ 3 - 3,5 millions	1
€ 3,5 - 4 millions	1
€ 4 - 4,5 millions	
€ 4,5 - 5 millions	1

INCREASE IN FEE PAYABLE TO EXTERNAL AUDITORS FOR AUDIT OF THE COMPANY'S FINANCIAL STATEMENTS FOR THE 2017-21 PERIOD

Dear Shareholders,

Under a resolution adopted on 27 October 2012, the shareholders of Mediobanca appointed PricewaterhouseCoopers S.p.A. to act as the Bank's external auditors for the financial years from 2013 to 2021, involving a total annual commitment of 3,900 man hours in return for a fee of €390,000. At the annual general meeting held on 28 October 2015, the shareholders voted to increase the annual fee to €440,000 (4,400 hours), in view of the increase in the London branch office's operations, the introduction of new accounting standards (IFRS 10, 11, 12 and 13), and the introduction of certain changes to regulations.

PricewaterhouseCoopers S.p.A., in accordance with the contractual provisions which allow for a change in the fees payable in the event of circumstances which require a higher number of man hours or a different commitment form the professionals involved (e.g. changes to the structure and size of the company, or changes in the accounting standards), informed us in a letter sent by them on 4 August 2017 of the need to include the following activities in the audit process:

– Changes introduced by the audit reform, notably: new audit report (revised form and content); changes to report for internal control committee and audit of accounts; opinion on compliance of review of operations with legal provisions; and declaration regarding significant errors, if any (starting from the financial year ended 30 June 2017);

– Integration of the Esperia group companies.

PricewaterhouseCoopers S.p.A., in view of these additional activities, proposed an increase in the fee payable for the financial year ended 30 June 2017 of €50,000 for the 250 man hours and for the 2018-21 period of €70,000 for 450 man hours shown as follows:

Financial year ended 30 June 2017

Activity	Total no. of hours	Fees (€)	Proposed addition		Revised total	
			Man hours	Fees	Man hour	Fees
Audit of Mediobanca statutory accounts	2,130	199,630	175	35,000	2,305	234,630
Audit of Mediobanca consolidated accounts	870	83,050	75	15,000	945	98,050
Limited audit of interim consolidated accounts	270	32,280	—	—	270	32,280
Limited audit of interim financial statements for calculation of regulatory capital	830	96,980	—	—	830	96,980
Audits in connection with signing of tax declarations	100	6,160	—	—	100	6,160
National Guarantee Fund audits	100	11,900	—	—	100	11,900
Audits of Madrid branch office accounts for local regulatory purposes	100	10,000	—	—	100	10,000
Total	**4,400**	**440,000**	**250**	**50,000**	**4,650**	**490,000**

Financial years from 30 June 2018 to 30 June 2021

Activity	Total no. of hours	Fees (€)	Proposed addition		Revised total	
			Man hours	Fees	Man hours	Fees
Audit of Mediobanca statutory accounts	2,130	199,630	275	45,000	2,405	244,630
Audit of Mediobanca consolidated accounts	870	83,050	125	20,000	995	103,050
Limited audit of interim consolidated accounts	270	32,280	—	—	270	32,280
Limited audit of interim financial statements for calculation of regulatory capital	830	96,980	50	5,000	880	101,980
Audits in connection with signing of tax declarations	100	6,160	—	—	100	6,160
National Guarantee Fund audits	100	11,900	—	—	100	11,900
Audits of Madrid branch office accounts for local regulatory purposes	100	10,000	—	—	100	10,000
Total	**4,400**	**440,000**	**450**	**70,000**	**4,850**	**510,000**

The Statutory Audit Committee, pursuant to Article 13, paragraph 1 of Italian legislative decree 39/10, has reviewed the proposal, and has met with the external auditors to request more detailed information regarding the additions to the audit activities. The Committee also met with the relevant company units which gave their assessment on the request submitted by the external auditors and whether or not its contents were reasonable. Following the above activities, the Statutory Audit Committee believes that the proposed additions to the audit activity are consistent with the audit process covered by the mandate in force, are adequate in view of the new activities required in the light of the events listed above, and fair in view of the professional commitment requested.

In view of the foregoing, the Statutory Audit Committee invites shareholders to adopt the following resolution:

"The shareholders of Mediobanca, gathered in annual general meeting and having reviewed the proposal made by the Statutory Audit Committee regarding the terms of the proposal submitted by PricewaterhouseCoopers

hereby resolves

to revise, in accordance with the terms and additions requested by PricewaterhouseCoopers, the man hours and fees covered by the mandate granted to the external auditors by the shareholders of Mediobanca at the annual general meeting held on 27 October 2012 pursuant to Article 13, paragraph 1 of Italian legislative decree 39/10, as amended again by the shareholders at the annual general meeting held on 28 October 2015, for the 2017-21 period to reflect a total annual fee of €490,000 (payable in respect of 4,650 man hours) for the financial year ended 30 June 2017 and of €510,000 (payable in respect of 4,850 man hours) for the financial years ending on 30 June 2018 through to 30 June 2021. Such amounts are net of VAT and regulatory contributions. For all other matters not expressly covered herein, the proposal approved the shareholders of Mediobanca at the annual general meeting held on 27 October 2012 remain in force. All other clauses contained in the original proposal shall continue to apply."

Milan, 12 September 2017

THE STATUTORY AUDIT COMMITTEE

GROUP SUSTAINABILITY REPORTING

CONTENTS

INTRODUCTION

With this, our first Group Sustainability Report, the Mediobanca Group's intention is to inform our stakeholders of the approach and policies we have adopted on social and environmental issues, and to describe the results we have achieved in developing our business on a sustainable business with a view to creating value over the long term.

The report, which will be published once a year, is based on the GRI Standards (in accordance with the "core" option) on sustainability reporting issued by the Global Reporting Initiative (GRI), which are at present the most widely-used standards at an international level in the area of sustainability reporting, and also in accordance with the provisions of Italian Legislative Decree 254/16 on "Non-Financial Information" (compulsory as from 2018). This year the report has been compiled on a voluntary basis, and hence is not subject to assurance by the auditors.

The process of compiling the report has required the involvement of the heads of various company units in order to identify the contents; projects implemented; and related performance indicators. The data and information shown herein refers to the financial year ended 30 June 2017. Unless stated otherwise, the scope of reporting is the same used in the preparation of the consolidated financial statements as at 30 June 2017. In this connection, it should be noted that the data on the Mediobanca Group's social and environmental performances does not include Banca Esperia, acquired in the fourth quarter of the financial year under review.

Some of the principles underpinning the GRI on which the report has been based include Materiality, Stakeholder Inclusiveness, Sustainability Context, and Completeness. The importance of the information has been defined via analysis of materiality as required by the GRI Standards (for further details please see the section on "Analysis of issues material to the Mediobanca Group"). To ensure the information contained in the report is as reliable as possible, priority has been given to the inclusion of measurable indicators. With reference to the scope of reporting, the Group's intention is to expand this gradually. Furthermore, the Group is also committed to: further extending activities of dialogue and stakeholder involvement, identifying the measures suited to implementing the policies and commitments defined in the sustainability area, and identifying and managing the associated risks.

1 Identity

1.1. Mediobanca Group

Set up in 1946, the Mediobanca Group provides finance and specialist services to corporates and households (mortgages, personal loans and consumer credit), and operates in the asset management sector.

Tradition and innovation meet in the different aspects which make up the Group and contribute equally to the company's performances: lending and merchant banking, consumer banking and wealth management.

Its roots are in medium- and long-term financing and investment banking, where over the years it has achieved leadership in the Italian market and a recognized position in Europe, making the Group a partner of choice for companies in their plans for financing, growth and international expansion.

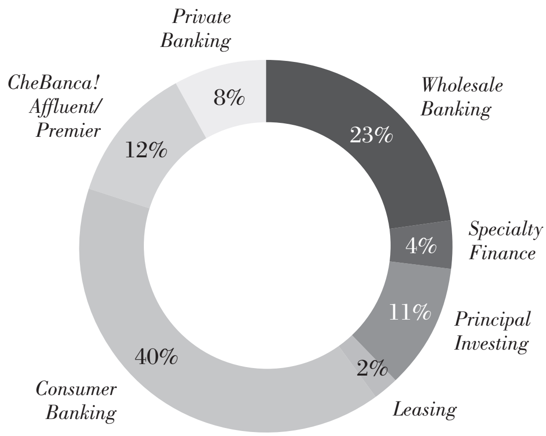
Furthermore, through Compass Banca, the Group has worked alongside Italian households for more than sixty years now, helping them to realize their plans as one of the first companies in Italy to offer consumer credit solutions, and positioning itself as one of the leaders in a growing market.

The most recent division to be set up is Wealth Management, development of which is one of the priority objectives of the 2016-19 Strategic Plan, by leveraging on the Group's strengths and grouping companies based on their clients:

– Affluent and Premier: addressed by CheBanca!, the multi-channel bank launched in 2008 to meet the demands of customers looking for innovative and transparent banking products, and which, with the acquisition of Barclays's Italian operations, has already gained a sound foothold in the target client's segment, at the cutting edge in terms of technology.
– Private & HNWI: addressed by Banca Esperia (Private Banking), launched as a joint venture with Banca Mediolanum and now 100%-owned, Compagnie Monégasque de Banque (private banking), and Spafid (multi-family office and fiduciary business).

The division also comprises Mediobanca Asset Management, the product factory which Mediobanca intends to set up to serve the Group sales networks by leveraging on existing capabilities: Cairn Capital (alternative AM), Duemme SGR (formerly Esperia), and Compagnie Monégasque de Gestion (CMG, formerly CMB).

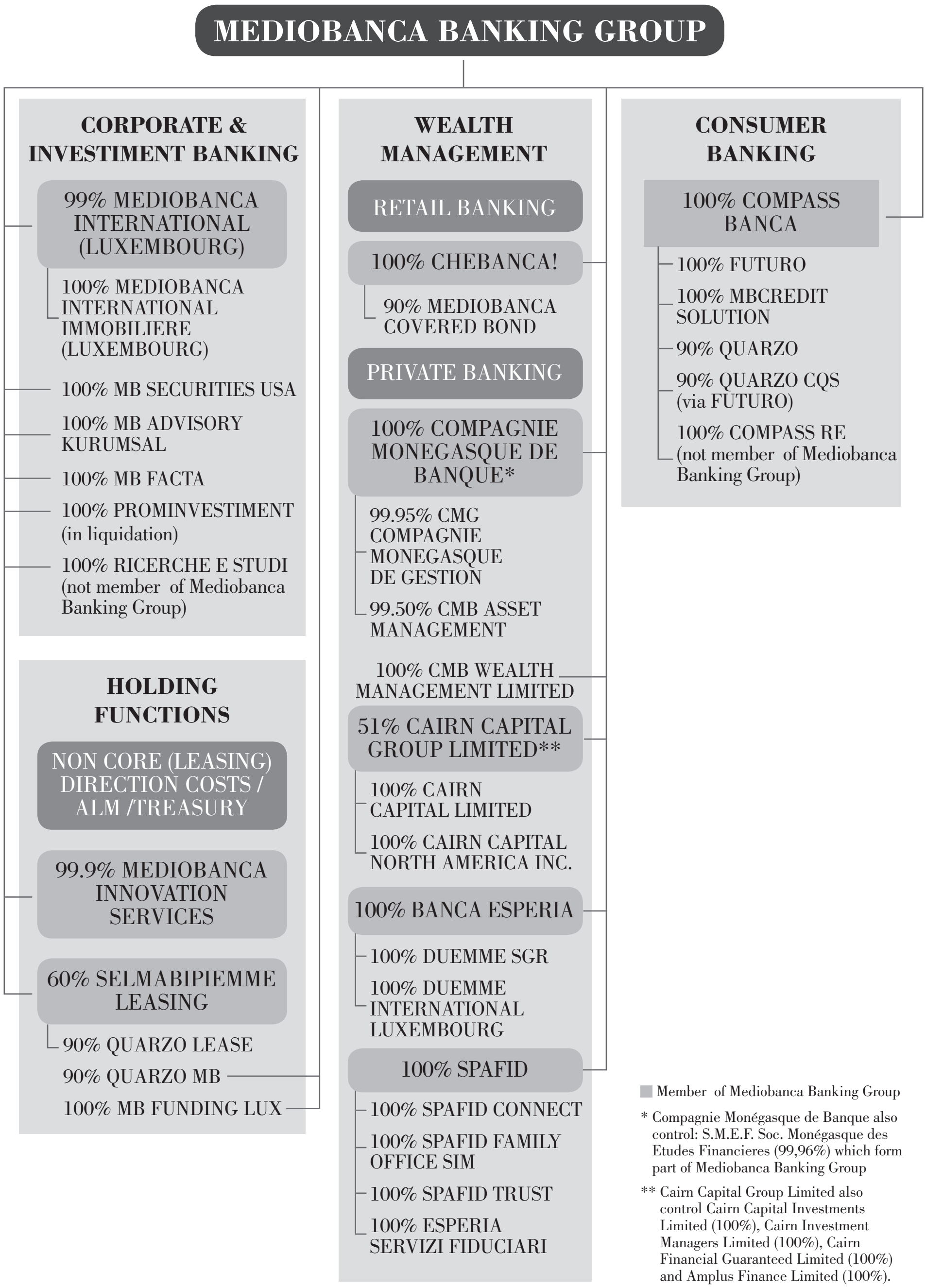
Revenues by area of business



The business model is based on three highly specialized businesses:

– Corporate & Investment Banking (CIB);
– Consumer Banking (RCB);
– Wealth Management (WM).

In recent years the Group has actively managed its equity investment



portfolio, eliminating some of the cross-shareholdings, withdrawing from the various shareholder agreements, and disposing of investments considered to be non-strategic.

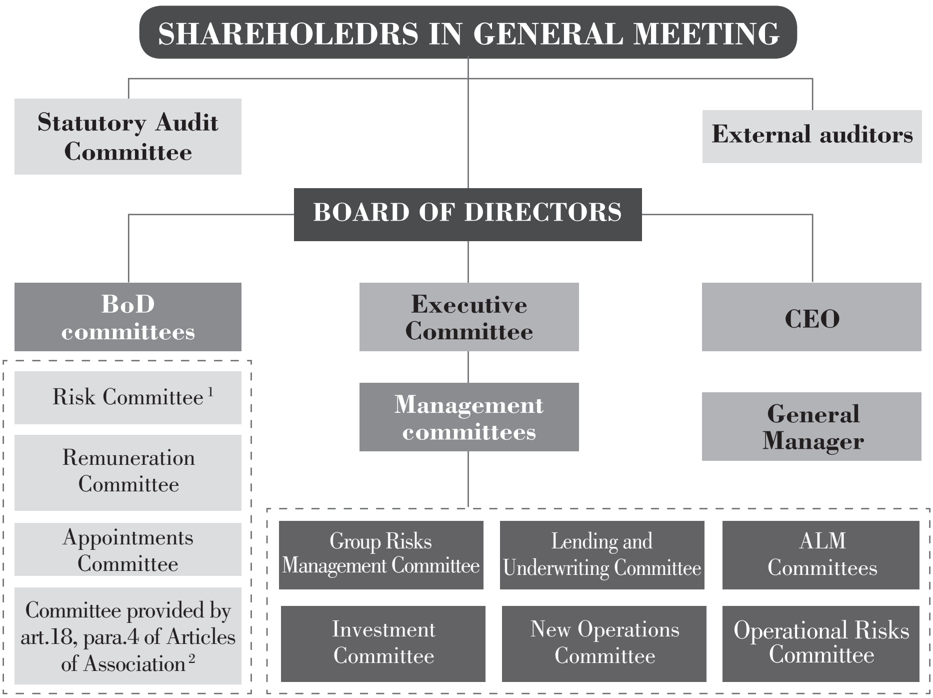
1.2. Governance model

Mediobanca adopts a traditional model of corporate governance, with the shareholders themselves appointing members of the Board of Directors and Statutory Audit Committee in the annual general meeting.

With this model, the Group's governance reflects a clear distinction between the roles and responsibilities of the governing bodies, as described in the Articles of Association:

- The Board of Directors is the body with responsibility for strategic supervision, adopting resolutions on the Bank's strategic direction and supervising its implementation on an ongoing basis;
- The Executive Committee, if appointed, is the body with responsibility for management, and along with the Chief Executive Officer is responsible for implementing the company's strategic direction and operations;
- The Statutory Audit Committee is the body with responsibility for control.

The diagram below illustrates the model in force:



[1] Also acts as Related Parties Committee.
[2] This Committee adopts resolutions in respect of decisions to be taken in general meetings of listed investee companies in which the investment held is equal to at least 10% of its share capital and at the same time involves an amount in excess of 5% of the Group's own consolidated regulatory capital.

The Board of Directors currently consists of 17 members, ten of whom qualify as independent under the definition provided in Article 148, paragraph 3 of the Italian Finance Act, of which ten eight also qualify as independent according to the definition provided in the Code of Conduct in respect of Listed Companies operated by Borsa Italiana. The Board's composition also complies with the regulations in force on equal gender representation.

The Board of Directors, at the Appointment Committee's proposal, has instituted an Executive Committee, and in accordance with the recommendations laid down in the Code of Conduct in respect of Listed Companies and the Bank of Italy's instructions on corporate governance, has also established Risks, Remunerations, and Appointments Committee, all of which consist exclusively of non-executive Directors and a majority of independent Directors from whose number the Chair is appointed.

As from the next reappointment of the governing bodies, i.e. from the Annual General Meeting called to approve the financial statements for the year ended 30 June 2017, the provisions of Article 15 of the Articles of Association shall apply. Accordingly, at the Annual General Meeting to take place on 28 October 2017, the shareholders of Mediobanca shall appoint a Board of Directors to comprise between nine and fifteen members, two of whom shall be appointed from the lists submitted by minority shareholders, and three of whom shall be chosen from among employees with at least three years' experience of working for Mediobanca Group companies. Moreover, at least one-third of the Board members shall qualify as independent under the terms of the definition provided in Article 19 of the Articles, and at least one-third of the posts shall be reserved to the less-represented gender. No Director aged over seventy-five may be elected. As required by the regulations in force, Board members must also possess the requisite personal and professional qualifications, be able to devote suitable time to their duties, comply with regulations in terms of the number of posts held, and not find themselves in any of the situations which would render them incompatible for the position listed in Article 36 of Italian Law 214/11.

Directors are appointed on the basis of lists which may be submitted by the Board of Directors itself and/or by shareholders representing at least 1% of the Bank's share capital in the aggregate. Lists of candidates which are submitted must also take into account the guidelines contained in the "Report on the qualitative and quantitative composition of the Board of Directors" published on 14 June 2017, to which reference is made and which is available on the Group's website.

The Statutory Audit Committee will also be reappointed on 28 October 2017.

Three standing and three alternate auditors will be appointed from lists to be submitted by shareholders jointly or severally representing at least 1% of the Bank's share capital in accordance with the terms and conditions of Article 28 of the Articles of Association and the applicable legal and regulatory provisions in force. 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 (one-third).

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.

Detailed information on the corporate governance model and on the composition of the governing bodies in provided in the "Statement on Corporate Governance and Ownership Structure" available on the Banks's website at www.mediobanca.com in the section entitled Corporate Governance/AGM 2017 and also contained in this Annual Report.

1.3. Compliance, internal control and risk management

The Mediobanca Group is distinguished by its prudent and selective approach to risk management, its excellent asset quality and high capital ratios, which are far above the minimum requirements and among the highest of all Italian banks.

In order to manage the implicit degree of uncertainty typical of banking and financial business, the Group has adopted a series of rules, procedures and organizational structures with the objective of:

- Safeguarding the integrity of the Bank's capital to the direct benefit of its shareholders, clients and staff;
- Supporting the formulation and implementation of company strategies;
- Promoting growth for the Bank and returns for shareholders which is sustainable and enduring;
- Structuring effective and reliable company processes and procedures.

The internal control system is the set of company rules, procedures and structures put in place to ensure that the corporate processes function smoothly and efficiently, to guarantee the reliability and integrity of the accounting and management information, and to ensure compliance with the regulations and risk management.

Risk management involves management bodies and control units and the different operations teams of both Mediobanca S.p.A. and the Group companies, each with different roles and responsibilities. The main company units involved in risk management and control are as follows:

– **Group Audit Unit:** the Group Audit Unit, centralized at Mediobanca S.p.A. but covering the Group as a whole, is organized so as to monitor and ensure on an ongoing basis that the company's internal control system is functioning effectively and efficiently. The unit is responsible in particular for assessing the thoroughness, adequacy, functioning and reliability of the individual components of the internal control system. It has direct access to all useful information, and has adequate means for performing all its duties. The head of the Group Audit Unit, who reports directly to the Board of Directors, takes part in meetings of the Risks Committee, to support the Committee in its supervisory activities.

– **Compliance & AML:** the Compliance unit manages the regulatory and reputational risks of the Group, and monitors 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, ensures staff are fully updated on developments in the domestic and European regulatory scenario, and prepares the appropriate reporting flows to the governing bodies and the units involved. On behalf of the Group the unit also handles relations with the regulatory authorities on matters which fall within its remit.

The unit manages compliance risks at the Group company 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, and ensure adequate reporting flows, regular and occasional, in accordance with the Compliance unit's own regulations.

The AML unit forms part of the Compliance unit, and has the objective of preventing and tackling breach of the regulations on money-laundering and terrorist financing. The head of the Group Compliance unit, who reports directly to the Board of Directors, takes part in meetings of the Risks Committee, to support the Committee in its supervisory activities.

– **Risk Management:** the Risk Management unit is responsible for identifying and implementing the risk management process and for ensuring it is embedded across the Group as a whole. To this end it presides over the functioning of 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, liquidity, operational and other relevant risks, within the limits set by the internal and supervisory regulations.

The Chief Risk Officer is responsible for identifying and implementing the risk management process, by developing risk management policies which include defining and quantifying risk appetite and risk limits at both the individual operating unit and Group-wide level. The Chief Risk Officer reports to the Chief Executive Officer, and attends meetings of the Risks Committee, assisting it in its control activities.

– **Heads of business units:** the heads of the business units, or risk owners, are responsible for ensuring that the risks related to the activities performed by them are managed correctly and for implementing suitable control measures.

In addition to the principal risks faced by the Group, mainly those typical of the financial sector such as credit risk, market risks, exchange rate risk, liquidity risk, and operational risks (for further details please refer to Part E, "Information on risks and related hedging methods" of the financial statements for the year ended 30 June 2017), various non-financial risks have also been identified, notably:

– **Strategic risk:** both in the sense of risk deriving from 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);

– **Compliance risk:** i.e. the risk 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:** i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities.

Monitoring the above risks is an essential prerequisite to guaranteeing the generation and protection of sustainable value over time, and impacts on issues deemed to be priorities for the Group, such as maintaining a high quality of service and client satisfaction levels, transparency of information on products and services, innovation, the multi-channel approach and digitalization of services and data security, to safeguard the ethics, business integrity and brand protection.

The Group is equally aware of the importance of identifying and managing non-financial as well as financial risks, such as social and environmental risks linked in particular to its own business activities.

To this end a Group Sustainability Policy has been approved. The Policy is structured across the different areas in which the Group is committed to assessing its own risk profile, to be integrated where necessary into the existing monitoring and management processes. Indeed, as the Policy states, the Group believes that responsible investment policies and good corporate practices help to build confidence on the part of investors and markets as well as to help strengthen the Bank's reputation. Ensuring that environmental, social and governance criteria (ESG) are suitably integrated into the investment and lending processes is a key factor in pursuing the creation of value in social and environmental as well as earnings and financial terms. The Policy thus represents the starting point for a defining a process whereby assessment of not only financial but also environmental and social factors underpins investment and lending decisions.

The Group adopts an approach which is aimed at identifying, assessing, preventing and reducing potential risks deriving from investments and loans to counterparties involved in serious events which impact negatively on the environment, human rights and workers' rights, bribery and corruption and terrorism.

With reference to assets fully available to the company under the terms of leasing contracts (e.g. assets not redeemed or assets withdrawn following contract terminations), all necessary measures are taken to mitigate the possibility of environmental risks. Leading specialist waste removal and treatment firms are used by the company for this purpose.

1.4. Approach to preventing and tackling bribery and corruption

The Mediobanca Group, as stated in the Group Sustainability Policy, conducts its business in accordance with the highest ethical standards, and does not tolerate any form of corruption, whether active or passive. The Group operates in compliance with all applicable laws and regulations on this matter. To ensure compliance with the regulations, the Group prepares its own internal regulations, procedures and controls, drawing inter alia on the regulations in force in the various countries in which it operates; arranges regular training; and carries out checks and audit activities. In this connection, in the past twelve months some 260 hours of training on anti-bribery issues has been provided in Mediobanca alone, and the Group Audit Unit has carried out thirty audits on the main areas identified as "sensitive" as part of the model instituted pursuant to Italian Legislative Decree 231/01. A further eight audits have been carried out which are of relevance in relation to the issue of bribery.

The Group acquires and maintains commercial relations solely on the basis of its own offering of services and the specific needs of its clients. It does not engage in any form of conduct which is or could appear to be intended to obtain and/or offer improper advantages. The approach it adopts is also intended to prevent instances of corruption occurring in the structuring and execution of transactions or commercial agreements.

Coverage of corruption risk is enhanced through the processes of reviewing and selecting suppliers and collaborators, including advisors and interns.

In particular Mediobanca has adopted the following instruments to tackle the problem of bribery:

- An organizational model pursuant to Italian Legislative Decree 231/01, updated in the course of 2015, the purpose of which is to prevent possible crimes related to bribery and corruption being committed by senior figures within the Group via the application of specific internal controls;
- A collection of provisions, updated in September 2015, on anti-bribery issues relating to the countries in which Mediobanca and its branch offices operate. For the London branch in particular, a UK anti-bribery directive has also been adopted, which was updated in 2013;
- A Gift Directive, updated in September 2015, which sets out precise rules on the possibility of receiving and offering gifts from and to third parties;

– An Agents Directive, updated in October 2015, which defines the procedure for appointing agents, introducing criteria and controls to take into account the risks of bribery and corruption;
– Hiring Procedures, updated early in 2017, which set out the controls which representatives of Human Resources must perform to check whether a new candidate has any relations of kinship or other ties with the person who proposed his/her candidature.

To strengthen this approach, the Mediobanca Group revised its Code of Ethics in December 2015 and Mediobanca prepared a Code of Conduct in June 2016 (which is in the process of being incorporated at Group level).

In addition to the internal and external policies, in order to prevent and reduce events related to corruption, risk management and assessment procedures have been developed for risk related to bribery.

In Mediobanca, the Compliance unit performs an annual risk assessment which includes identification of the bribery risk profiles, in view of the regulations in force, ensuring that the principles of conduct set out in the model instituted pursuant to Italian Legislative Decree 231/01 are adhered to.

Every two years a risk assessment is also conducted of risks related to bribery at the level of the individual business units.

A whistle-blowing policy has also been adopted to allow staff members to report, anonymously if they prefer, any malfunctioning within the organizational structure or internal controls system, or any other irregularity in the Bank's operations or breach of the regulations governing banking activity. This policy, which has been adopted by all Group companies, sets out the principles, methods and measures put in place to ensure the whistle-blowing process functions correctly, while at the same time safeguarding the confidentiality of the parties involved.

No instances of bribery or corruption were recorded during the period under review.

The Group also identifies and prevents or manages situations which involve conflicts of interest that could damage a client to its own advantage or to the advantage of another client, requiring all staff members and parties who have dealings with the Group to disclose explicitly any potential such conflicts.

1.5. Sustainability governance

The Mediobanca Group is convinced that fair, transparent and responsible conduct increases and protects its reputation, credibility and consensus over time, all of which are prerequisites to deliver sustainable growth for the business with a view to creating and protecting value for all its own stakeholders.

At a Board meeting held on 14 June 2017 the Directors of Mediobanca mandated the Chief Executive Officer to take charge of activities regarding sustainability and the actions to be implemented and monitored. In particular the Chief Executive Officer:

– Defines the Group's policy in terms of corporate social responsibility (CSR) for submission to the approval of the Board of Directors;
– As part of the budget approved by the Board of Directors, proposes the CSR budget at Group level and monitors its performance;
– Prepares the draft version of the Group Sustainability Report and methods of disclosure;
– Reports regularly to the Board of Directors on the activities performed.

To perform the duties assigned to him, the Chief Executive Officer is assisted by a CSR Committee consisting of:

– Chairman
– General Manager
– CEO of Compass and CheBanca!
– Planning, Accounting and Financial Reporting
– Group HR and Organization
– Group Sustainability.

The heads of specific units are also involved from time to time, depending on the specific issues under discussion.

The Group Sustainability unit reports to the Chief Executive Officer, supporting him in all issues relating to social responsibility and ensuring the Group is positioned correctly on these issues in its various areas of operation.

It also handles relations with the national and international CSR network, and manages implementation of projects with social/environmental impact.

In 2017, to define its commitment in this area, the Board has responsibility for approving the Sustainability Policy at Group level, sub-divided into five areas held to be priorities: measures to tackle bribery and corruption, Human Rights, diversity and equal opportunities, environmental issues and responsible investing.

The Group Sustainability Policy contributes to the strengthening and implementation of the values of ethics, integrity and responsibility as a form of respect towards people, the environment and society as a whole.

The Policy is based on the primary declarations and regulations issued with respect to the above areas, with the commitment to constantly improve the Group's conduct to ensure that sustainability is an integral part of the strategy and operation of its business.

The Policy applies to the Group as a whole, in all countries in which it operates and in accordance with: the Code of Ethics, the Code of Conduct, the organizational model instituted pursuant to Italian Legislative Decree 231/01, and all other policies, guidelines, procedures, directives and provisions related to the areas covered by the Policy, defined at Group and local level.

The Group Sustainability Policy was approved by the Board of Directors on 3 August 2017, and will be adopted by all Group companies.

To embed and promote a corporate culture based on ethics, integrity and sustainable business, the Group has adopted a Code of Ethics which sets out the main principles on which the protection of its reputation rests, and contains the values underpinning the Group's day-to-day operations.

These principles are also set out in the Code of Conduct, which represents the benchmark for governing in ethical terms, for cases not expressly covered by the regulations, the Bank's internal and external relations, describing the standards required in terms of conduct for all staff members and Group collaborators.

1.6. Sustainable development goals

On 25 September 2015, the leaders of the 193 member states of the United Nations met in New York to approve the **"17 Goals to Transform our World: 2030 Agenda for Sustainable Development"**, a manifesto identifying seventeen global objectives, or Sustainable Development Goals, structured into 169 targets of the new agenda to be implemented by 2030.

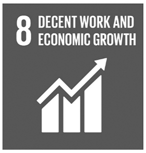
The Sustainable Development Goals (SDGs) are common objectives in areas which are fundamental to ensure sustainable development of the planet.

"Common objectives" means that all member countries and individuals are required to contribute, combining forces on a collaborative basis and in partnership. Businesses too are therefore required to play an activity role, as with their resources and capabilities they are able to have a fundamental impact on the achievement of these global objectives.

Analysis has revealed that globally all countries fall significantly short of reaching the SDGs, and that the progress achieved with the existing business is insufficient to allow the world to reach the goals within the fifteen years set as an objective. Urgent change is therefore necessary, at exponential growth rates, with people at the centre.

The Mediobanca Group is committed to making a contribution to positive change at world level, to begin with by focusing on the following targets:

100% of the electricity acquired by the Group in Italy derives from certified renewable sources.



The Group's continuing growth fosters ongoing job creation and protection, with priority given to recruiting young people.

The Group has adopted strict internal procedures to prevent the risk of instances of bribery and corruption from being committed.

1.7. Analysis of issues material to the Mediobanca Group

Issues which reflect significant impact in economic, environmental and social terms on the organization or which could substantially affect the assessments and decisions taken by the stakeholders are described as "material". Such issues are also important for risk management and strategy, and constitute the basis of non-financial reporting.

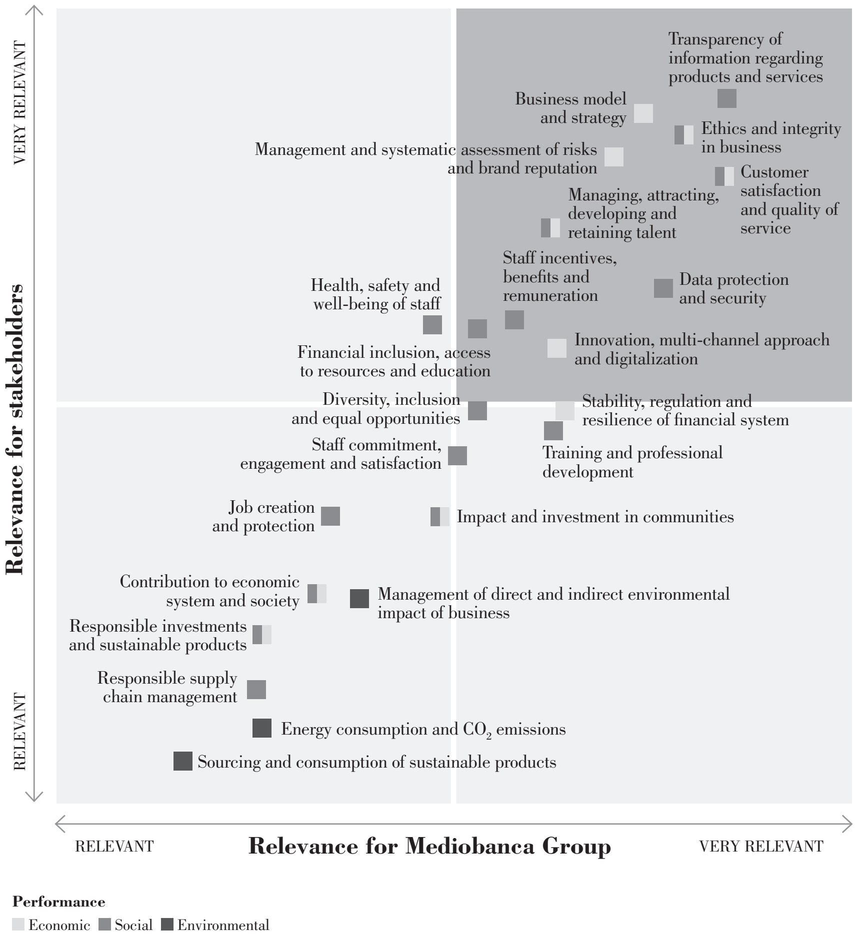
In 2017 the Mediobanca Group completed its first analysis of materiality, with the objective of identifying the relevant issues for itself and the Group's stakeholders; issues which impact significantly on the Group's capability to create value in the short, medium and long term.

The analysis process took place in two phases: in the first, based on benchmark analysis of the financial sector and specific studies and guidelines in the sustainability area, a total of over fifty issues were identified with the potential to impact on the financial sector. Thereafter these issues were analysed indepth with the heads of fifteen different units and Group companies, with a view to defining their relevance.

The result of this comparison allowed the twenty-thee main issues to be identified for inclusion in the materiality matrix.

For this first year only, the external stakeholders' perception has been provided for assessment by management.

The matrix formation process represented below has been ratified by KPMG.



2 People

2.1. Mediobanca Group staff

In a competitive scenario where the business and consumption models are undergoing constant and indepth transformation, the Mediobanca Group is aware that change, a fundamental prerequisite for tackling the challenges posed by the market, has to involve leveraging its staff and developing their professional abilities.

Our staff members are our human capital and the indispensable foundation of the Group's competitiveness.

In the performance of their work, Group employees are required to adopt conduct which is in line with our principles and values, which are based on ethics and integrity.

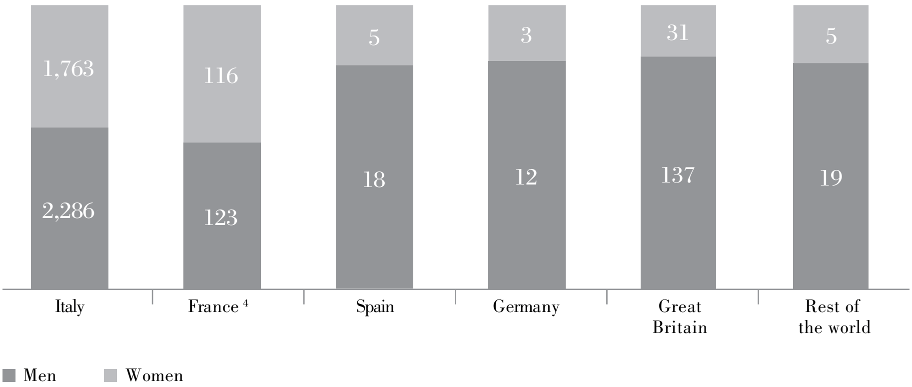
For the Mediobanca Group, professional development is at the basis of our growth and hence also that of our staff, which is why we guarantee: adequate training, practical work experience, experience in different positions, performance assessment, career progression and promotion, all of which on a meritocratic basis and in accordance with the principle of equal opportunities and staff needs, as well as the its own strategic decisions and organizational requirements. Furthermore, as required by the regulators, the Bank undertakes to ensure that its staff members are equipped with the capabilities and professional skills necessary to perform the responsibilities assigned to them.

The trust which underpins every employment relationship is regulated by a body of internal policies and procedures, as formalized and approved by the governing bodies or internal offices responsible.

The Group has adopted a Staff Management Policy which describes the roles and responsibilities of all bodies involved in the staff management process: the Board of Directors, Chief Executive Officer, General Manager and Human Resources. The internal procedures and general staff selection, assessment and development processes, training and remuneration are governed by separate policies.

At the end of the financial year under review, the Mediobanca Group had a total of 4,518 [3] staff on its books, 43% of whom are women. International expansion has translated to increases in the headcounts of the Mediobanca offices located in London, Madrid and Paris. Nonetheless, the majority of the Group's staff, some 90%, is based in Italy, confirming our strong local roots. The most-represented professional category is that of employee (see table below), which accounts for 56% of the total.

Employees by region

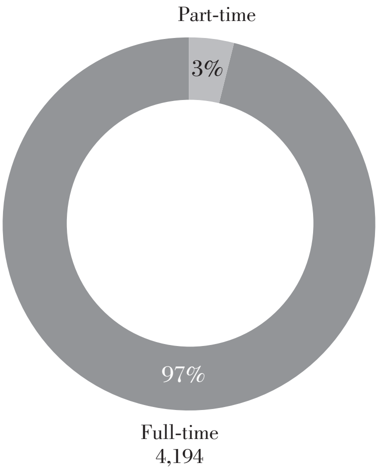


Staff members per professional category

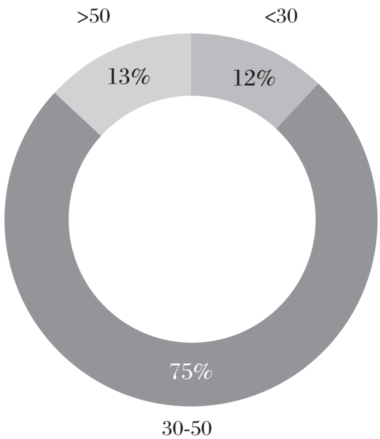
Professional category	Men	Women	Total
Senior management [5]	4	1	5
Management	277	45	322
Middle management	1,120	534	1,654
Employees	1,194	1,343	2,537
Total	**2,595**	**1,923**	**4,518** [6]

[3] This total does not include the 280 Banca Esperia staff acquired in the fourth quarter of the financial year.
[4] Total includes staff employed at Compagnie Monégasque de Banque.
[5] "Senior management" refers to the five directors of Mediobanca S.p.A. who are also members of the Group's senior management.
[6] This total does not include the 280 Banca Esperia staff acquired in the fourth quarter of the financial year.

Full-time and part-time staff



Staff members by age bracket



The majority of our employees, some 75%, is between thirty and fifty years of age, while the average age is around the 40 mark. In terms of length of service, the highest concentration is in the 0-5 years bracket (42% of the Group population), a level which is consistent with our continuing growth as a company.

Some 97% of the contracts are permanent, 42% of which are in respect of women.

As at end-June 2017, a total of 225 other people were engaged to work on behalf of the Bank under a variety of contractual arrangements (internships, consultancies and other collaborations, etc.), in accordance with the legal and regulatory provisions in force in this area and in relation to the business requirements.

During the course of the year a total of 769 new staff were added, 90% of whom in Italy and 5% in the United Kingdom. This increase was driven primarily by the growth of the commercial network and the need 325 employees left the Group's employment.

Employees hired and Employees leaving the Group by gender and age	Total	Male	Female	< 30	30-50	>50
Employees hired	769	454	315	140	519	110
Employees leaving the Group	325	194	131	81	200	44

Employees hired and Employees leaving the Group by geographical area	Total	Italy	France	Spain	Germany	United Kingdom	Rest of world
Employees hired	769	690	40	1	2	35	1
Employees leaving the Group	325	256	30	2	7	30	—

Turnover rate	Total	Italy	France	Spain	Germany	United Kingdom	Rest of world
Turnover rate for employees hired [7]	17%	17%	17%	4%	13%	20%	5%
Turnover rate for employees leaving the Group [8]	7%	6%	13%	9%	47%	17%	—

2.2. Skills training and development [9]

In view of the increasing international dimension of the Group's businesses, the technological changes to banking services, and the ongoing transformation in the sector regulations, the Mediobanca Group recognizes the strategic role and central place which training and professional development has for its staff. Training for the Group has a key role in the process of valorizing human resources.

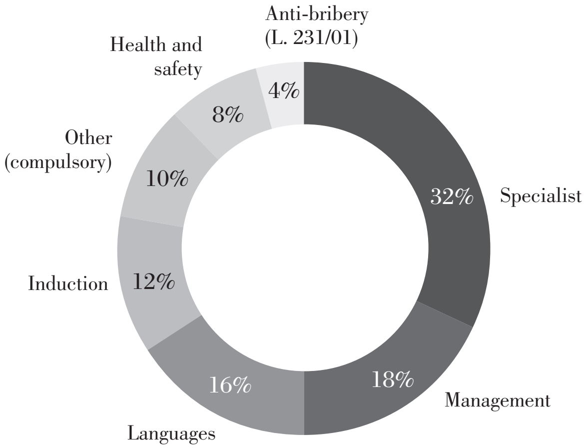
The Group fosters ongoing, structured technical and managerial training programmes [10]; and at the same time, promotes self-education solutions using initiatives which are appropriate in terms of the level of preparation and experience required by the various roles. Training initiatives are distinguished on the basis of the role covered and an assessment of which staff members need to develop their skills to a more advanced level, and which need to acquire new skills due to structural requirements.

During the year under review, a total of 66,813 hours of training were provided, of which 56% to employees, 40% to middle management, and 4% to management. Management and specialist training courses are classroom-based, whereas the compulsory courses and language lessons are provided

[7] Ratio between staff hired and total number of staff on the books as at 30/6/17.
[8] Ratio between staff leaving the Group and total number of staff on the books as at 30/6/17.
[9] The training data covers approx. 87% of the Mediobanca Group staff.
[10] Data for Mediobanca does not include the hours of technical and managerial training provided during the year.

via e-learning activities. The activities themselves involved specialist training (32%), management training (18%) and language lessons (16%).

Hours of training provided by type



Hours of training provided by gender and contract type

	Men	Women	Total
Senior management	9	3	12
Management	2,523	316	2,839
Middle management	17,577	8,816	26,392
Employees	17,877	19,694	37,571
Total	**37,986**	**28,827**	**66,813**

In the area of compulsory training, the Group has run courses in the twelve months intended to strengthen and embed a culture of health and safety and risk awareness in the workplace and to promote responsible behaviour by staff, for a total of over five thousand hours' training. Another 2,500 hours of training was provided on compulsory issues, such as the organizational model implemented pursuant to Italian Legislative Decree 231/01, data privacy, health and safety, anti-bribery, anti-money-laundering, data protection, market abuse and information security.

The Group offers its staff an opportunity to spend time working for other organizational units, in Italy or elsewhere, to broaden their professional experience and encourage the growth of their technical and managerial skills.

Internal staff mobility is particularly important for staff employed in the control units, as required *inter alia* by the regulatory authorities.

2.3. Diversity and human rights

As stated in the Group Sustainability Policy, valorization of a company's staff is a vital prerequisite in order to tackle the challenges posed by markets. In this scenario, diversity of gender and thought is considered to be an advantage to be leveraged, as a source of cultural and professional enrichment.

The Group believes in the importance of valorizing different perspectives and experiences through promoting an inclusive culture which does not tolerate any form of discrimination. It seeks to foster a working environment in which diversity and personal and cultural perspectives are respected and considered to be key factors of success.

Although at present no significant risks in the area of diversity and equal opportunities have been identified, the Group is committed to preventing every form of discrimination, from the selection process right up to the determination of remuneration, from professional development opportunities to the end of the employment relationship.

It guarantees that all its collaborators are treated without distinction, exclusion, restriction or preference, whether direct or indirect, based on their: age, gender, sexual orientation, civil status, religion, language, ethnic or national origins, physical or mental disabilities, state of pregnancy, maternity or paternity (including as a result of adoption), personal convictions, political opinions, and/or trade union affiliation or activities.

The Group also undertakes to offer a fair level of compensation reflecting the skills, abilities and professional experience of each staff member, thus guaranteeing that the principle of equal opportunities is applied in practice.

In this connection Mediobanca's involvement in Valore D should be noted. Valore D is the first association of large companies in Italy, set up to support women in positions of corporate leadership. The objective of the project is to support and increase the number of talented women in leadership positions, providing women managers with the tools and knowledge relevant to their professional growth.

With reference to the employment of differently abled people within the Group, Mediobanca seeks to manage diversity in this area in accordance with the regulations and practices provided for in the applicable legislation and by encouraging the different areas of the company to employ staff with different abilities. As at 30 June 2017 a total of 195 differently abled people were employed by the Group.

The Group, in line with what has already been stated regarding the issue of diversity, believes that respect of human rights is a fundamental prerequisite to its own sustainability. For this reason it seeks to protect and promote such rights in the conduct of its business.

The Group identifies and assesses the risks related to the protection of internationally recognized human rights, in particular in connection with scenarios, situations and operations with the potential for being affected by conflicts or breaches. To this end it seeks to develop relations of trust and mutual satisfaction with its clients, suppliers and commercial partners, and avoids engaging in relations with parties implicated in unlawful activities which could lead to potential breaches of abuses of human rights.

The objective of protecting Human Rights is pursued in a variety of ways, including through action to raise awareness of the different issues.

Respect for each collaborator's personality and dignity is fundamental in order to develop a working environment which is based on mutual trust and loyalty, in accordance with all legal obligations in force in every geographical region and area in which the Group operates.

The Group guarantees respect for diversity and non-discrimination at every stage of each collaborator's working experience; it also safeguards the right and freedom of association and collective bargaining (in this connection it should be noted that the national collective employment contract for the sector covers all staff in Italy, and a total of 1,243 employees are registered with a trade union, all of whom in Italy); it guarantees high standards of protection of health and safety in the workplace, seeking to raise awareness of risks and promoting responsible behaviour, including via information and training activities. Protection of workers' health and wellness is achieved by adopting specific programmes of prevention and protection, thereby ensuring that all levels of the company take responsibility for this area.

The Group rejects forced labour and child labour and any time of harassment, whether physical, verbal, sexual or psychological, abuse, threatening or intimidatory behaviour in the workplace, guaranteeing working conditions which are respectful and favourable in the countries in which it operates.

During the year under review, no episodes of actual or alleged discrimination or breach of human rights has been recorded or reported.

2.4. Talent and performance management

The Mediobanca Group devotes considerable attention to the issue talent management and retention which is considered to be a strategic factor for its own development.

In accordance with this approach, as part of the Group Succession Planning Policy, a total of 29 key positions have been identified, including the executive directors, for which internal staff have been identified so as to guarantee succession. The skills required by the leadership profiles required to be filled by the candidates have been defined and formalized. The Chief Executive Officer and General Manager, with the support of Human Resources, select the staff members who are able in the short and medium term to replace the key positions. For this reason growth and development pathways are identified, including terms of involvement in specific strategic projects, exposure to the Board and Committees, international and intra-Group rotation. The selection is based on an assessment of professional and technical qualifications, as shown by CV and career pathway, service and performance over time, possession and development of key leadership skills. The results of the process are then submitted to approval by the Appointments Committee and the Board of Directors.

In recent years a Junior Talent Programme has also been run. This is a scheme to recruit high-potential staff by offering new graduates a quality training experience and promoting internal mobility through rotations, within Italy and elsewhere, which increases Mediobanca's appeal as a potential employer for talented young people.

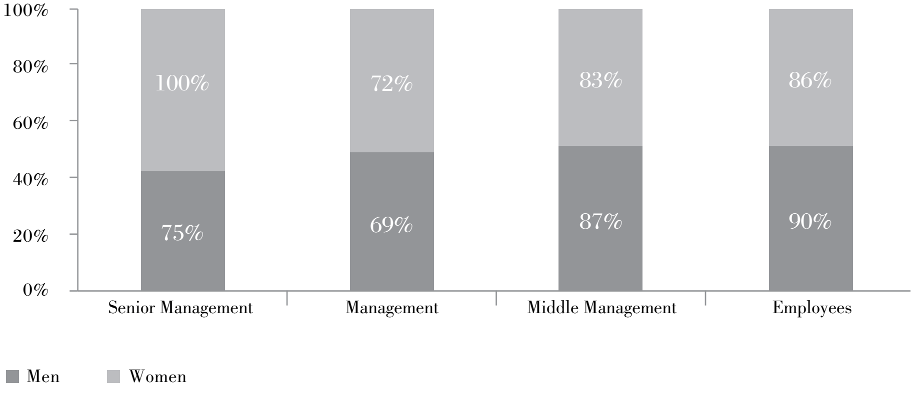
The Group adopts a constructive approach to professional development which is geared to achieving results over the long term. As proof of this commitment, instruments to support staff assessment have been adopted, with a view to constructing development and training pathways which are consistent and effective for the business. Performance evaluation is the system which meets the need for objectivity in terms of assessing individual performances and defining responsibilities.

At the start of each year each employee discusses their professional, management and personal development goals and company objectives with their line managers. These are then formally assigned on the basis of the staff member's professional profile, organizational role, and the strategic objectives of the organizational unit they work for. Once the activity or project has been completed, each employee is assessed on the basis of the results achieved.

Contributing factors in valorizing staff include the quality of the skills acquired by them and their individual performance, any previous professional experience acquired outside the company, the internal pathway followed by them guided by their immediate superiors, experience "on the ground", expertise in the role covered by them, the skills and potential of the individual being assessed, and compliance with the rules of conduct defined by the Group to ensure that conduct is aligned with the regulations and sector practice and to serve the interests of our clients as well as possible.

During the year under review a total of 3,696 employees were assessed (58% men and 42% women) equal to approx. 86% of the company population.

Employees assessed by gender and category



2.5. Staff remuneration and benefits

The remuneration system is structured so as to attract, motivate and valorize staff with the professional qualities required by the Group's business. The system is based on principles of fairness, equal opportunities and meritocracy. Group HR is responsible for defining the remuneration and employee benefit policies, co-ordinating staff selection, recruitment and development via processes which are able to leverage and retain talent, increasing their sense of belonging to the Group and guaranteeing flexibility and timeliness in covering key roles. In conjunction with the staff assessment process and in agreement with the General Manager and/or the Chief Executive Officer, Group HR also supervises the career advancement processes in accordance with the provisions of the Succession Planning Policies.

The Group devotes considerable attention to management of its remuneration policies, and is always attentive of the need for compliance with the regulations and the Code of conduct in respect of Listed Companies in structuring remuneration packages and with reference to the means and instruments by which its various components are paid. It also guarantees that all its staff members are treated without distinction or exclusion *inter alia* with reference to remuneration, complementary pension schemes and employee benefits.

Remuneration packages are structured so as to:

– Balance the fixed and variable remuneration components over time (pay mix);
– Implement a flexible approach to remuneration;
– Help gear compensation towards performance in view of the significance of the role played within the company without encouraging risky and/or short-term behaviour;
– Annual assessment of the staff compensation package's positioning relative to its reference market, including with the assistance of outside advisors.

In line with the market, compensation is complemented by a series of fringe benefits which constitute an integral part of the overall package. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes are sometimes distinguished by families of professionals but do not make provision for individual discretionary systems. The Bank's complementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company.

With reference to payment in the form of equity instruments, performance shares schemes, and in the past also stock option and performance stock option schemes, have been launched in connection with the remuneration policies.

2.6. Health and security promotion and protection

The Group considers the promotion of health and safety as one of the priorities of its way of doing business. For this reason it is committed to achieving, maintaining and complying with the requirements set in this area as defined in the applicable regulations in force in the countries where Mediobanca operates, adopting an approach which is based on continuous improvement.

To this end, the Group has implemented an effective system which is co-ordinated and managed by a Safety Committee, made up by the head of the Prevention and Protection unit, an external doctor, a Group Safety Manager internal to the organization, and an employees' security representative.

The Safety Committee is responsible for ensuring a secure working environment which is compliant with the regulations in force, such as Italian Legislative Decree 81/08, for defining the Group's guidelines in the area of health and safety, for co-ordinating monitoring activities, and, where necessary, for improving safety conditions. In drawing up the relevant Risk Assessment Document, the Group has identified the following main risks: risks related to the presence of electrical equipment and devises, use of video terminals, work-related stress, and in the retail area in particular, risk of armed robbery.

The process of assessing health and safety risks has reduced the number of accidents to employees and collaborators in the work place. The Group is committed to monitoring accident statistics and indicators in order to further reduce the occurrence of such instances. During the period under review a total of 70 accidents were reported Group-wide, fifteen of which in the workplace itself (nine to men and six to women) and 55 while on their way to work [11] (38 to men and 17 to women), all in Italy.

[11] I.e. accidents which occur while staff members are going from or to work from their homes.

	Total	Men	Women
Seriousness indicator [12]	0.10	0.10	0.10
Incidence rate [13]	9.99	11.65	7.74

No fatal accidents were reported, either for staff or close external collaborators; and no cases of professional illness were recorded either.

The Group, despite not performing high-risk activities, adopts a preventative approach to its operations which involves carrying out regular checks of its premises, arranging meetings on health and safety with the various internal stakeholders, putting on training courses (5,264 hours of training were provided to Group employees during the reporting period), and implementing communications programmes and awareness-raising activities. Other major initiatives were also carried out during the year, such as completion of the training programme for new recruits, and refresher courses on health and safety for staff members, and revision of the emergency and fire evacuation system.

[12] This indicator represents the impact of accidents on the business itself leading to the employee concerned being absent from the work place. It is derived from the number of days lost as a result of accidents, divided by the total number of hours worked, and multiplied by one thousand.

[13] This indicator represents the frequency of accidents in relation to the total number of hours worked by the entire work force during the reporting period. It is derived from the number of accidents reported divided by the total number of hours worked and multiplied by one million.

3 Environment [14]

3.1. Commitment to protecting the environment

The Mediobanca Group, as stated in the Group Sustainability Policy, is sensitive to the need to protect the environment as the primary resource of human well-being, and its decisions are geared towards ensuring compatibility between economic initiative and environmental requirements in accordance with the regulations and codes of conduct in force.

The Group acknowledges its impact on the environment, direct and indirect, and seeks to promote sustainable business through its own initiatives intended to limit impact related to its business.

The Mediobanca Group identifies and assesses the risks linked to impact on the environment due to the functioning of its offices, and undertakes to limit such impact by:

– Ongoing monitoring and improvement of environmental efficiency, with reference in particular to the consumption of resources;
– Developing initiatives to improve energy management, including by sourcing energy from renewable sources and through the use of innovative, lower-impact technologies and solutions;
– Rationalization of use of resources (e.g. electricity, paper and water);
– Improvement in waste management by using sustainable disposal methods where possible;
– Maintenance of properties and equipment so as to progressively improve environmental performances;
– Prior assessment of the environmental impact of the new processes, new systems/equipment, and structural and organizational changes.

[14] Environmental data does not include Mediobanca Securities USA LLC or CMB.

3.2. Monitoring emissions and energy consumption

The Group monitors its own direct emissions,[15] deriving from direct consumption of energy, i.e. gas and diesel for heating and fuel for its company fleet management (Scope 1), and indirect emissions deriving from consumption of electricity acquired from third parties (Scope 2), and transfers of its staff members and collaborators by train and by air (Scope 3)[16]. The Group's energy consumption is linked primarily to its use of heating and air-conditioning systems (HVAC[17]), to the functioning of its data centre and server rooms, and to office lighting systems. At present 100% of the electricity acquired by the Group in Italy derives from certified renewable sources.

Direct energy consumption

	Unit	2016-17
Non-renewable sources	Gj[18]	15,275,97
Diesel	Gj	709,44
Natural gas	Gj	12,633,54
Official company cars[19]	Gj	1,932,99

Indirect energy consumption

	Unit	2016-17
Renewable sources	Gj	73,963.61
Non-renewable sources	Gj	5,501.78

Direct and indirect CO_2 emissions

	Unit	2016-17
Direct emissions (Scope 1)		**825,86**
Non-renewable sources (natural gas, diesel)		694,07
Official company cars[19]		131,78
Indirect emissions (Scope 2)		**357,62**
From electricity and thermal energy[20]	Ton	357,62
ndirect emissions deriving from company mobility (Scope 3)	**CO_2**	**2,204**
Air		2,057[21]
Train		140[21]
Other official company cars		7

[15] The greenhouse gases (GHG) produced by an organization are split into three areas of application: Scope 1 – emissions deriving from direct combustion of fossil fuels (for heating, product of electricity and thermal energy, powering vehicles, etc.); the sources of such emissions are generally owned and controlled directly by the organization itself. Scope 2 – emissions deriving from the production of electricity imported and consumed by the organization (for electricity, heating and lighting); in such cases the importer is indirectly responsible for the emissions generated by the supplier in order to generate the electricity requested. Scope 3 – emissions other than indirect GHG emissions deriving from energy consumption, which are the consequence of an organization's activities, but originate from greenhouse gas sources owned or controlled by other organizations (emissions related to travelling for work, vehicles used, staff mobility, etc.).

[16] Scope 3 does not include emissions deriving from trips entered directly by staff members in their expense claims.

[17] Heating, ventilation and air-conditioning.

[18] Gigajoules.

[19] This figure does not include company cars awarded to individual company employees.

[20] A minor part of the thermal energy consumption of some properties has been estimated on the basis of consumption levels monitored in similar buildings.

[21] The figures do not include the Mediobanca Madrid branch office.

Improvements have been carried out to the lighting and heating systems at the Group's offices following maintenance with a view to reducing CO_2 emissions. In particular areas which have been refurbished, the lighting systems installed use LED technology and use heating pumps which qualify as class A or higher in terms of energy consumption.

The most significant emissions are due to the heating and conditioning systems, along with those linked to company travel. To reduce the latter, during the year under review Mediobanca has invested in expanding the video-conferencing system to all offices within Italy and elsewhere, with only the branch offices not included. These systems allow staff travel and accordingly also emissions to be reduced.

3.3. Water resource management

The Group does not consume large amounts of water. At the Bank's premises the highest water consumption is due to the use of toilet facilities. However, to reduce the use of water special aerators have been fitted to the main water systems and taps to enable water savings in relation to the use of the facilities.

Water consumption

	Unit	2016-17
Water consumption		251,193
of which from mains [22]	m^3	101,953
of which from wells [23]		149,240

3.4. Paper and waste management

Monitoring of paper and waste is an important issue, in that it allows the Group to intervene with campaigns and initiatives to reduce their consumption by staff members.

The use of paper relates chiefly to the need to print and deliver documentation and/or presentations to the Group's clients and stakeholders. The Group is

[22] The water consumption figures have in part been estimated on the basis of the consumption recorded in similar buildings for which data is available.
[23] The well situated in the Via Filodrammatici courtyard provides the water used for cooling the premises in Piazzetta Cuccia 1 and Via Filodrammatici 3, 5 and 7, including the two EDP centres

committed to developing initiatives to reduce the consumption of paper and printing, to the dematerialization of all processes, to raising awareness among staff of the environmental impact of their daily actions, and to promoting virtuous behavioural habits. To this end the Group is committed to sourcing paper from responsibly managed sources [24].

In particular, during the year under review, Mediobanca has launched the "Follow Me" campaign at its offices, which involves printing via a shared printing queue at centralized printers. Staff members their documents to print, go to the shared printer and enter an access code in order to collect them. This campaign has led to a reduction in paper consumption levels by raising awareness among employees of the issues of sustainability and responsible use of paper (e.g. through double-sided printing). They are also encouraged to reduce the number of printouts used during meetings clients and stakeholders by using PowerPoint presentations and electronic systems instead.

Paper consumption [25]

	Unit	2016-17
Paper consumed (A4)	Tons	297.14
Paper consumed (A3)	Tons	7.30
Paper for commercial use	Tons	37.52

The Group is committed to defining a structured system to monitor the waste produced by its activities, which in any case do not generate toxic waste. During the year under review, the data in respect of waste collected in Italy refers chiefly to toner (the only dangerous waste produced), quantified at approximately 5.5 tons.

[24] E.g. recycled paper or paper which is FSC certified (Forest Stewardship Council) to indicate that the wood has been correctly forested according to rigorous environmental, social and economic standards.
[25] "Paper consumed" is the same for the purposes hereof as paper bought.

4 Clients

4.1. Mediobanca Group clients

In performing its activities the Group pursues the objective of combining profitability and competitiveness with scrupulous business ethics, based on principles of honesty, professionalism, transparency and fairness towards its clients.

For over seventy years the Group has sought to help its clients grow, offering them a full range of credit products ranging from the simplest and most traditional forms of credit to the most sophisticated solutions available on financial markets, in conjunction with high-quality advisory services.

Contractual arrangements and communications are based on principles of fairness, professionalism and transparency. Clients are furnished with clear and exhaustive disclosure on the products and services being offered to them, and on the terms and conditions being applied, to facilitate comprehension and enable them to make informed choices. Any complaints are handled sensitively and treated as an opportunity to improve, resolve conflict and increase customer trust and satisfaction.

The business segmentation with three separate divisions contributing equally to the company's performances also enables the Group to meet its different clients' needs.

– **Corporate & Investment Banking**
The activity is focused on services to medium-sized and large companies, with a full product offering which ranges from lending to advisory, capital markets, leasing, and more recently, credit management and factoring as well.

– **Consumer Banking**
Consumer banking is addressed to households, supporting them in their spending needs and consumption needs, primary and luxury, in a variety of forms which include personal loans, credit cards and salary-backed finance.

– **Wealth Management**
Wealth management is addressed primarily to individuals, offering savings, investment and asset management products diversified according to

client bracket: from mass affluent to high net worth individuals and family office. The division also offers mortgage services and fund management activities for institutional clients.

4.2. Importance of our clients

The Group assigns the highest importance to managing and maintaining relations with its clients. To meet this objective it seeks to provide a high-quality service and solutions able to meet the different needs of its various clients, and strengthening its staff's capabilities to this end.

The main areas presided over in terms of customer relations are as follows:

– **Customer satisfaction and quality of service**

The Group seeks to be touch constantly with its clients and potential clients, with a view to adapting the product offering swiftly to any changes in their needs and expectations.

The dialogue process is therefore essential in seeking to understand clients' needs and react promptly to any dissatisfaction they express.

Compass and CheBanca! in particular have launched structured customer satisfaction recording processes using internationally-recognized methodologies to gain a real picture of their clients' perceptions, and so allowing any critical issues to be identified to be dealt with on a priority basis.

Annual quantitative and qualitative brand satisfaction and loyalty level monitoring is performed via specific customer satisfaction survey. In particular the Customer Satisfaction Index (CSI) and the Net Promoter Score (NPS) indicators are analysed with reference to the investment world especially.

The surveys performed in the course of the last financial year involved over five thousand clients for CheBanca! and around 1,600 customers for Compass, and reveal an improving trend in customer satisfaction.

Looking at the results of the most recent edition of the survey, CheBanca! looks set to consolidate the excellent results achieved in 2017; while the indicators are tendentially in line with those recorded in the previous financial year.

From the research carried out by Compass to measure customer product satisfaction, it emerged that in 2017 the overall level of satisfaction remained high and indeed grew compared to the previous year. The most popular product categories appear to be salary-backed finance and personal loans.

– **Simplicity and transparency of financial services**

Transparency and clarity of information are of particular importance in the area of customer relations. To this end, on its website Compass has published the new guide on "Consumer credit made easy" produced by the Bank of Italy, to provide practical instructions on how to choose a loan and work out the cost, as well as illustrating the main customer rights. Other transparency-related documents for the specific product offering are also available on the website, along with the table showing the average effective global interest rates recorded for regulatory purposes in relation to usury, the terms and conditions for using the advanced electronic signature service using graphology techniques, and the annual reports on complaints and disputes.

In the area of investor and market integrity protection, a major project is underway in Mediobanca and Chebanca! to adapt the processes to the new MiFID II directive which comes into force in January 2018. The new directive revises and expands the previous regulations on the provision of investment services (MiFID I), introducing enhanced measures to protect investors, including by strengthening disclosure obligations (*ex ante* and *ex post*) and product governance mechanisms in the sale of financial products.

—

– **Data protection and security**

Protection of customers' personal data and information is a key factor in providing our activities, and as such requires proper governance. The Group is committed to ensuring that personal data is collected and processed in compliance with the legal provisions in force. This includes electronic data, paper documents and verbal exchanges via phone calls or direct communications.

Within the Group information of different kinds is processed and managed regarding significant issues such as: transactions, contracts, and confidential customer and staff. The Group undertakes to protect such data from unauthorized or accidental alteration, loss or unauthorized disclosure. It also ensures, in accordance with the business requirements, the availability and integrity of the information which must be reliable and usable on the part of the users.

Each Group company is responsible for data processing and protection. To ensure that protection of the Group's information capital is consistent with the strategic decisions adopted, security objectives and principles are identified clearly in accordance with the risk appetite defined at company level.

In recent years the information provided in respect of data privacy has been updated on the Group's and the Group companies' websites following changes in the regulations on use of cookies during web browsing. The confidentiality and integrity of the data sent when online forms are submitted are protected through use of Secure Socket Layer (SSL) protocols and by keys and certificates issued by the Global Trust Certification Authority.

To safeguard the relation with its clients, the Group has adopted specific Policies and Directives protecting the data and information. These measures are structured with a view to managing risks while at the same time increasing the client's confidence, as follows

- **Group Information Security Policy:** describes the objectives and general principles which the Mediobanca Group adopts in processing information to support the needs of its business and to ensure that the legal or regulatory requirements and choices in respect of risk management are duly observed.
- **Policy on Business Conduct and Related Risks for Mediobanca S.p.A. and Retail Banking** (Compass Banca S.p.A., CheBanca! S.p.A. and Futuro S.p.A.): describes the principles adopted by the companies to guarantee correct conduct in the performance of its business, and provides a framework to minimize the risk of the behaviour of its employees.
- **Group Directive on Log Tracking and Management:** this directive sets down the criteria and general rules to be followed in systems and log management activities. The Group believes it is necessary to ensure via the use of tracking instruments that analysis can be carried out in real time and following critical events, and to guarantee that operations are compliant with the regulations in force in this area.
- **Group Directive on Security in Relations with Third Parties:** this directive defines the security objectives and principles with which third parties must comply in accordance with the risk appetite defined at company level and consistent with the internal regulations on treatment of inside and confidential information.

4.3. Innovation and multi-channel approach

The value and stability of a bank are to be measured, among other things, in relation to its ability to adapt to changes. Developments in technology have influenced all sectors, directly and indirectly; and one of the Mediobanca Group's responses to this need for change was the launch of CheBanca!.

CheBanca! was conceived with a multi-channel model, offering high levels of service, simplicity, transparency and low costs. In the years since its launch, the bank has grown in terms of both product offering and service model, accompanying and in many cases anticipating market changes and placing technological innovation at the service of its customers.

CheBanca! aims to build a unique relationship with its clients based on the possibility of integrated multi-channel interaction. The sophisticated distribution model currently in operation combines the numerous channels involving direct contact with other services which can be managed remotely. CheBanca! has also always given great importance to dialogue with its clients through all the various touch point made available for this purpose, from the branch offices themselves to the customer services unit, via the home banking portal and email as well as the various social media channels.

4.4. Inclusion and financial education

The Group has always been keen to promote and develop the financial awareness of its clients. For this reason it has promoted a model of financial education based on sharing information on products and services expressed in clear, simple terms.

In 2015 CheBanca! launched Yellow Advice, a service which clients can use to access news and analysis of the financial world, plus instruments such as an online glossary and actual lessons on financial issues.

The Group works in partnership with Junior Achievement, the largest non-profit organization in the world devoted to providing economics and business education in schools. The partnership includes the involvement of Group managers as "company experts", who propose economics and financial education projects to children in middle and senior schools using an innovative teaching approach.

Compass too promotes financial education. The Italian association of teachers of economic markets and financial intermediaries (ADEIMF) has worked with the Italian consumer credit and mortgage lending Assofin to develop a series of short videos to explain financial concepts. These allow investors to gain more indepth understanding of subjects which range from investment to the various forms of credit.

Compagnie Monégasque de Banque has developed an “Academy for Women and Finance”, an educational programme aimed at equipping female clients with the financial skills necessary with which to manage their family’s wealth.

5 Collective

5.1.Relations with suppliers

The Group seeks to develop relations with its suppliers based on the principles of fairness, transparency and equal treatment.

Suppliers are selected based on their knowledge and professional capabilities, their organizational solidity and sustainability and the Group's aim to obtain value for money. In particular, the Group is committed to avoiding situations of conflict of interest and ensuring selection on the basis of transparent and objective criteria.

Relations with suppliers are conducted based on principles of fairness and integrity, and suppliers are reminded of the need to do business according to standards of conduct which are consistent with those set down in the Group's Code of Ethics.

The project to centralize purchasing has strengthened the organizational and process measures implemented to this end, by:
- Assigning specific duties and responsibilities to the Group Procurement unit;
- Drawing up a list of suppliers, collecting the documentation required by Italian Legislative Decree 81/08 for this purpose;
- Using a technological platform to support the purchasing process, inter alia to ensure equal treatment and increased transparency in relations with suppliers.

As further proof of the attention which the Group devotes to the selection and management of its suppliers, including with relation to social issues, all suppliers are required to comply with the:

Regulations protecting the rights of workers employed in the provision of their services and in particular the collective labour contracts for the relevant sectors;

Provisions in respect of social security, accident prevention and security, and with the specific regulations in force on the subject of health and safety in the workplace;

The principles set down in the Group's Code of Ethics when an order is transmitted or a contract executed.

5.2. Entities and institutions

The Group seeks to entertain constructive, ongoing and transparent relations with all its stakeholders, including entities and institutions.

Relations with the regulatory authorities, institutions and public entities are based on principles of proper conduct and transparency, with respect to the different roles and excluding behaviour and attitudes which seek to obtain improper and/or undue influence on operations or which may even only appear to do so, thereby frustrating every form of bribery and corruption.

With reference to activities addressed to the community in the last financial year, the Group has worked closely and from a position of trust with local and national entities and institutions to develop initiatives and events in the cultural, artistic, social and sporting arenas. This commitment underlines the Group's desire to support our communities in positive fashion, not merely by the traditional means of making firms more competitive but also through a serious and ongoing commitment to the priorities and needs of the areas themselves, in which the Group offers the skills and resources typical of a financial institution to support them in their growth.

Some of the main institutions which the Group partners and works with in the financial services area are as follows:

- **Italian Banking Association (ABI):** the association's membership comprises directly or indirectly the entire universe of Italian credit institutions and credit institutions operating in Italy, along with virtually all of the financial intermediaries;
- **ABI Lab:** the research and innovation centre for banks promoted by ABI intended to create a hub for banks and ICT and energy partners to meet and exchange ideas;
- **Association for Financial Markets in Europe (AFME):** the European association for financial intermediaries operating in wholesale banking;
- **ASSONIME:** an association of Italian listed companies founded in 1910, which serves as a focus for analysis and discussion of problems which directly or indirectly regard the interests and development of the Italian economy;
- **ASSOSIM:** the Italian association of brokers operating on financial markets carries out research and training activities, and represents its members in

the consultations and round tables launched by Consob and the Bank of Italy on regulatory and financial issues;

- ***Conciliatore Bancario Finanziario:*** this non-profit organization specializes in the mediation of disputes arising in banking, financial and corporate matters;
- **Counsel for the United States and Italy:** private bilateral association which is non-profit and non-political to promote and develop relations between the two countries and in general between Europe and America. Its activities are focused on economic and financial sectors;
- **European Issuers:** pan-European organization which represents the interests of publicly quoted companies from all sectors to the EU institutions;
- ***Fondo interbancario di tutela dei depositi:*** the interbank deposit protection fund is a mandatory consortium recognized by the Bank of Italy which guarantees bearer deposits in the event of default by banks.

5.3. Investors and shareholders

The Mediobanca Group considers relations with its investors and shareholders as one of the company's ethical and strategic responsibilities in order to create effective two-way dialogue between the company itself and the financial community.

The Group liaises constantly with investors and shareholders to pursue its mission, which has three main objectives:

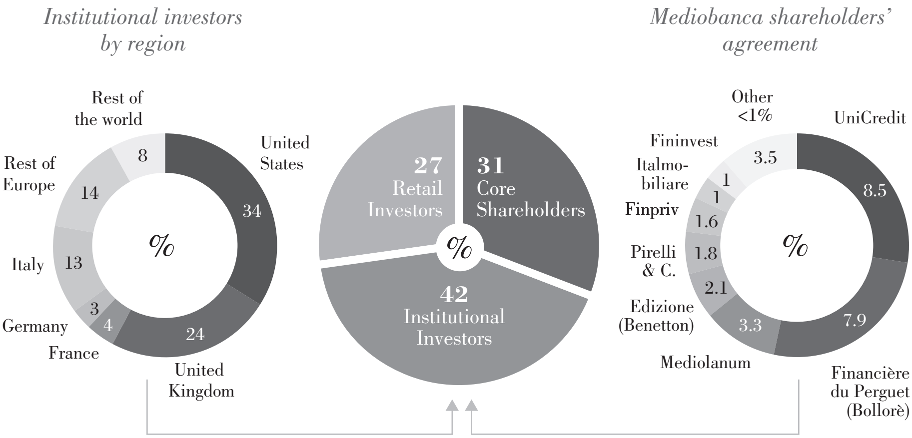
- To create a base of institutional and retail investors for the medium/long term for its own shares and bonds;
- To promote stock liquidity and share price stability;
- To foster ongoing, constructive dialogue between investors and senior management, including with reference to strategic decisions.

To reach these objectives, the Group guarantees timely, reliable and comparable disclosure to the market which is comprehensible by all categories of user.

For the transmission and storage of regulated information, Mediobanca uses the eMarket SDIR and the eMarket STORAGE mechanisms.

Mediobanca has around 41,000 shareholders, split between institutional investors, retail investors and parties to the Mediobanca Shareholders' Agreement, which represents 31% of the company's share capital with the objective of preserving a stable shareholder base with representation on the management bodies, and ensuring that consistent management objectives are pursued. In recent years the weight of institution investors has increased significantly, as has the geographical diversification of the shareholder base as a result. Today only 13% of the institutional investors are Italian, while the remainder come primarily from the United States (34%), the United Kingdom (24%) and the rest of Europe.

Mediobanca Shareholders



5.4. Community

The Mediobanca Group plays an active role in the community in which it operates, and pursues growth and value creation objectives which are sustainable over the long term for all its stakeholders and are respectful of people, the environment and society as a whole.

To this end it promotes numerous initiatives with social impact, including via donations by providing solidarity and support, both in Italy itself and the other countries in which it operates.

In this connection, the Group has identified certain selection criteria and in particular three areas in which to concentrate its involvement: environment and territory; culture, research and innovation; and social inclusion.

ENVIRONMENT AND TERRITORY

The Mediobanca Group is aware of the rapid changes affecting the climate and environment as a whole. In a scenario of where environmental impact management is becoming increasingly crucial, the Group acknowledges the importance of protecting the environment as the primary resource of well-being for both current and future generations. For this reason the Group is committed to managing its resources responsibly to reduce its own carbon footprint and the impact generated on the environment as a result of its businesses.

In this area the following initiatives should be highlighted:

- **Planète Urgence:** Mediobanca Innovation Services has received a Silver reforestation certification for its contribution to the "buy a recycled phone/plant one tree" project, demonstrating its concrete commitment to safeguarding the environment. Thanks to the initiative, a total of 88,000 trees have been planted since 2012.
- **Mediobanca Innovation Service (MIS) offices:** the best green technologies available were used in the construction of the building. Particular attention was devoted to the issue of designing the heating and ventilation systems; while the original system used to insulate the building's exterior has enabled substantial reductions in greenhouse gas emissions, driving a major reduction in the Group's consumption and emission levels.
- ***Fondo Environment Italiano:*** is one of the "FAI 200", a group of generous patrons who, with their companies, support the FAI *(Fondo Ambiente Italiano)* in its mission to protect, care for and valorize the historical, artistic and environmental heritage of Italy.
- **MB Green:** project devised to promote responsible use of resources with the involvement of staff.
- **Urban reforestation:** this project, implemented by Compass in collaboration with the *Rete Clima* association, is intended to offset the impact caused by publication of the *Incontro* branch magazine. The initiative involves four hundred trees being planted in accordance with the recommendations and guidelines of the Kyoto protocol.
- **Solar Impulse:** in conjunction with the Prince Albert II of Monaco Foundation, Compagnie Monégasque de Banque supports the Solar Impulse project, whose mission is to promote a round-the-world flight by an aircraft powered entirely by solar energy.

CULTURE, RESEARCH AND INNOVATION

The Mediobanca Group's commitment to culture and research bears out our awareness of the responsibility which our company has on a civic and social level as well, in the knowledge that our role is bigger than merely the pursuit of economic gain. From as early as the years following its inception, Mediobanca has promoted important publishing initiatives, and has been committed to valorizing its architectural and archival heritage. Equally important is the attention we devote to scientific and economic research which is a core feature of the Group's identity.

In this area the following activities should be noted:

- **MBRES Research Area:** active since the Bank's foundation in 1946, MBRES is a specialist economic and financial research unit on which Mediobanca sets great value, not least because it is strategic to its own business. Its main publications include the annual edition of *Leading Italian Companies*, the most authoritative and complete league table of Italian companies operating in all economic sectors, whereas its *Financial Aggregates for Italian Companies* provide a historical series which is unique in terms of the time horizon covered and the exhaustiveness of the Italian companies' performances grouped by sector of operation.
- **"Vincenzo Maranghi" Historical Archive:** Mediobanca's historical archive, which may be consulted online, is updated continuously and contains documents relating to the Bank's history and activities.
- **Mediobanca Historical Library:** the Historical Library was set up in 2014. Its aim is to allow public access to the Bank's holdings of rare and precious volumes on the history of Italian and international economic analysis, collected over the years by Enrico Cuccia, Vincenzo Maranghi and Ariberto Mignoli. The collection holds over 12,000 volumes.
- **National Edition of the Complete Works of Cesare Beccaria**: the initiative, which was inaugurated in 1978, aims to bring together all of the great Lombard thinker's works, many of which are unknown or unpublished, in a single collection. The National Edition is much more than a collection of Beccaria's full works: it is a full critical edition, with exhaustive philological apparatus including textual variants, appendices listing manuscripts and previous version, commentaries, critical essays, lists of previous editions and the criteria adopted, and endeavours to provide a full history of each of Beccaria's writings, from the first draft to the final version printed under the author's supervision. The National Edition to date consists of sixteen

volumes, with a last volume to follow containing a list of addenda, documents, and indices. The first two volumes were published in 1984, while volume 16 was published in 2009.

– **Accademia dei Filodrammatici theatre:** in 2015 Mediobanca completed the restoration of the historical façade of the Accademia dei Filodrammatici theatre, situated in Piazzetta Ferrari in Milan.

– **Istituto Europeo di Oncologia:** the IEO was founded in Milan at the initiative of Mediobanca which is its leading shareholder nearly 25% of the share capital. The IEO is the leading private comprehensive cancer centre in Italy, combining clinical work with research. It also owns the leading specialist cardiology centre in Milan.

– **CHE FUTURO!:** conceived in 2014 by CheBanca!, CHE FUTURO! is an online journal dedicate to innovation: a space in which bloggers, journalists, entrepreneurs, architects, designers, and young start-uppers tell their own story and discuss their desire to do something new.

– **Monte Carlo Philharmonic Orchestra:** Compagnie Monégasque de Banque supports the Monte Carlo Philharmonic Orchestra which promotes the Principality of Monaco's image throughout the world.

– **Tiree Music Festival:** Cairn Capital supports the Tiree Music Festival, a musical event which takes place on the Scottish Hebridean island of Tiree.

– **Monte Carlo Oceanographic Museum:** CMB is an official partner of the museum, an institution of world repute whose mission is to raise awareness of the seas and oceans and contribute to their conservation.

– **Grimaldi Forum:** the Grimaldi Forum is Monaco's leading cultural and tourist centre, hosting a wide range of shows and events.

SOCIAL INCLUSION

The Mediobanca Group is convinced that an inclusive society must be based on mutual respect and solidarity, guaranteeing equal opportunities and a decent standard of living for all.

To be inclusive is a way of coexisting based on the conviction that each individual is of value and belongs to the community. Defined thus, inclusion may be implemented in a variety of settings.

In the sporting environment, Mediobanca Compass Banca and CheBanca! have joined forces to show their support for the core values traditionally associated with sport: honesty, responsibility, determination and team spirit.

The many initiatives supported by the Group include:

- **Italian Paralympic Committee:** the Mediobanca Group has signed a partnership agreement with the CIP in order to support and embed the values of Paralympic sport as a vehicle for social integration, a sphere which affirms a genuine culture of merit and promotes genuinely open and fair competition.
- **Mediobanca Sport Camp:** multi-sport camp at the "Cesare Beccaria" Institute in Milan to give young offenders an opportunity to spend a week playing sport in a healthy environment which promotes competition, respect of the rules and fair play. The facilities themselves have also been improved, with rugby posts and new goal posts for football installed.
- **Kids:** supported by Cairn Capital, empowers disabled children and young people and their families to get the most out of life – creating opportunities for them to take part in positive play, leisure, learning, employment, training and social activities.
- **London School of Economics:** Cairn Capital has sponsored a programme of scholarships and has supported students taking higher degrees in Development Economics and Financial Market Infrastructure. The Company has also sponsored and supported the LSE Business and Finance Summer School, a programme designed to encourage talented children from disadvantaged backgrounds to pursue further education.
- **Magic Breakfast:** Cairn Capital supports Magic Breakfast, a charity aiming to end hunger as a barrier to education in UK schools through the provision of healthy breakfasts to vulnerable children.
- ***Lycée Hôtelier de Monaco:*** Monaco's School of Hotel Management gives young talent the opportunity to develop in the tourism and luxury hotel sector that represents a large part of Monaco's economy.

In accordance with its own traditions, Mediobanca also supports the activities of numerous charitable entities and associations operating in and around the Milan area.

STATEMENT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Statement on Corporate Governance and Ownership Structure
(2017)

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 operated by Borsa Italiana (most recently updated in July 2015 and available at www.borsaitaliana.it), to which Mediobanca adheres, on the terms set forth below.

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.

Parent company

Mediobanca was set up in 1946 and has been listed on the Italian stock market since 1956. Its core businesses are lending and investment banking, helping its clients (which include leading Italian corporations as well as numerous medium-sized businesses and international groups) to grow by providing them with professional advisory and capital market services. Its footprint is international: it has branch offices in London, Paris, Frankfurt and Madrid, and subsidiaries based in New York, Luxembourg, Istanbul and London.

As a listed company, Mediobanca is a bank of large size with complex operations, and for this reason is subject to prudential supervision by the ECB given its status as a significant bank.

Mediobanca adopts a traditional model of corporate governance based on the presence of Board of Directors (body with responsibility for strategic supervision), an Executive Committee (body with responsibility for management) and a Statutory Audit Committee (body with responsibility for control). This corporate governance system combines maximum efficiency in terms of operations with effective control.

The Articles of Association now in force provide for a significant number of executives (currently five) to be represented on the Banking Group's Board of Directors, as part of a system of corporate governance based on wide-ranging powers being granted to the Executive Committee (made up of a majority of executive members) and the Chief Executive Officer for the day-to-day running of the company. This allows the management's professional capabilities to be leveraged, and ensures their independence with respect to situations of potential conflicts of interest vis-à-vis shareholders. At the same time, under the provisions of the Articles, the Board of Directors is vested with the role of strategic supervision in the form of the traditional, non-delegable powers under primary regulations (approval of draft financial statements, rights issues pursuant to Article 2443 of the Italian Civil Code, etc.) and secondary regulations (decisions concerning strategic direction and business and financial plans, acquisition and disposal of significant equity investments, appointments to the post of General Manager and the control units).

The Statutory Audit Committee is responsible for supervising control activities.

Mediobanca is fully aware that an efficient corporate governance system is a key factor in pursuing its objectives, and for this reason devotes careful attention to its governance structures to ensure these are aligned not only with changes in the regulatory framework but also with the best national and international practice.

The Bank's traditional governance model was confirmed by its shareholders at the Annual General Meeting held on 28 October 2015, with the approval of the new Articles of Association revised to incorporate the Bank of Italy's new Supervisory Instructions for Banks on the subject of corporate governance.

In particular, at the 2015 AGM the Bank's shareholders adopted a resolution (with 99.9% voting in favour) to introduce new aspects to its governance model in order to develop and refine it, seeking to ensure a system of efficient governance based on the principle of equilibrium between the respective powers, in which the body with responsibility for strategic supervision is called to adopt resolutions on the Bank's strategic direction and to monitor their implementation on an ongoing basis, whereas the executive bodies (Executive Committee, Chief Executive Officer and General Manager) are responsible for implementing the strategic guidelines and for the company's operations.

Overall, the changes to the Articles of Association are intended to:

1. provide clear definition of the role of the Chairman;
2. allow for clearer definition of the Board of Directors' role as body of strategic supervision;
3. provide for the Board of Directors to be entitled, rather than obliged as is

presently the case, to establish an Executive Committee based on the size of the Board in terms of the number of Directors, in view of the complexity of the Banking Group's operations and the variety and number of business areas covered;

4. submit the definition of the Executive Committees and the Chief Executive Officer's powers and responsibilities to the discretion of the Board of Directors.

By introducing a temporary provision, Mediobanca has availed itself of the right to defer the effectiveness of the following amendments to the Articles of Association until the next occasion on which the governing bodies are reappointed, i.e. the annual general meeting called to approve the financial statements for the year ending 30 June 2017:

1. reduction in the size of the Board of Directors to a variable number comprised between nine and fifteen;
2. reduction in the number of directors chosen from among members of the Group's senior management with at least three years' experience working for Mediobanca Group companies from five to three;
3. increase in the number of directors to be appointed from the minority list from one to two;
4. reduction in the number of members of the Executive Committee (if instituted), from nine as at present to a variable number comprised between three and five;
5. application of the independence criteria set forth in Article 19 of the Bank's Articles of Association.

In general terms, the Articles of Association are intended to define governance arrangements which will allow for speed of decision-making on the part of the executive Directors in running the Company, while at the same time ensuring the Board itself has an effective role in terms of strategic supervision, and that information flows more smoothly between and within the governing bodies themselves.

Mediobanca Group

Mediobanca is the parent company of the Mediobanca Banking Group, which has operations in consumer credit (through the Compass group), retail banking (through CheBanca!), leasing (through the SelmaBipiemme group), private banking (through Compagnie Monégasque de Banque, Spafid and Banca Esperia), and asset management (CheBanca! and the Cairn Capital group).

The Group Regulations, approved by the Board of Directors of Mediobanca S.p.A. and adopted by the Boards of each of the Group's subsidiaries, regulate the activities of management, governance and control of the companies forming part of the Banking Group, activities which are performed by the parent company. In particular the Regulations define the Group's organizational architecture, co-ordination mechanisms and governance instruments, the areas of competence and responsibility of the parent company's central functions, and the ranking of the various sources of internal regulations.

In the exercise of its management, governance and control activities, Mediobanca seeks to promote value creation for both the individual Group companies and the Group as a whole, directing its policies for growth and management according to objectives of operating efficiency and profitability which is sustainable over time. The Group companies' management contributes to achieving the Group's objectives. The governance rules contained in the Regulations are intended to guarantee the unity of the Group as a whole.

Mediobanca fulfils its activities of direction and co-ordination 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 Bank of Italy.

Share capital and ownership

The Bank's share capital at 30 June 2017 totalled € 440,606,329, made up of 881,212,658 par value € 0.50 shares. The shares are registered shares, and entitle shareholders to one vote per share in the general meeting.

At the annual general meeting held on 28 October 2015, the shareholders of Mediobanca renewed the Board of Directors' authorization:

– 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 par value € 0.50 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 a nominal 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 features thereof, and to authorize the corresponding increase in the Bank's share capital for use in the conversion of the bonds.

  The two mandates above shall not lead to the issue of a total number of shares in excess of 200 million;

– 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 a nominal 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 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);

– under Article 2349 of the Italian Civil Code, to increase the Company's share capital by and no later than 28 October 2020, in an amount of up to € 10m through the award of no more than 20 million par value € 0.50 ordinary shares, to be reserved to Mediobanca Group staff members by way of performance shares.

The performance share schemes approved by shareholders at the 2010 and 2015 general meetings, and the various press releases regarding the awards made since 2010, are published on the Bank's website at www.mediobanca.com. At a Board meeting held on 21 September 2016, the Directors of Mediobanca adopted a resolution to issue a maximum of 9,543,219 ordinary shares to be assigned to employees in accordance with the provisions of the existing performance share schemes. Of these shares, 4,467,564 have been issued.

Mediobanca owns a total of 15,758,511 treasury shares (average book value € 13.17 per share) acquired following a resolution adopted in a general meeting held on 27 October 2007.

The company's shareholding structure as of 30 June 2017 is as follows (showing shares over 3%):

Shareholder	No. of shares	% of share capital
UniCredit group	74,734,215	8.48
Bolloré group	69,681,608	7.91
Banca Mediolanum group	29,095,110	3.30

Mediobanca has approximately 41,000 shareholders. As of 30 June 2017, Mediobanca shareholders representing approximately 30.69% of the bank's shares have entered into a shareholders' agreement expiring on 31 December 2017. The agreement is filed with the Milan companies' register, and an excerpt from it may be found on the Bank's institutional website (www.mediobanca.com/CorporateGovernance).

Governing bodies

- Shareholders in general meeting
- Board of Directors
- Chairman of the Board of Directors
- Board committees
- Chief Executive Officer
- General Manager
- Head of Company Financial Reporting
- Statutory Audit Committee

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 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) responsibilities of members of the Board of Directors and Statutory Audit Committee;
4) engagement of, and termination of agreements with, external legal auditors;
5) transactions required by law to be approved by shareholders in extraordinary general meeting;
6) remuneration policies and compensation schemes based on financial instruments adopted for directors, Group employees and collaborators, the criteria for determining the compensation payable in the event of employment being terminated, and the cap on variable remuneration, if set, at 200% of the fixed salary or any other such limit set under the regulations in force at the time.

The right to attend and vote at General Meetings is governed by the Articles of Association (Section III, Articles 5ff), which stipulate that shareholders for which the issuer has received, by the end of the third business day prior to the date set for such meeting, notification from an authorized intermediary based on the evidence at the end of the accounting day of the seventh business day prior to the date set for the meeting in the first or only instance. Authorization to take part and vote in cases where the notice is received by the issuer after this deadline may still be granted, provided such notice is received before proceedings at the specific session of the meeting commence.

Persons authorized to take part and vote may choose to be represented in the general meeting under a proxy issued in writing or electronically where this is permitted by the regulations in force and in accordance with them, without prejudice to grounds of incompatibility and within the limits provided by law. Proxies may also be issued free of charge, along with instructions on how to vote on all or some of the items on the agenda, to a representative appointed to such end by Mediobanca under Article 135-undecies of Italian legislative decree 58/98.

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 Board of Directors reports on the activities performed to shareholders at the general meeting in the review of operations, and prepares the reports on the various items of agenda within the timeframe set by the regulations in force.

Board of Directors: composition and role

The Board of Directors consists of between fifteen and twenty-three members, with one place reserved for minority shareholders. Of the Directors thus appointed, five are managers with at least three years' experience working for the Mediobanca Banking Group, three qualify as independent as defined in Article 148, para. 3 of Italian Legislative Decree 58/98, and one-third, who may coincide with the three qualifying as independent referred to above, qualify as independent based on the Code of conduct for listed companies. No person may be appointed director if they are aged seventy-five or over.

In order to incorporate the changes introduced by Italian law 120/11 which supplements Articles 147-ter and 148 of the Italian consolidated finance act (Italian legislative decree 58/98) on the matter of gender representation in the composition of the Board of Directors, at an annual general meeting held on 27 October 2012 the shareholders of Mediobanca introduced provisions to the company's Articles of Association regarding the composition of the governing bodies, to ensure that the least represented gender accounts for at least one-fifth (in the current term of office) or one-third (of future terms of office) of the total number of directors. Currently at least one-fifth of the total number of directors must be made up by the least-represented gender.

The current Board of Directors of Mediobanca was appointed by shareholders in a general meeting held on 28 October 2014 for the 2015-17 three-year period, and was subsequently added to, with one member having been co-opted to the Board on 16 March 2016 following the resignation of a director and on 28 October 2016 following resignation of the co-opted director. The 2014 appointment took place, in accordance with the Articles of Association, on the basis of lists of candidates who are in possession of the requisite professional credentials, and qualify as fit and proper persons to hold such office and as independent in accordance with the law and the company's Articles of Association. Such lists are submitted by shareholders representing in the aggregate at least the percentage of the company's share capital established under regulations in force and stated in the notice of meeting for the AGM (currently 1%).

In submitting their lists of candidates, the shareholders have taken account of the guidance issued by the Board of Directors in its "Report on the qualitative-quantitative composition of the Board of Directors" dated 4 July 2014 to the effect that such candidates should possess the appropriate expertise or experience in one or other of the following areas:

– banking sector, valuation methodologies and management of risks relating to exercise of banking operations;
– experience of business management and organization;
– capability to analyse and interpret balance-sheet data for financial institutions and their counterparties;
– expertise in corporate affairs (audit, compliance, legal, corporate);
– knowledge of banking and financial regulation;
– international experience or knowledge of non-domestic markets;
– understanding of global trends in the economic system;
– expertise in the area of corporate governance.

Please see Article 15 of the Articles of Association for the procedures relating to the appointment and dismissal of Directors, which may be found on the Bank's website at www.mediobanca.it/Corporate Governance.

As from the next occasion on which the governing bodies are reappointed, i.e. the annual general meeting called to approve the financial statements for the year ending 30 June 2017, the provisions of Article 15 of the new Articles of Association will apply, hence the Board will consist of between 9 and 15, members, two of whom to be appointed from the minority list, and three of whom from senior management with at least three years' experience working for the Mediobanca Banking Group. At least one-third of the Board shall also qualify as independent according to the definition to be provided in Article 19 of the new Articles of Association, and at least one-third shall consist of members of the least-represented gender. In submitting the lists of candidates, shareholders are asked to take into account the recommendations of the Board of Directors contained in the "Report on the qualitative-quantitative composition of the Board of Directors" dated 14 June 2017, available for consultation at www.mediobanca.com, to which the reader is referred.

The current Board of Directors consists of 18 members, eleven of whom qualify as independent pursuant to Article 148, para. 3 of Italian Legislative Decree 58/98, with eight of the eleven also qualifying as independent pursuant to the Code of Conduct. Its composition reflects the legal requirements in terms of gender balance (at present at least one-fifth of the Board must consist of representatives of the less-represented sex):

Member	**Post held**	**Date of birth**	**Indep. ***	**Indep. ****	**Manage-ment**	**In office since*****
Renato Pagliaro ♦	Chairman	20/02/1957			X	02/07/07
Maurizia Angelo Comneno ♦	Deputy Chairman	18/06/1948	X	X		28/10/14
Marco Tronchetti Provera ♦	Deputy Chairman	18/01/1948		X		23/05/07
Alberto Nagel ♦	CEO	07/06/1965			X	02/07/07
Francesco Saverio Vinci ♦	General Manager	10/11/1962			X	02/07/07
Tarak Ben Ammar ♦	Director	12/06/1949	X	X		15/09/03
Gilberto Benetton ♦	Director	19/06/1941				28/10/02
Mauro Bini ■	Director	20/10/1957	X	X		28/10/14
Marie Bolloré ♦	Director	08/05/1988		X		28/10/14
Maurizio Carfagna ♦	Director	13/11/1947	X	X		28/10/14
Angelo Casò ♦	Director	11/08/1940	X	X		27/06/07
Maurizio Costa ♦	Director	29/10/1948	X	X		28/10/14
Vanessa Labérenne ♦	Director	08/01/1978	X	X		09/05/12
Elisabetta Magistretti ♦	Director	21/07/1947	X	X		28/10/11
Marina Natale •	Director	13/05/1962		X		28/10/16
Alberto Pecci ♦	Director	18/09/1943				27/10/12
Gian Luca Sichel ♦	Director	19/06/1968			X	28/10/14
Alexandra Young ♦	Director	14/02/1968			X	28/10/14

* Independent as required in Code of conduct for listed companies.
** Independent as required by Article 148, para. 3 of Italian Legislative Decree 58/98.
*** Period also comprises post held in governing bodies under dualistic governance system adopted by Mediobanca from 27/6/07 to 28/10/08.
♦ Taken from the list submitted by shareholder Unicredit S.p.A., owner of 8.655% of the company's share capital.
■ Taken from the list submitted by a group of investors holding 1.699% of the share capital.
• Appointed by shareholders at the Annual General Meeting held on 28 October 2016 following the resignation of Director Massimiliano Fossati on 21 September 2016.

A breakdown of the Board of Directors by years of seniority is shown below.

0-2 years	**2-5 years**	**≥6 years**
5%	56%	39%

The Board includes prominent figures from the banking and industrial sectors, which ensures an appropriate degree of professionalism as required by the complexity of the Bank's operations, and given the Board's role in strategic supervision. The composition of the Board of Directors reflects the appropriate combination of capabilities and professional expertise, in line with the recommendations made in the "Report on the qualitative-quantitative composition of the Board of Directors" (2014).

The Board of Directors is comprised of 12 men (67%) and 6 women (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	71/76
2	0	2	3	2	0	6	3

Subsequent to their appointment, the directors, with the support of the Appointments Committee, ascertained that its composition as a result of the appointment process effectively matched with the composition considered to be optimal in qualitative and quantitative terms.

All the Directors, upon their appointment and then annually, make statements to the effect that no cause exists for them to be disqualified from office under legislation currently in force on the grounds of their being incompatible (including those provided by Article 36 of Italian decree law 201/11 in respect of interlocking directorates), ineligible or otherwise having lapsed from office, and further statements to the effect that they are fit and proper persons in possession of the requisite qualifications to hold such office and that they qualify as independent where this is required by legislation currently in force and in particular Article 148, paragraph three of the Italian consolidated finance act, which the Board has duly noted. The Articles of Association do not provide for any further requirements in terms of professional qualifications than those stipulated by Article 26 of the Italian Consolidated Banking Act.

The independence of each Director is assessed annually on the basis of information provided by him/her, and also any relations which might compromise, or appear to compromise, the Director's independence of judgement are assessed accordingly.

The Board of Mediobanca has ascertained that the following directors qualify as independent under the terms of the Code of Conduct: Maurizia Angelo Comneno, Tarak Ben Ammar, Mauro Bini, Maurizio Carfagna, Angelo Casò, Maurizio Costa, Vanessa Labérenne and Elisabetta Magistretti (on 16 November 2016).

With reference to the fact that some independent directors are currently members of the Executive Committee, under the governance model adopted by the Bank, members of the Executive Committee do not become "executive" as defined by the Code of Conduct merely by fact of their belonging to this body, as a result in particular of its composition, given that the Executive Committee includes four members of the Bank's senior management, including the Chief Executive Officer (who chairs the Committee) and General Manager, who are responsible for the day-to-day running of the Bank. The other non-management members of the Committee do not have individual powers of management, and the Bank's governance model also features managerial committees with broad powers in respect of the Bank's ordinary operations. In accordance with the supervisory instructions for banks in the area of corporate governance, directors who are members of the Executive Committee are not included in the Remunerations, Appointments and Risks Committees.

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. The Committee's activities were principally aimed at ensuring that the Board expressed its opinion on the basis of adequate information and material, that the proper procedural process was followed for decisions made by the Board, and that the criteria stipulated by the regulations (the Code of conduct and Article 148 of the Italian consolidated finance act) regarding the requirements for independence were correctly applied.

The independent Directors meet regularly on their own without the other Directors present.

The documentation submitted by the Directors for appointment to the Board of Directors is available on the Bank's website at www.mediobanca.com/ Corporate Governance.

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 regulatory capital;
4) Appointment and dismissal of the Executive Committee, Chief Executive Officer, General Manager, head of company financial reporting and the heads of the Group Audit, Compliance and Risk Management units;
5) Definition of the overall governance arrangements and approval of the Bank's organizational structure, ensuring clear distinction of duties and function and preventing conflicts of interest.

Under the regulations currently in force, and the resolution in respect of powers, the following matters are also under the sole jurisdiction of the Board of Directors:

– proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
– ascertaining that Directors and members of the Statutory Audit Committee upon their appointment, or without prejudice to the foregoing on at least an annual basis, are in possession of the requisite professional credentials and qualify as fit and proper persons and as independent as required by regulations in force and the Articles of Association;
– approval of "most significant" transactions involving related parties;
– approval of the Risk Appetite Framework and the general guidelines for the ICAAP process;

- approval of the Recovery Plan (required under EU Directive 2014/59);
- approval of annual plans and review of reports by the internal control units.

Twice a year the Board of Directors also assesses the adequacy of the Bank's administrative and accounting structure, with particular attention paid to the internal control system and risk management based on the enquiries made by the Control and risks committee and the report presented by the head of company financial reporting on the adequacy and application of administrative and accounting procedures required by Italian law 262/05.

The delegated bodies report to the Board of Directors on the Bank's general performance, outlook, and the most significant 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.

Meetings of the Board of Directors are called by the Chairman or 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, and a quorum is established when a majority of the Directors in office is in attendance. Board meetings may also be called by the Statutory Audit Committee or one of its members, provided the Chairman has been notified to such effect in advance.

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, 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 Chief Risk Officer, head of company financial reporting and other Group staff whose presence is necessary also take part in Board meetings.

The Board of Directors' meetings held during the financial year (1July

2016/30 June 2017) were duly attended by people in charge of and working for the relevant company units for discussion of the items on the agenda.

A total of eleven Board meetings took place in the period from 1 July 2016 to 30 June 2017.

The average duration of Board meetings was around three hours and 30 minutes.

Six induction meetings were held for Directors and Statutory Auditors during the year, outside of Board meetings, for discussion of issues pertaining to the company's strategic plan, cyber crime and digital transformation, the new regulations on governance and suitability of company representatives, internal models and IFRS 9 impact, stress test scenarios, corporate social responsibility, the resolution plan, the geopolitical scenario and its possible repercussions for the business.

The average duration of induction meetings was about two hours.

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 inter alia by the supervisory instructions for banks in the area of corporate governance was conducted in the months between February and June 2017, with the assistance of an external specialist advisor. Without neglecting the usual assessment of the proper operation of the Board of Directors and Committees, the process was also conducted in view of the qualitative and quantitative report to be submitted to shareholders at the general meeting to be held in October 2017 for the reappointment of the governing bodies.

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, which began with last year's findings and essentially asked whether the largely positive results of the previous self-assessment were confirmed and above all asked for an assessment of the improvements introduced in response to the previous suggestions. The questionnaire also sought to identify new topics of discussion for next year's induction sessions and the skills that would be required to ensure appropriate composition of the Board, and in the qualitative and quantitative report;

- the Appointments Committee's analysis of the data collected in aggregate form, including the results of the process regarding other Group banks;
- 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, containing recommendations for shareholders and for the new Board of Directors proposed by the Appointments Committee.

The self-assessment process, in which seventeen of the directors participated and also, in line with the supervisory instructions for banks, the three standing auditors plus four members of the Bank's management external to the Board, revealed a positive situation which confirms the effectiveness of the work carried out by the Board.

The following points in particular emerged:

- the composition (in terms of size, capabilities, diversity and number of independent members) and functioning of the Board itself and the committees set up by it were considered to be adequate;
- the flow of information ahead of the meetings, the operations of the Board in terms of the number and duration of its meetings, meeting agendas in terms of the amount of time devoted to dealing with each item despite their high number, documentation on risks facing the company and risk controls, and segmentation of budget and closing data by business line, were all held to be satisfactory;
- the exchanges of information with the bodies delegated by the Board, debate within the Board itself and the accuracy of the minutes for the meetings were all judged to be effective;
- the Board members were appreciative of the ways in which the Chairman informs, directs and stimulates the discussions in the Board meetings and of the leadership shown by him;
- there was general satisfaction with the induction sessions arranged and the supporting documentation provided;
- the judgement on the work done by the Board as a whole and by each of its members was also generally satisfactory.

The Executive, Appointments, Remunerations and Risks Committees were felt to be excellent in terms of role, functioning, composition and size.

Areas for improvement included the number of independent directors (taken into account in the Report on the qualitative and quantitative composition of the Board), consolidation of progress on the schedule for sharing documents in preparation for meetings, and more lively discussion and active participation of all Directors in the Board's debates with more detailed discussion of business issues.

It emerged that everyone was completely satisfied with the progress made during the year in the three areas identified in the previous self-assessment as requiring attention:

– strategic indepth study of the interaction between the RAF and management of the institute's business;
– intensification of attendance at Board meetings and induction meetings for people in charge of the Group's control functions and principal activities;
– focusing on issues pertaining to the succession of senior management and assessment of key resources.

Self-assessments by other banks in the Group (100%-owned by Mediobanca), conducted to obtain an overall picture of the functioning of Group governance with the participation of all Directors and Auditors, revealed a largely positive assessment of the role of the Board, of the adequacy and timeliness of the flow of information on the items on the agenda, of the role of the Chairman and Statutory Audit Committee (if present), of the professions represented in the Board of Directors, of the number and duration of meetings, and of Board debates. The process of self-assessment of banks in the Group in which the governing bodies are due to be renewed, served to collect information on their future qualitative-quantitative composition; these included an increase in the number of independent directors and in representation of women, an emphasis on diversity, and renewal of the appointment of a number of directors to guarantee continuity in company management. Self-assessment also revealed a number of ideas for improvement, primarily involving clearer description of the connection between company and group-wide strategies; discussion of succession plans; the advisability of setting up a Risks Committee within the Board (if not already present) to focus on the issues of conduct, compliance and operative risks; holding longer sessions when discussing particularly complicated topics; greater involvement in meetings on the part of the company units responsible; and the advisability of extending an invitation to attend induction sessions held by the parent company to the Directors of the other banks in the Group.

Chairman of Board of Directors

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 has a duty of care versus the Board as a whole, while at the same time forming the main point of contact with the executive Directors. 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. In addition to the duties provided for under Article 16 of the Bank's Articles of Association, the Board has also assigned responsibility to the Chairman for overseeing internal audit activities.

The Board of Directors has not tasked the Chairman with specific duties or vested him with special powers; his participation in Board meetings reflects the provisions contained in the Articles of Association.

In addition to the duties associated with his role, the Chairman of Mediobanca, Renato Pagliaro, as a member of its senior management, also participates in internal committee meetings without having voting rights.

Board committees

In the new arrangements provided for in the Articles of Association approved by shareholders in the annual general meeting held on 28 October 2015, the

Board of Directors, at the Appointments Committee's proposal, confirmed the institution of the Executive Committee, the composition of which has been adapted to reflect the Supervisory Instructions referred to above.

Furthermore, in accordance with the recommendations made in the Code of Conduct and the Bank of Italy's corporate governance instructions, the Board of Directors has established three committees consisting exclusively of non-executive directors, the majority of whom are independent, from whom the Chairman is selected.

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 first Board of Directors' meeting on its activities and the Committee's proposals to be submitted for examination by the Board.

Composition and role of Executive Committee

The Executive Committee presently has six members.

As from the next occasion on which the governing bodies are reappointed, i.e. when the financial statements for the year ending 30 June 2017 are approved, the provisions of Article 23 of the new Articles of Association will start to apply, hence the Executive Committee, if appointed, will consist of between three and five directors.

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.

Directors who are also part of the Banking Group's management, and who in this capacity are called upon to form part of the Executive Committee, cease to be Directors upon their ceasing to be employed by the company belonging to the Banking Group.

The Committee remains in office for the entire duration of the office of the Board of Directors which appointed it.

The Committee is chaired by the Chief Executive Officer. The Chairman of the Board of Directors also takes part as a guest in Executive Committee meetings, to ensure adequate information and reporting flows to the full Board of Directors. The Statutory Audit Committee also participates, as does the Chief Risk Officer and the Head of Company Financial Reporting.

Members	**Post held**	**Executive**
Alberto Nagel	CEO and EC Chairman	X
Maurizia Angelo Comneno *	Deputy Chair	
Francesco Saverio Vinci	General Manager	X
Angelo Casò*	Director	
Gian Luca Sichel	Director	X
Alexandra Young	Director	X

(*) Independent as defined in Code of conduct for listed companies and under Article 148, para. 3 of Italian legislative decree 58/98 (the "Italian Finance Act").

The Executive Committee comprises four men (67%) and two women (33%). 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	2	0	0	1	1

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:

- manages the Bank's ordinary activities;
- 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;
- draws up and implements internal regulations, to be submitted to the approval of the Board of Directors, and establishes the principles for co-ordination and management of Group companies in execution of the strategic guidelines approved by the Board of Directors;
- establishes operating limits on the taking of various types of risk, in accordance with the Risk Appetite Framework. 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, powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks;
  - Lending and Underwriting, with executive powers for matters of 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;
  - Operational Risks, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions.

Reports on these committees' activities are presented at each Executive Committee meeting.

The Committee regularly assesses the general operating performance, including on the basis of information received from the Chief Executive Officer and from the internal management committees.

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 thirteen meetings were held in the period from 1 July 2016 to 30 June 2017, with an average duration of roughly 1 hour and 30 minutes.

Risks Committee

Risks Committee	Auditor ◊	Independent (Code) *	Independent (Finance Act) **
Elisabetta Magistretti (C)	X	X	X
Mauro Bini		X	X
Maurizio Carfagna		X	X
Vanessa Labérenne		X	X

◊ Registered auditor.

* Independent as defined in Code of Conduct.

** Independent as defined in Article 148, para. 3 of Italian Legislative Decree 58/98.

The Committee is currently made up of four non-executive Directors who qualify as independent as defined by the Code of Conduct, and has duties of consultation and enquiry, particularly with respect to the Bank's system of internal control and risk management and the structure of its accounting/reporting organization. The person chairing the Committee is an independent director in possession of the requisite experience in accounting and financial matters. The Committee consists of two men (50%) and two women (50%). 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
1	0	1	0	0	0	2	0

In particular, 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;

– 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, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP), reporting back to the Board on this issue;

– checks that the Bank's remuneration and incentivization system is consistent with the Risk Appetite Framework.

With reference to the structure of the Bank's financial reporting organization, the Committee assesses the compliance of decisions taken by the Head of Company Financial Reporting, the external auditors and the Board of Directors in respect of the correct application of accounting standards with primary and secondary regulations, their consistency for purposes of drawing up individual and consolidated financial statements, 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 Statutory Audit Committee takes part in Committee meetings, and the Chief Executive Officer and General Manager are also invited to take part as guests. The head of company financial reporting, the heads of the control units and other Group staff also attend if considered necessary.

The Risks Committee currently also acts as the Related Parties Committee instituted pursuant to the procedure for transactions with related parties approved on 20 June 2012 and most recently revised on 10 May 2017 (www.mediobanca.com/Corporate Governance), with the following duties:

1) expressing opinions in advance on the adoption of, and possible amendments to, the procedure;
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 2016 to 30 June 2017 and on thirteen occasions as the Related Parties Committee.

The average duration of Risk Committee meetings was roughly two hours and 50 minutes, and that of Related Parties Committee meetings around 45 minutes.

Remunerations committee

Remunerations Committee	Independent (Code) *	Independent (Finance Act) **
Vanessa Labérenne (C)	X	X
Maurizio Carfagna	X	X
Maurizio Costa	X	X
Elisabetta Magistretti	X	X
Alberto Pecci		

* Independent as defined in Code of conduct for listed companies.

** Independent as defined in Article 148, para. 3 of Italian Legislative Decree 58/98.

The Committee is currently made up five non-executive members, the majority of whom qualify as independent under the terms of the Code of conduct for listed companies, including the Chair. The Committee has duties of consultation and enquiry to determine the remuneration of Directors vested with particular duties and the General Manager, as well as on the proposals formulated by the Chief Executive Officer regarding the guidelines for the remuneration system for senior management and Group staff remuneration, loyalty retention and incentivization schemes. The Committee currently consists of three men

(60%) and two women (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	71/76
1	0	0	0	0	0	3	1

In particular the Committee:

1) proposes the allocation of the fixed emolument approved by the shareholders in general meeting among the various directors;
2) regularly assesses the adequacy, overall consistency and practical application of the remuneration policy for directors and relevant staff;
3) formulates proposals and/or opinions regarding the remuneration of directors who are members of the Group's senior management and relevant staff, and verifies the achievement of their performance.
4) 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;
5) 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.

The Chairman of the Board of Directors, the Statutory Audit Committee, the Chief Risk Officer and Head of Human Resources take part in Committee meetings, along with (in an advisory capacity) the Chief Executive Officer, the General Manager, the head of company financial reporting and any other Group staff considered necessary.

The Committee met eight times in the period from 1 July 2016 to 30 June 2017, including two meetings which were not attended by the Executive Committee, to review changes in the regulatory framework and formulate proposals to the Board of Directors regarding staff remuneration policies. For further information on the issue of remuneration, please see the Report on Remuneration available on the Bank's website under www.mediobanca.it/Corporate Governance.

The average duration of Committee meetings was roughly two hours and 15 minutes.

Appointments committee

Appointments committee	Independent (Code) *	Independent (Finance Act) **
Mauro Bini (C)	X	X
Marie Bolloré		X
Maurizio Costa	X	X
Elisabetta Magistretti	X	X
Renato Pagliaro		

* Independent as defined in Code of Conduct.

** Independent as defined in Article 148, para. 3 of Italian Legislative Decree 58/98.

The Appointments Committee currently consists of five non-executive directors, the majority of whom qualify as independent under the Code of Conduct, including the Chairman.

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	71/76
1	0	0	0	2	0	2	0

The Appointments Committee:

- performs administrative activities in connection with the Board of Directors' annual self-assessment exercise;
- performs advisory duties to identify the optimal qualitative/quantitative composition of the Board of Directors, and subsequently checks that this corresponds to the actual composition which results from the appointment process;
- has duties of enquiry in respect of proposals of submission of lists for the Board of Directors, co-opting of new directors to replace those who have left their post, and for the appointment of the Executive Committee, Chief Executive Officer and, at the CEO's proposal, the General Manager;
- performs administrative duties in connection with succession planning for directors who are members of the Bank's management;
- supports the Risk Committee in identifying the heads of the company control units.

The Chief Executive Officer, General Manager and Head of Company Financial Reporting take part in Committee meetings, along with any other Group staff considered necessary.

The Committee met eight times in the period from 1 July 2016 to 30 June 2017 to adopt resolutions regarding the Board of Directors' self-assessment process to verify the requirements and succession planning.

The average duration of committee meetings was roughly 1 hour and 25 minutes.

Committee instituted pursuant to article 18, para. 4 of the articles of association

In addition to the Committees provided for in the regulations and codes of conduct, the Board of Directors has also set up a committee pursuant to Article 18, para. 4 of the new Articles of Association, as approved by shareholders in the Annual General Meeting held on 28 October 2015.

Committee instituted pursuant to Article 18, para. 4 of Articles of Association	Independent (Code) *	Independent (Finance Act) **
Alberto Nagel (C)		
Francesco Saverio Vinci		
Gian Luca Sichel		
Marie Bolloré		X
Elisabetta Magistretti	X	X

* Independent as defined in Code of Conduct.

** Independent as defined in Article 148, para. 3 of Italian Legislative Decree 58/98.

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	71/76
1	0	1	2	0	0	1	0

The Committee currently consists of the three Banking Group senior management members and two Directors, one of whom qualifies as independent, and adopts resolutions in respect of decisions to be taken in general meetings of listed investee companies in which the Bank's investment is equal to at least 10% of the investee company's share capital and at the same time involves an amount in excess of 5% of the Group's own consolidated regulatory capital.

The Committee met on one occasion in the period from 1 July 2016 to 30 June 2017.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among the Directors who have been members of the Banking Group's management for at least three years, who must not be more than sixty-five years old.

The Board of Directors, without prejudice to the provisions of the Articles of Association, establishes the duties and powers of the Chief Executive Officer. In particular, the Chief Executive Officer has executive powers and is responsible for implementing resolutions adopted by the Board of Directors and the Executive Committee, which he chairs, and also:

1) within the limits of his powers, implements the plans and strategic guidelines set by the Board of Directors and Executive Committee;
2) is empowered to make proposals to the Board of Directors and Executive Committee, with reference in particular to management direction, proposed strategic plans and budgets, draft financial statements and interim accounts, and the principal internal regulations;
3) is empowered to make proposals to the Committee instituted pursuant to Article 18, para. 4 of the Articles of Association concerning the decisions to be taken regarding appointments to the governing bodies of the investee companies, if listed;
4) is responsible for staff management, and, having sought the opinions of the General Manager, if appointed, appointment of managerial staff;
5) ensures that the organizational, administrative and accounting systems of the bank are adequate for the operations and size of the Company;
6) reports, with the General Manager, if appointed, to the Board of Directors and Executive Committee each quarter on the Bank's operating performance and prospects, and on the most significant transactions carried out by the Company and its subsidiaries.

The Chief Executive Officers is Mr Alberto Nagel.

General Manager

The Board of Directors may, if proposed by the Chief Executive Officer's proposal with an indication of powers and duties, appoint a General Manager from among the Directors who have been members of the Banking Group's management for at least three years and are not more than sixty-five years old.

The Board of Directors vests the General Manager, who is the head of the internal organization and as such is responsible for its management, 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 and Executive Committee in accordance with the directions issued by, and based on the individual remit of, the Board of Directors, Executive Committee and Chief Executive Officer. The General Manager is responsible for approving the guidelines to ensure that the risk mitigation techniques implemented are effective and that suitable training programmes are instituted to embed the requisite risk culture.

The General Manager is Mr Francesco Saverio Vinci, who heads the Operations division and the Banking Group's principal investments; he is also responsible for the Financial Markets area which is part of the Corporate and Investment Banking division.

Head of company financial reporting

On the proposal of the Chief Executive Officer, and having consulted 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 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 Massimo Bertolini, who was appointed Head of Company Financial Reporting on 4 July 2007.

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 on the company's capital, earnings and finances as required by law.

The Board of Directors has assigned a budget to this office in terms of funding and staff, and exerts 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.

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 Article 155 of the Italian Consolidated Finance Act for the 2013/2021 period.

Risk management and internal control system for financial reporting 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 and COBIT framework) [1]. 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.

[1] The CoSO Framework has been compiled by the Committee of Sponsoring Organizations of the Treadway Commission, a US body with the objective of improving the quality of corporate information through defining ethical standards and an effective corporate governance and organizational system. The CobIT Framework-Control Objectives for IT and related technology, meanwhile, is a set of rules prepared by the IT Governance Institute, another US body whose objective is to set and improve corporate standards in the IT sector.

The system has been constructed and is applied according to the relevance of Group companies, accounts or processes.

Checks are carried out according to two distinct methods based on the reference process:

- test of controls, for non-accounting processes (chiefly relating to the support areas) IT processes, which are carried out by the process-owners using a self-assessment methodology and checked by the heads of their respective organizational areas;
- test of controls for accounting processes, carried out in part using a self-assessment methodology and in part by the Group Audit Unit.

The Group Audit unit ascertains annually 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. With the Head of company financial reporting, a plan of corrective action is drawn up which assigns responsibilities and defines timescales.

Based on this model, the relevant administrative bodies and the Head of Company Financial Reporting attest, by means of a declaration attached to the annual report, the condensed interim report and the consolidated financial statements, 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.

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 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 supervisory requirements laid down by the Bank of Italy, 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 2014 for the 2015, 2016 and 2017 financial years, is currently made up as follows:

Members	Position	In office since
Natale Freddi *	Chairman	28.10.2011
Laura Gualtieri ♦	Standing Auditor	28.10.2014
Gabriele Villa ♦	Standing Auditor	28.10.2008
Alessandro Trotter ♦	Alternate Auditor	28.10.2014 **
Barbara Negri ♦	Alternate Auditor	28.10.2014
Silvia Olivotto *	Alternate Auditor	28.10.2014

♦ Appointed from the list submitted by shareholder UniCredit S.p.A., which holds 8.65% of the company's share capital.

* Appointed from the minority list submitted by a group of investors owning 1.699% of the share capital.

** Alternate audit until 2 July 2007; member of Management Board from 2 July 2007 to 28 October 2008; and alternate auditor from 28 October 2014.

The members of the Statutory Audit Committee all qualify as independent under Article 148 of Italian legislative decree 58/98 and the Code of Conduct.

The CVs of the Statutory Auditors deposited along with the lists for appointments to the Statutory Audit Committee may be found on the Bank's website at www.mediobanca.it/Corporate Governance.

The Statutory Audit Committee performs the duties and functions required of it under the regulations in force. In particular it:

– is responsible for monitoring compliance with the provisions of the law, regulations and the Company's memorandum of incorporation, with the principles of proper management, and in particular the adequacy of the organizational, administrative and accounting arrangements set in place by the company and their functioning in practice, as well as the effectiveness of the financial reporting process;
– monitors the thoroughness, adequacy, functioning and reliability of the internal control system and Risk Appetite Framework;
– annually reviews the plans of activity for the company's control units, along with the reports prepared by them on the work carried out;
– monitors 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);
– assesses the proposal submitted by audit companies to act as the Bank's legal external auditors;
– reviews 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;
– monitors the effectiveness of the external auditing process of the annual and consolidated accounts;
– monitors the independence of the external legal auditors, in particular with respect to the provision of non-auditing services;
– gives its opinion on the appointment and dismissal of the heads of the control units and appointments to the post of Head of Company Financial Reporting;
– reports any operating irregularities or breaches of regulations noted to the supervisory authorities;

- monitors the adequacy of the procedures adopted to regulate transactions involving related parties and compliance with them;
- checks that the criteria and procedures adopted by the Board of Directors to assess the independence of its members are applied correctly;
- monitors the thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee informs the Board of Directors of the result of the legal audit and provides them with an up-to-date report in accordance with Article 11 of European regulation 537/2014, complete with comments.

The statutory auditors are vested with the broadest powers provided for by the legal and regulatory provisions in force.

The 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 Committee is kept informed 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.

Information is also provided to the Statutory Audit Committee outside of meetings of the Board of Directors, the Executive Committee and the other committees, in writing, addressed to the Chairman of the Statutory Audit Committee.

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 checks that the provisions regarding the external legal auditors' independence are complied with, in particular regarding services other auditing provided to Mediobanca and the Mediobanca Group companies by it and other entities forming part of the same network.

Any Statutory Auditor who has an interest in a particular transaction in which Mediobanca is involved, either in his/her own right or via third parties, informs the other Statutory Auditors and the Chairman of the Board of Directors promptly and exhaustively regarding the nature, terms, origin and scope of such interest.

A total of twenty-nine 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 (Italian legislative decree 58/98).

The average duration of committee meetings was roughly three hours.

Internal Audit Unit

As required by Bank of Italy regulations, Mediobanca maintains a Group audit unit, centralized at Mediobanca S.p.A. but covering the Group as a whole, which is organized so as to monitor and ensure on an ongoing basis that the company's internal control system functions effectively and efficiently. Control is extended to the other companies in the Banking Group both by the unit itself and via its co-ordination of the corresponding subsidiaries' units (where applicable; e.g. in the case of Compagnie Monégasque de Banque).

The unit is responsible in particular for assessing the thoroughness, adequacy, functioning and reliability of the individual components of the internal control system.

The unit is independent in its operations, has direct access to all useful information, and has adequate means for performing all its duties. The head of Group Audit takes part in meetings of the Risks Committee to support the Committee in its own supervisory activities. The unit prepares a six-monthly report on the activities carried out by it, which it submits to the Risks Committee and the Board of Directors, and presents an update on the critical issues encountered to the Risks Committee, again twice a year.

The planned audits are conducted in accordance with the unit's own Regulations and with the audit plan approved by the Board of Directors for the year in course.

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 control structure more efficient by:

- centralizing co-ordination responsibilities at, and providing for direct coverage, by the Group audit unit for all subsidiaries;
- defining a Banking Group audit plan, to be submitted to the approval of Mediobanca's Board of Directors and thereafter of the individual companies' Boards for what concerns them;
- sharing specialized skills (e.g. IT auditing, AIRB, regulations) and audit methodologies, inspection methods reporting standards vis-à-vis governing bodies and senior management.

The head of the Group Audit Unit is Piero Pezzati, who reports to the Board of Directors.

A suitable budget is made available to the head of the Group Audit Unit each year, subject to the approval of the relevant governing bodies.

Compliance Unit

The Compliance unit manages the regulatory and reputational risks of the Group, and to monitor 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, as required by the joint Consob-Bank of Italy resolution issued on 29 October 2007, to manage risks of non-compliance linked to the provision of investment services and activities and ancillary services governed by the MiFID directive, 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 Control and risks committee, the Board of Directors and the Statutory Audit Committee twice a year. The Compliance unit is headed up by Massimiliano Carnevali, who reports directly to the Chief Executive Officer.

A suitable budget is made available to the head of the Compliance unit each year, subject to the approval of the relevant governing bodies.

Anti-money-laundering Unit

The Anti-money-laundering unit was established in 2011, and again is headed up by Massimiliano Carnevali. As required by the instructions issued by the Bank of Italy on 10 March 2011 as amended, the unit is responsible for ongoing monitoring of the company's procedures to prevent and tackle breach of the regulations on money-laundering and terrorist financing. The unit manages these 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 AML unit on such matters.

Risk Management Unit

The Risk Management unit reports directly to the Chief Executive Officer under the leadership of the Chief Risk Officer, Mr Pierpaolo Montana.

The Risk Management unit is responsible for identifying and implementing an efficient risk management process and for ensuring this is embedded across the Group. To this end it presides over the functioning of the Bank's and the Group's risk management systems, defining the appropriate methodologies for measuring the current and future set of risks faced by them. The unit ensures ongoing control of the aggregate exposure, at Group and individual unit level, to credit, financial, operational and other relevant risks, within the limits set by the internal and supervisory regulations. The unit also issues guidance to the Group companies, to ensure that the entire Group's exposure to the above risks is governed appropriately.

In the exercise of his duties of control, the 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.

The Head of the unit attends meetings of the Risks Committeeassisting it in its control tasks. Every six months the unit submits a report to the Risks Committee and the Board of Directors on the activities performed, and once a year it submits an assessment of the Group's risk profile and the adequacy of the Group's risk management measures.

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.

In the area of strategic planning, Risk Management participates in the definition of the Group's strategic guidelines, ensuring the strategic goals and risk limits defined in the RAF are consistent with reference specifically to the adequacy of the company's assets and liquidity.

The unit is also responsible for the process and performance of Group-wide stress tests.

The Risk Management unit is involved in making decisions regarding the Bank's entry into new markets, introduction of new products, and extraordinary operations, in order to assess the impact of these changes and operations on the Bank's and the Group's overall risk level, its liquidity and the adequacy of its assets, reporting to the Board of Directors on the results of its analysis.

A suitable budget is made available to the head of the Risk Management unit each year, subject to the approval of the relevant governing bodies.

Organizational model instituted pursuant to Italian legislative decree 231/01

At a Board meeting held on 15 December 2015, the Directors of Mediobanca approved the revised version of the new organizational model following changes to the regulatory framework.

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 staff remuneration and incentivization system, the disciplinary system and reporting flows to the supervisory body. For each category there is also a series of considerations regarding sensitive areas and the principles of conduct to be adopted in each case.
2. **Special Parts:**
    - **Map of activities at risk:** these involve crimes against the public administration, money-laundering and self-laundering, white-collar crimes and instances of market abuse, for which specific preventative measures have been adopted, crimes committed in breach of the law on protection of health and safety in the workplace, and bribery and corruption between private individuals, for which specific preventative measures have been adopted.
    - **Protocols**, summarizing the principles of conduct and operating procedures for each sensitive area: in particular the protocols contain the methods to be followed in conducting relations with the public administration, in compliance with the principles of accountability and transparency.
    - **Reporting flows** from/to the supervisory body, containing the data and information which each organizational unit is required to transmit to the supervisory body. Obtaining such data allows the supervisory body to monitor the model's functioning and compliance with it, and to propose revisions where these may be necessary in order to render the company's organizational and internal control measures more effective. In execution of the powers and duties assigned to it under the organizational model, the supervisory body prepares an annual report to the Board of Directors and

the Control and risks committee on the controls carried out with a view to preventing the crimes to which the model refers.

- **Form for reporting** suspected breaches of the model to the supervisory body.
- **the Group Code of Ethics**, which has been adopted by all Group companies, constitutes an integral part of the model, and contains references and principles which are complementary to the legal obligations and self-regulation requirements for directors, advisors, outside staff and suppliers, and are continuous and consistent with the Group's mission and its basic values. The document is available on the Bank's website at www.mediobanca.it/Corporate Governance.

The Statutory Audit Unit 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 Control and Risks Committee.

The Committee also maintains relations with the external auditors with a view to appraising all data and information regarding the decree and the model.

Code of Ethics and Code of 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 Banks's internal and external relations in ethical terms, describing the standard of conduct required from all staff and collaborators.

Whistleblowing

Mediobanca has also adopted a policy on whistle-blowing to enable staff to report, including on a confidential basis, 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 such reports are addressed. The policy, adopted by all Group companies, defines the 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 systems is Massimiliano Carnevali, who is also responsible for the Compliance unit.

Personal transactions

In accordance with the provisions of Article 18 of the Bank of Italy-Consob combined regulations issued on 29 October 2007, Mediobanca has adopted a procedure to ban and/or identify personal transactions made (or transactions recommended, solicited or divulged to third parties) by relevant persons which may give rise to conflicts of interest or otherwise be in breach of the regulations on insider or confidential information.

Under the procedure, relevant persons must be made aware of and comply with the restrictions and reporting requirements on personal transactions.

Internal dealing

The Board of Directors has adopted Regulations on Internal Dealing to govern reporting requirements for transactions involving equity instruments issued by Mediobanca (shares, convertible bonds, warrants, equity derivatives, etc.) carried out by persons defined as "relevant". Such relevant persons (chiefly Directors, statutory auditors and key management) have all subscribed to the code, and notify Mediobanca of each such transaction involving said equity instruments within two days of its completion. Transactions involving sums of less than € 5,000 (or a higher figure set by the relevant authority, if any) are not considered.

Mediobanca then discloses all such information to the market and Consob by the next successive day, using the methods laid down by the regulations in force. Relevant persons may not effect such transactions in the thirty days prior to the date on which the Management Board's approval of the Bank's annual, interim and quarterly accounts is made public. The regulations may be consulted on the Bank's website at www.mediobanca.com/Corporate Governance.

Related party transactions

At a Board meeting held on 10 May 2017, 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 Procedure 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 set out the provisions 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 form, objectively and impartially, whether directly or via subsidiaries, and also that the prudential limits on risk assets vs related parties are complied with.

The procedure uses 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 procedure is activated every time the Bank intends to implement a transaction with a related party (as defined in Annex 1 of the regulations). It involves an initial classification between "Most significant transactions" and "Transactions of minor significance", which determines the respective responsibilities and approval procedures. The procedure does not apply to transactions which qualify as "Exemptions" (which include "Ordinary transactions of minor significance carried out on market terms" and "Transactions involving negligible amounts").

The procedure also prescribes a specific "transparency regime" which defines the reporting requirements and deadlines versus both the public and the company's governing bodies. This procedure is published on the Bank's website at www.mediobanca.com/Corporate Governance.

Conflict of interest policy

Consistent with the requirements of the Combined Regulations established by Bank of Italy and Consob on 29 October 2007, Mediobanca has adopted a conflict of interest management policy for the identification, monitoring and management of conflicts which may arise in the provision of Investment Services or Accessory Services. Taking into account the provisions of the ECB Guide for the requirements of directors' integrity and professionalism, it also regulates the measures to be taken in the event that one of them should become involved in a conflict of interest.

The Policy describes the methods of identification and management of real and potential conflicts of interest which 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 to be 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.

Directors' and strategic management's remuneration

The executive directors' remuneration is structured in such a way as to ensure their interests are aligned with the main objective of value creation for shareholders over the medium and long term, as part of a framework of regulations directed towards achieving proper management of the current and future risks facing the company, and maintaining appropriate liquidity and capitalization levels. The compensation package is structured into three components so that the economic benefits accruing to executive Directors are diversified over time:

1) fixed salary;
2) a variable annual component which accrues only if the gateways established in the Remuneration policies approved by shareholders in the general meeting are met. The amount of the individual bonuses will depend on meeting certain specific quantitative and qualitative performance criteria, which are assigned annually by the relevant governing bodies. Achievement

of these objectives results in variable remuneration being paid which varies from 50% (or a lower percentage) of annual gross salary when minimum targets (usually those set by the budget) are reached to up to of 200% for particularly outstanding performances (indicatively between 115% and 150% of the minimum). Payment of the bonus is made in accordance with the terms, conditions and methods stipulated in the Remuneration policies;

3) when the Group's long-term plans are approved, the Board of Directors may establish a further extraordinary bonus by way of a long-term incentive, as recognition for achievement of the targets set in the plan. In such cases, the short-term scheme is linked to the provisions of the long-term scheme, without prejudice to the cap on variable remuneration in force (currently 200%). Actual payment is made in accordance with the terms, conditions and methods stipulated in the Remuneration policies, unless provided otherwise by the Board of Directors in accordance with the regulations in force.

The Chairman is entitled to fixed remuneration only.

Directors who are also members of the Group's senior management receive a fee for their position as directors, but do not receive any remuneration in respect of their participation in committees, and in cases where such directors hold posts on Mediobanca's behalf in Group or investee companies, any emoluments due are paid to Mediobanca itself as the persons concerned are members of the Bank's staff.

Non-executive Directors' remuneration is set by shareholders in their annual general meeting, and does not include incentives linked to the Bank's performance.

The policy on the remuneration of directors and management with strategic responsibilities is illustrated in the "Remuneration Policy", which at the Remuneration Committee's proposal is approved by the Board of Directors and submitted to shareholders in annual general meeting. The policy for FY 2016/17 as approved by the shareholders is available on the Bank's website at www.mediobanca.com/Corporate Governance.

Other information required under Article 123-bis of the Italian consolidated finance act on severance pay agreements

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 policies for identified staff and the sector regulations in force at the time shall apply, as approved by the shareholders in their annual general meeting and published on the Bank's website at www.mediobanca.com.

Succession planning

Mediobanca's "Succession planning policy" for the positions of executive directors and key managers (business areas, control units, and staff and support roles) was updated in the course of the 2016/17 financial year, taking into account the emergency plan for renewal of appointments to senior management positions in the event that this should suddenly become necessary.

It also reflects the regulatory authority's specific instructions on the heads of the control units.

A total of 29 key positions have been identified, which include the executive directors, for which positions internal staff have been earmarked as able to ensure they are replaced smoothly, without, however, ceasing to monitor the market constantly. The skills and capabilities which candidates for the various leadership profiles must possess have also been defined and formalized. The types of role identified, in addition to the Chief Executive Officer and the General Manager, are the other executive directors responsible for business areas, the other heads of the parent company's main areas of operation (Corporate and Investment Banking, Principal Investing, and Finance) and the principal Group companies (Compass, CheBanca! and CMB), and the heads of the control, staff and support units.

The Chief Executive Officer and General Manager, with the help of Human Resources, annually select the staff who will make up the senior talent pool, currently consisting of 38 staff members, to ensure key positions can be replaced in the short and medium term. Career development paths are identified for these staff members, including in terms of involvement in specific strategic projects, exposure to Board/committee meetings, and international and intra-group rotation. As far as regards the role of Chief Executive Officer, particular attention is paid to individuals who play senior and/or key roles in Mediobanca. Selection is based on an assessment of professional and technical characteristics, as shown by the candidates' CVs and track record in Mediobanca, performance over time, and possession and development of key leadership capabilities.

This process, which is guided by the Appointments Committee, is presented to the Board of Directors for approval.

The regulations in force at the time in respect of the balance of directors in terms of gender and independence will of course be observed.

As for the limitations on the number of posts which representatives of banks may hold under the new CRD IV directive, the relevant decree law remains to be enacted by the Italian Ministry for the Economy and Finance, which, after consulting with the Bank of Italy, will set the limits pursuant to Article 26 of the Italian Banking Act, as amended by Italian legislative decree 72/15. These provisions will apply to appointments subsequent to its coming into force, as provided by Article 2 of Italian legislative decree 72/15.

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.

Transparent and prompt disclosure are the hallmarks of the relationship between Mediobanca and its interlocutors, in compliance with the regulations and the internal procedures governing the circulation of inside information.

To enable all shareholders to exercise their rights knowingly, information concerning the Group's business model, corporate governance structure, earnings/financial data, products and services, and social and cultural initiatives is available on the Bank's website; to promote the greatest possible participation in annual general meetings, the relevant documentation is sent beforehand to the addresses of participants at the most recent meetings.

Furthermore, to promote dialogue via its institutional website at www.mediobanca.com (content in English and Italian), Mediobanca offers interested parties an opportunity to be kept up-to-date with the Group's earnings results and strategic objectives. As well as making available the full documentation produced by the Bank (again in both languages), the website also offers an opportunity to follow the conference calls organized for publication of the Bank's quarterly, half-yearly and annual results via a web streaming service.

Relations with institutional investors, financial analysts and journalists are handled by the relevant units (Paola Schneider – Group Corporate Affairs, Jessica Spina - Investor Relations and Lorenza Pigozzi – Media Relations).

Milan, 5 July 2017

Table 1: Structure of Board of Directors and Committees as at 30 June 2017

Board of Directors													Executive Committee		Risks Committee		Remuneration Committee		Appointments Committee	
Office	**Member***	**Year of birth**	**Date first appointed (**)**	**In office since**	**In office until**	**List**	**Non exec.**	**Exec.**	**Indep., Code of conduct**	**Indep., Finance act**	**No. of other posts held (***)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**
Chairman	Renato Pagliaro	1957	28/10/08 ([1])	28/10/14	28/10/17	(a)	X				0	100%								100%
Deputy Chair ♦	Maurizia Angelo Comneno	1948	28/10/14	28/10/14	28/10/17	(a)	X		X	X	0	100%		100%						
Deputy Chair	Marco Tronchetti Provera	1948	23/05/07	28/10/14	28/10/17	(a)	X			X	7	72.7%								
CEO ◊ ♦	Alberto Nagel	1965	28/10/08 ([1])	28/10/14	28/10/17	(a)		X			0	100%	P	100%						
Director and General Manager ♦	Francesco Saverio Vinci	1962	28/10/08 ([1])	28/10/14	28/10/17	(a)		X			0	100%		100%						
Director	Tarak Ben Ammar	1949	15/09/03	28/10/14	28/10/17	(a)	X		X	X	6	72.7%								
Director	Gilberto Benetton	1941	28/10/02	28/10/14	28/10/17	(a)	X				3	63.6%								
Director	Mauro Bini	1957	28/10/14	28/10/14	28/10/17	(b)	X		X	X	0	100%				91.67%			P	100%
Director	Marie Bolloré	1988	28/10/14	28/10/14	28/10/17	(a)	X			X	8	100%								87.5%
Director	Maurizio Carfagna	1947	28/10/14	28/10/14	28/10/17	(a)	X		X	X	3	100%				100%		100%		
Director ♦	Angelo Casò	1940	28/10/08	28/10/14	28/10/17	(a)	X		X	X	10	100%		100%						
Director	Maurizio Costa	1948	28/10/14	28/10/14	28/10/17	(a)	X		X	X	1	81.8%						87.5%		100%
Director	Vanessa Labérenne	1978	09/05/12	28/10/14	28/10/17	(a)	X		X	X	0	100%				100%	P	100%		
Director	Elisabetta Magistretti	1947	28/10/11	28/10/14	28/10/17	(a)	X		X	X	2	100%			P	100%		100%		100%
Director	Marina Natale ([2])	1962	28//10/16	28/10/16	28/10/17		X			X	2	100%								
Director	Alberto Pecci	1943	27/10/12	28/10/14	28/10/17	(a)	X				3	90.9%						87.5%		
Director ♦	Gian Luca Sichel	1968	28/10/14	28/10/14	28/10/17	(a)		X			0	100%		100%						
Director ♦	Alexandra Young	1968	28/10/14	28/10/14	28/10/17	(a)		X			0	90.9%		92.3%						

Directors who left office during fy 2015/16

Board of Directors												Executive Committee		Risks Committee		Remuneration Committee		Appointments Committee	
Office	**Member***	**Year of birth**	**Date first appointed (**)**	**In office since**	**In office until**	**List (***)**	**Non exec.**	**Exec.**	**Indep., Code of conduct**	**Indep., Finance act**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**	**A (Office)**	**B (%)**
Directors	Massimiliano Fossati	1968	16/03/16	16/03/16	21/09/16		X			X	100%								

No. of meetings held during year ended 30 June 2016:

Board of Directors:	11	Executive Committee:	13	Risks Committee:	12	Related Parties Committee:	13	Remunerations Committee:	8	Appointments Committee:	8

Quorum required for minority shareholders to submit lists for the appointment of one or more Statutory Auditors: at least 1% of the share capital.

* The CVs submitted by the directors in conjunction with the lists for appointment to the Board of Directors are available on the Bank's website at www.mediobanca.com/Corporate Governance.

** The "date first appointed" for each Director refers to the date on which they were appointed for the first time (ever) to the issuer's Board of Directors.

*** Data refers to posts held in other listed companies in regulated markets, including outside Italy, in financial companies, banks and/or insurances of significant size.

♦ Members of the Executive Committee.

a. Taken from the majority list submitted by Unicredit S.p.A. which holds 8.65% of the Bank's share capital.

b. Taken from a minority list submitted by a group of investors representing an aggregate1,699% of the Bank's share capital.

A. Indicates the director's role within the committee: "C": Chairman.

B. Indicates the directors' attendance records in percentage terms at meetings of the Board of Directors and Committees (no. of meetings which each director attended out the total no. of meetings which they could have attended).

◊ Main person responsible for managing the issuer (Chief Executive Officer, or CEO).

1 Member of the Management Board from 2 July 2007 to 28 October 2008.

2 Appointed by shareholders at the Annual General Meeting held on 28 October 2016following the resignation of Director Massimiliano Fossati on 21 September 2016.

- **In the year ended 30 June 2017, the Board of Directors also held two meetings of independent directors and six induction sessions.**

Table 2: Structure of Statutory Audit Committee as at 30 June 2017

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 **
Chairman	Natale FREDDI	1952	28/10/11	28/10/14	28/10/17	(b)	X	100%	-
Standing Auditor	Laura GUALTIERI	1968	28/10/14	28/10/14	28/10/17	(a)	X	100%	1
Standing Auditor	Gabriele VILLA	1964	28/10/11	28/10/14	28/10/17	(a)	X	89.6%	2
Alternate Auditor	Alessandro TROTTER	1940	28/10/00	28/10/14	28/10/17	(a)			
Alternate Auditor	Barbara NEGRI	1973	28/10/14	28/10/14	28/10/17	(a)			
Alternate Auditor	Silvia OLIVOTTO	1950	28/10/14	28/10/14	28/10/17	(b)			

No. of meetings held during the year ended 30 June 2017§:

	29

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 (very) first time to the issuer's Statutory Audit Committee.
** Indicates the no. of posts as director or Statutory Auditor held by the person concerned in other companies listed on regulated Italian markets.
a. Taken from the majority list submitted by Unicredit S.p.A. which holds 8.65% of the Bank's share capital.
b. Taken from a minority list submitted by a group of investors representing an aggregate1.699% 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
Power to represent the Bank and related party disclosure			
Has the Board of Directors authorized parties to represent the Bank and established: a) limits b) methods for exercising such powers c) regular reporting requirements?	 X X 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.
If so, are such regulations attached as an annex hereto, or is indication provided in the annual report as to where they may be obtained or downloaded?		X	
Internal controls			
Has the company designated staff to take charge of internal control?	X		
If so, are such staff independent in operational terms from the various heads of the individual operating units?	X		
Organizational unit responsible for internal control	X		Group Audit Unit
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[1]

Name	Post held in Mediobanca	Post held in other companies
PAGLIARO Renato	Chairman	=
ANGELO COMNENO Maurizia	Deputy Chair and Executive Committee member	=
TRONCHETTI PROVERA Marco	Deputy Chair	Chairman, Marco Tronchetti Provera & C. S.p.A. Deputy Executive Chairman and CEO, Pirelli & C. Deputy Chairman, TP Industrial Holding Director RCS MediaGroup
NAGEL Alberto	Chief Executive Officer and Chairman of Executive Committee	=
VINCI Francesco Saverio	General Manager, Director and Executive Committee member	=
BEN AMMAR Tarak	Director	Member of Supervisory Board, Vivendi Chairman and Chief Executive Officer, Prima TV Chairman, Eagle Pictures Chief Executive Officer (CEO), Quinta Communications Chief Executive Officer, Carthago Film Services Chief Executive Officer (CEO), Andromeda Tunisie
BENETTON Gilberto	Director	Vice Chairman, Edizione Chairman, Autogrill Director, Atlantia
BINI Mauro	Director	=
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 Member of Supervisory Board, Sofibol
CARFAGNA Maurizio	Director	Chief Executive Officer, H-Invest Director, Compagnia Immobiliare Azionaria Director, Futura Invest
CASO' Angelo	Director and Executive Committee member	Chairman of Statutory Audit Committee, Edizione Chairman of Statutory Audit Committee, Bracco Chairman of Statutory Audit Committee, Bracco Imaging Chairman of Statutory Audit Committee, Falck Chairman of Statutory Audit Committee, Bic Italia Statutory Auditor, Italmobiliare Chairman, Fineldo Director, Tre Laghi Statutory Auditor, Padis Investimenti Statutory Auditor, Sidis Investimenti
COSTA Maurizio	Director	Director, Amplifon
LABERENNE Vanessa	Director	=

Name	Post held in Mediobanca	Post held in other companies
MAGISTRETTI Elisabetta	Director	Director, Luxottica Group Director, Smeg
NATALE Marina	Director	Chief Executive Officer, Fiera Milano Director, Valentino
PECCI Alberto	Director	Chairman, Pecci Filati Chairman, Tosco-Fin Director, El.EN.
SICHEL Gian Luca	Director and Executive Committee member	=
YOUNG Alexandra	Director and Executive Committee member	=

[1] Full list of positions available at www.mediobanca.it.

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), and the "advanced" internal ratings-based method (AIRB). 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.

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.

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. It is based on three so-called Pillars: Pillar I (minimum capital requirements addressing risk); Pillar II (supervisory review); and Pillar III (market discipline).

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: Proposed standard on capital reserves for banks to update the Basel III standards, not due for ratification before March 2019.

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.

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.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio: The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/long-term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

- Exposures to SMEs;
- Leveraged finance (see definition);
- Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enable a reduction in the capital requirements to cover credit risk.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS) – Deposit Insurance Fund (DIF): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD (*Fondo di garanzia dei Depositanti del Credito Cooperativo*). At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

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.

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).

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.

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.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

External Rating: Valuation formulated by a specialist private agency of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

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.

Fair Value Option (FVO): An 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.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

Global Systemically Important Banks (G-SIBs): These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Global Systemically Important Institutions (G-SIIs): These are the largest financial institutions, of global systemic importance, which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value 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.

Impairment Test: An impairment test is a test of the value of balance-sheet item to establish, if there has been a long-term loss in their value, whether they require to be written down, with the corresponding loss taken through the profit-and-loss account. Such tests must be performed at least once a year for intangible assets with an indefinite useful life and for goodwill (see definition) arising in connection with a business combination (see definition). Impairment testing must be performed more frequently every time that evidence of long-term losses in value emerges.

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: 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 requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Leveraged Finance: Type of financing which comprises transactions aimed at:

– Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
– Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;

– Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

Loan Loss Provisions: Provisioning is the setting aside of funds to cover possible future losses on loans. Within this category a distinction must be drawn between:

– Individual adjustments, which are made in respect of a single item; and
– Collective adjustments, which are made in respect of unrealized losses whose existence is known but which cannot be assigned to individual positions.

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).

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.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows: MREL = (own funds + eligible liabilities) / total liabilities + own funds).

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiries and amount of the exposure.

Options: Derivative contracts which include the right, but not the obligation, for the option holder by paying a premium to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

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 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.

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.

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.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

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).

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two.

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.

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 Boar d (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

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.

Stock Option: The term "stock option" refers to options offered to the employees of a company which entitles them to buy shares in the same company based on a strike price.

Stress Test: A stress test is a simulation procedure used to measure the impact of market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

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).

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.

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.

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.

Mercurio GP - Milan