MEDIOBANCA

Interim Report

for the six months ended 31 December 2010

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 430,551,515.5
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY
Registered as a Bank
Parent Company of the Mediobanca Banking Group

Interim Report

for the six months ended 31 December 2010

(as required pursuant to Article 154-ter of the Italian Consolidated Finance Act)

BOARD OF DIRECTORS

		Term expires
RENATO PAGLIARO	CHAIRMAN	2011
DIETER RAMPL	DEPUTY CHAIRMAN	2011
MARCO TRONCHETTI PROVERA	DEPUTY CHAIRMAN	2011
ALBERTO NAGEL	CHIEF EXECUTIVE OFFICER	2011
FRANCESCO SAVERIO VINCI	GENERAL MANAGER	2011
JEAN AZEMA	DIRECTOR	2011
TARAK BEN AMMAR	»	2011
GILBERTO BENETTON	»	2011
MARINA BERLUSCONI	»	2011
ANTOINE BERNHEIM	»	2011
ROBERTO BERTAZZONI	»	2011
VINCENT BOLLORE’	»	2011
ANGELO CASO’	»	2011
MAURIZIO CEREDA	»	2011
MASSIMO DI CARLO	»	2011
ENNIO DORIS	»	2011
JONELLA LIGRESTI	»	2011
FABRIZIO PALENZONA	»	2011
MARCO PARLANGELI	»	2011
CARLO PESENTI	»	2011
ERIC STRUTZ	»	2011

STATUTORY AUDIT COMMITTEE

MARCO REBOA	CHAIRMAN	2011
MAURIZIA ANGELO COMNENO	STANDING AUDITOR	2011
GABRIELE VILLA	» »	2011
GUIDO CROCI	ALTERNATE AUDITOR	2011
UMBERTO RANGONI	» »	2011

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REVIEW OF GROUP OPERATIONS

The Group's results for the six months show a net profit of €262.9m, in line with the €270.1m posted at the same stage last year. Last year's result, however, was boosted by higher gains on disposals of AFS securities (€131.1m, compared with €15.2m) and exceptionally high trading profits (€173.3m, as against €105.4m), due to the more favourable market environment. Features worth noting include strong growth in net interest income (up from €441.7m to €531.5m) and a sharp reduction in provisions for loan losses and securities (down from €270.4m to €219.4m, and from €90.4m to €19.9m respectively), due to improving credit risk profiles and the upturn in stock market prices. Total income net of trading was up 9%, with the main items performing as follows:

— net interest income was up 20.3%, due to a recovery in volumes plus a reduced cost of funding in retail and private banking (up 29.5%, from €243.3m to €315m), allied to higher returns in the corporate and investment banking segment (up 3.6%, from €215.8m to €223.6m);

— net fee and commission income declined by 6.5%, from €284.3m to €265.9m, following a reduced contribution from corporate and investment banking (down 8.3%, from €178.5m to €163.7m), reflecting the sticky market conditions as a result of the weak economic recovery and the sovereign debt crisis affecting peripheral EU member states;

— profits from equity-accounted companies increased from €106.3m to €110.2m, as a result of a positive contribution from the principal investing companies (up from €105.6m to €116.7m, with RCS MediaGroup and Telco returning to profit), which offset the loss made by Pirelli & C. (€5.7m, due to the Prelios spinoff).

Operating costs continued the trend seen in recent quarters, up 3.2%, from €394.4m to €407.2m, €5.2m of which was due to staff costs (up 2.5%) and €7.6m to administrative expenses (up 4.1%).

Loan loss provisions were down 18.9%, from €270.4m to €219.4m, confirming the signs of improvement seen in the previous quarters, in the corporate segment particularly. Of the total amount for this item, €169.9m involved households (31/12/09: €182.7m), €36.9m (€70.5m) wholesale banking, and €12.6m (€17.2m) leasing.

Provisions for financial assets also declined sharply, from €90.4m to €19.9m, €12.5m of which in respect of AFS equities. The stock market recovery led, among other things, to an increase of €40.8m in the relevant valuation reserve, €27.3m of which in respect of shares already subject to impairment charges in previous years.

Turning to the individual areas of the Group's activities, corporate and investment banking showed a net profit of €144.7m (€208.4m) following a reduction in total income from €659.7m to €477.3m, virtually all of which was attributable to the lower trading income referred to above, which declined from €263.9m to €97.2m. Retail and private banking returned to profit, earning €38m as opposed to the €26.2m loss posted last year, on higher total income (up 19.8%, from €406m to €486.2m, including due to the contribution from CheBanca!), costs stable at €249.2m, and improving loan loss provisions (down 7%, from €182.7m to €169.9m). The performance by principal investing also improved, from €87m to €105.3m, with RCS MediaGroup and Telco returning to profit and the Assicurazioni Generali group's earnings holding up well.

On the balance-sheet side, there was a reduction in treasury funds, from €15bn to €11.1bn, while loans and advances to customers rose from €33.7bn to €35.1bn and the AFS fixed-income portfolio also increased, from €5.2 to €5.9bn, as did the fixed asset portfolio (from €1.5bn to €2bn). Funding was stable at €52.9bn (€53.9bn), €10bn of which from the CheBanca! retail banking channel (€9.6bn). Assets under management in private banking rose from €11.7bn to €12.1bn.

The Group's main capital ratios remain at high levels, with the core Tier 1 ratio at 11.10%, and the total capital ratio al 14.26%.

* * *

Significant events that have taken place during the six months under review include:

— the resolutions adopted by shareholders at the annual general meeting held on 28 October 2010 in respect of:
  - Group staff remuneration policies which, in compliance with the new regulatory requirements in this area, include use of a new deferred remuneration equity instrument (performance shares), in connection with which an increase in the company's share capital was approved (with up to 20 million new Mediobanca shares being issued) plus the use of treasury shares owned by the Bank;
  - amendments to the company's Articles of Association, to incorporate changes introduced by Italian Legislative Decree 27/10 in the area of shareholder rights;

— approval by the Board of Directors of the procedure in respect of transactions involving related parties, at a meeting held on 23 November 2010 after the Related Parties Committee (made up solely of independent Directors) had given its approval; the procedure, adopted in pursuance of Consob resolution no. 17221 issued on 12 March 2010, is intended to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly;

— issuance of a subordinated, Lower Tier II loan in an amount of €750m;

— approval of the ICAAP procedure required by regulations in force, and disclosure of the information required under Pillar 3 of the Basel II agreements, to provide a more accurate valuation of the Group's capital solidity and exposure to risks.

CONSOLIDATED FINANCIAL STATEMENTS*

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

RESTATED PROFIT AND LOSS ACCOUNT

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10	Y.o.Y. chg.
	€m	€m	€m	(%)
Net interest income	441.7	917.0	531.5	+20.3
Net trading income	313.0	353.8	126.4	–59.6
Net fee and commission income	284.3	533.5	265.9	–6.5
Equity-accounted companies	106.3	213.5	110.2	+3.7
TOTAL INCOME	**1,145.3**	**2,017.8**	**1,034.0**	**–9.7**
Labour costs	(209.4)	(396.4)	(214.6)	+2.5
Administrative expenses	(185.0)	(376.5)	(192.6)	+4.1
OPERATING COSTS	**(394.4)**	**(772.9)**	**(407.2)**	**+3.2**
Loan loss provisions	(270.4)	(516.8)	(219.4)	–18.9
Provisions for financial assets	(90.4)	(150.0)	(19.9)	–78.0
Other profits (losses)	5.6	5.2	0.1	n.m.
PROFIT BEFORE TAX	**395.7**	**583.3**	**387.6**	**–2.0**
Income tax for the period	(124.6)	(181.2)	(122.2)	–1.9
Minority interest	(1.0)	(1.3)	(2.5)	n.m.
NET PROFIT	**270.1**	**400.8**	**262.9**	**–2.7**

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

RESTATED BALANCE SHEET

	31/12/09	30/6/10	31/12/10
	€m	€m	€m
Assets			
Treasury funds	13,502.7	14,976.0	11,139.5
AFS securities	7,807.1	6,825.7	7,552.4
of which: fixed-income	*6,051.1*	*5,248.6*	*5,902.2*
equities	*1,263.9*	*1,538.8*	*1,634.5*
Fixed financial assets (HTM & LR)	1,334.0	1,455.4	1,984.4
Loans and advances to customers	33,468.9	33,701.5	35,102.0
Equity investments	3,037.7	3,348.0	3,445.8
Tangible and intangible assets	762.9	762.6	756.2
Other assets	934.5	1,188.3	1,125.0
of which: tax assets	*700.3*	*924.5*	*830.3*
Total assets	60,847.8	62,257.5	61,105.3
Liabilities and net equity			
Funding	52,904.1	53,852.3	52,905.7
of which: debt securities in issue	*35,983.6*	*35,193.3*	*34,584.9*
retail deposits	*7,857.8*	*9,561.1*	*9,950.8*
Other liabilities	1,183.4	1,387.2	1,061.1
of which: tax liabilities	*541.4*	*633.1*	*476.2*
Provisions	183.8	183.6	183.3
Net equity	6,306.4	6,433.6	6,692.3
of which: share capital	*430.5*	*430.5*	*430.6*
reserves	*5,771.0*	*5,899.8*	*6,152.7*
minority interest	*104.9*	*103.3*	*109.0*
Profit for the period	270.1	400.8	262.9
Total liabilities and net equity	60,847.8	62,257.5	61,105.3
Tier 1 capital	*5,761.8*	*5,924.2*	*6,109.4*
Regulatory capital	*6,736.9*	*6,927.9*	*7,851.5*
Tier 1 capital/risk-weighted assets ponderate	*11.—%*	*11.09%*	*11.10%*
Regulatory capital/risk-weighted assets	*12.86%*	*12.97%*	*14.26%*
No. of shares in issue (m)	*861.1*	*861.1*	*861.1*

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

31 DECEMBER 2010	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss data				
Net interest income	223.6	(3.9)	315.0	531.5
Net trading income	97.2	—	49.0	126.4
Net fee and commission income	163.7	—	122.2	265.9
Equity-accounted companies	(7.2)	116.7	—	110.2
TOTAL INCOME	**477.3**	**112.8**	**486.2**	**1,034.0**
Labour costs	(124.1)	(2.8)	(97.4)	(214.6)
Administrative expenses	(46.9)	(1.2)	(151.8)	(192.6)
OPERATING COSTS	**(171.0)**	**(4.0)**	**(249.2)**	**(407.2)**
Loan loss provisions	(49.5)	—	(169.9)	(219.4)
Provisions for other financial assets	(15.0)	(4.5)	(0.4)	(19.9)
Other gains (losses)	0.1	—	—	0.1
PROFIT BEFORE TAX	**241.9**	**104.3**	**66.7**	**387.6**
Income tax for the period	(94.7)	1.0	(28.7)	(122.2)
Minority interest	(2.5)	—	—	(2.5)
NET PROFIT	**144.7**	**105.3**	**38.0**	**262.9**
Cost/income ratio(%)	35.8	3.5	51.3	39.4
Balance-sheet data				
Treasury funds	12,790.9	—	4,212.6	11,139.5
AFS securities	6,242.5	133.9	2,065.6	7,552.4
Fixed financial assets (HTM & LR)	1,983.6	—	2,555.5	1,984.4
Equity investments	377.4	3,010.3	—	3,445.8
Loans and advances to customers	26,515.1	—	12,894.7	35,102.0
of which: to Group companies	*4,293.8*	—	—	*4,293.8*
Funding	(44,963.7)	(259.8)	(21,183.2)	(52,905.7)
Risk-weighted assets	40,884.3	3,381.2	10,768.4	55,044.7
No. of staff	923	—	2,518 *	3,320

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

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

2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between business areas (€1.1m and €21.9m as at 31 December 2009 and 31 December 2010 respectively), the latter includes €21.5m in net trading income on intra-Group trades in the retail segment.

31 DECEMBER 2009	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
	€m	€m	€m	€m
Profit-and-loss data				
Net interest income	215.8	(5.2)	243.3	441.7
Net trading income	263.9	—	37.2	313.0
Net fee and commission income	178.5	—	125.7	284.3
Equity-accounted companies	1.5	105.6	(0.2)	106.3
TOTAL INCOME	**659.7**	**100.4**	**406.0**	**1,145.3**
Labour costs	(113.8)	(2.8)	(97.6)	(209.4)
Administrative expenses	(43.9)	(1.3)	(156.9)	(185.0)
OPERATING COSTS	**(157.7)**	**(4.1)**	**(254.5)**	**(394.4)**
Loan loss provisions	(87.7)	—	(182.7)	(270.4)
Provisions for other financial assets	(82.6)	(6.6)	(0.9)	(90.4)
Other gains (losses)	—	—	5.6	5.6
PROFIT BEFORE TAX	**331.7**	**89.7**	**(26.5)**	**395.7**
Income tax for the period	(122.2)	(2.7)	0.3	(124.6)
Minority interest	(1.1)	—	—	(1.0)
NET PROFIT	**208.4**	**87.0**	**(26.2)**	**270.1**
Cost/income ratio(%)	23.9	4.1	62.7	34.4
Balance-sheet data				
Treasury funds	14,496.8	—	3,745.7	13,502.7
AFS securities	5,187.0	119.0	3,156.4	7,807.1
Fixed financial assets (HTM & LR)	1,333.3	—	1,021.7	1,334.0
Equity investments	414.9	2,565.3	0.5	3,037.7
Loans and advances to customers	24,821.8	—	12,104.3	33,468.9
of which: to Group companies	*3,427.4*	—	—	—
Funding	(43,068.8)	(259.8)	(19,331.3)	(52,904.1)
Risk-weighted assets	39,343.3	2,608.7	10,431.3	52,389.4
No. of staff	853	—	2,450 *	3,196

* Includes 107 staff employed by the Esperia group pro-forma not included in the Group total.

BALANCE SHEET

The main balance-sheet items, of which Mediobanca contributes just over one-half, performed as follows during the six months under review (comparative data as at 30 June 2010):

Funding — this item fell slightly, by 1.8%, from €53,852.3m to €52,905.7m, following slight reductions in debt securities in issue (from €35,193.3m to €34,584.9m) and bank debt (from €9,097.9m to €8,370m), partly offset by an increase in the CheBanca! retail component (up 4.1%, from €9,561.1m to €9,950.8m). A €750m subordinated (Lower Tier II) bond was issued during the period.

Loans and advances to customers — these rose by 4.2%, from €33,701.5m to €35,102m, chiefly due to a recovery in the corporate and retail segments (up 6.9% and 2.6% respectively); conversely, leasing and private banking showed reductions, of 1.4% and 4.6% respectively.

	30/6/10	31/12/10	Change
	€m	€m	%
Corporate and investment banking	21,144.2	22,221.3	+5.1
– *of which: leasing*	*4,544.7*	*4,479.7*	*–1.4*
Retail and private banking	12,557.3	12,880.7	+2.6
– *of which: consumer credit*	*8,271.0*	*8,475.7*	*+2.5*
mortgage loans	*3,545.8*	*3,698.8*	*+4.3*
private banking	*740.5*	*706.2*	*–4.6*
TOTAL LOANS AND ADVANCES TO CUSTOMERS	33,701.5	35,102.0	+4.2

The contributions from the various business segments remained stable, with CIB (i.e. corporate lending, structured finance and leasing activities) accounting for 63% of the total loan book and retail finance (mortgage lending and consumer credit) 35%.

In a scenario that remains critical for the real estate industry (which affects mortgage and leasing businesses), there was an 11.4% reduction in impaired assets (non-performing, sub-standard, restructured and overdue items), from €803.2m to €711.8m, on the back of an improvement in the corporate segment (€161.5m, compared with €243.6m last year) and consumer credit (€192.3m, against €238.2m); the coverage rate is still above 50% and asset quality remains satisfactory: impaired assets account for just 0.91% (30/6/10: 1.47%) of total loans in the large corporate segment, 4.5% (4.1%) in leasing, 2.3% (2.9%) in consumer credit and 2.7% (2.5%) in mortgage lending. Non-performing accounts represent 0.58% (0.56%) of total loans, up slightly since the balance-sheet date due to the trend in the leasing and mortgage segments.

At the reporting date there were a total of seven significant exposures to groups of customers (including market risk and equity investments) bond, i.e. above 10% of regulatory capital (four fewer than at 30 June 2010), corresponding at weighted values to a total of €10,610.6m (€11,306.3m).

Equity investments — these increased in value from €3,348m to €3,445.8m, following profit for the period of €110.2m (€105.1m of which for Assicurazioni Generali, €4.6m for RCS MediaGroup and €7.3m for Telco, and net of the €5.7m loss for Pirelli), against a €2.9m reduction in the valuation reserves. Based on share prices at 31 December 2010, the portfolio showed a net surplus of €358.9m (€455.3m, which rises to €744.6m based on current prices).

	Percentage shareholding*	Book value	Market value as at 31/12/10	Gain (loss)
		(€m)		
LISTED EQUITY INVESTMENTS				
Assicurazioni Generali	13.24	2,418.9	2,928.6	509.7
RCS MediaGroup. *ordinary*	14.36	193.0	112.5	(80.5)
Pirelli & C. S.p.A.	4.49	101.5	132.6	31.1
Gemina	12.53	199.6	98.2	(101.4)
		2,913.0	3,271.9	358.9
OTHER EQUITY INVESTMENTS				
Telco	11.62	371.5		
Banca Esperia	50.00	58.0		
Burgo Group	22.13	76.4		
Athena Private Equity class A	24.27	25.8		
Fidia	25.00	1.1		
		532.8		
		3,445.8		

* Percentage of entire share capital.

In terms of earnings, the investments have performed in line with the assumptions underlying the impairment tests carried out at 30 June 2010. This trend is confirmed by the stock market prices, which for all the investments have shown increases during the six months under review. Therefore none of the investments was subject to impairment testing at end-December.

Fixed financial assets — this portfolio brings together the Group's holdings in securities held to maturity, worth €1,253.3m (€720.7m), and unlisted debt securities (recognized at cost), worth €731.1m (€734.7m). Debt securities held to maturity increased during the period, as a result of market purchases (€60.9m) and bonds transferred from the AFS portfolio (€473m). Other movements for the six months may be summarized as follows: redemptions of €7.6m, upward adjustments of to reflect amortized cost totalling €10.1m, and writedowns to the profit and loss account of €7.3m. None of the other assets shows further signs of impairment, despite the portfolio reflecting an implicit loss at the reporting date of €26.3m (€22.4m last year). Asset-backed securities included under this heading continue to refer to Italian "domestic" assets only, and increased from €326.3m to €332m (cf. Part E, section C of the Notes to the Accounts).

AFS securities — this portfolio is made up of debt securities totalling €5,902.2m (€5,248.6m), equities worth €1,634.5m (€1,538.8m), and stock units in funds held by Compagnie Monégasque de Banque worth €15.7m (€38.3m). The debt securities component saw purchases worth over €2.1bn (offset by a reduction in the trading book), disposals and redemptions totalling €0.9bn, and the transfers to the fixed assets portfolio referred to above. At the period-end, upward adjustments to reflect amortized cost totalled €6.5m, while downward adjustments to reflect fair value amounted to over €126m. Asset-backed securities included under this heading increased from €42.5m to €56.1m. Movements on the equity side (which also includes holdings in bonds convertible into shares) consist of €91.9m in net investments (more than half of which relating to unlisted shares) and €32.4m in upward adjustments to reflect fair value at the reporting date, €27.3m of which in connection with securities subject to impairment charges last year. Adjustments of €2.6m were taken to the profit and loss account at the reporting date, in respect of equities previously subject to impairment, plus charges of €9.5m in respect of the unlisted securities portfolio, here again involving investments previously subject to impairment.

	Percentage shareholding*	Book value at 31/12/10	Adjustments to fair value	Impairment recognized in P&L	Total AFS reserve
Sintonia S.A	6.50	336.3	—	—	—
Unicredit CASHES		254.0	(9.0)	—	(26.2)
Delmi S.p.A.	6.00	97.3	—	—	(12.8)
Santé S.A.	9.99	82.2	—	(0.7)	—
Italmobiliare	9.5 – 5.47	52.9	5.9	—	18.3
Other listed shares		489.9	32.4	(2.6)	(14.6)
Other unlisted shares		321.9	3.1	(8.8)	55.9
TOTAL SHARES		1,634.5	32.4	(12.1)	20.6

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

The valuation reserve for this portfolio overall remained in negative territory, at minus €132.8m (compared with €47.1m last year), representing the balance between the positive equity reserve of €20.6m (minus €14.7m) and the negative debt security reserve (minus €154.5m, compared with minus €32.6m), with this component in particular being hit by the sovereign debt crisis; other assets contributed €1.1m (€0.2m).

Treasury funds — these declined from €14,976m to €11,139.5m and include cash and cash equivalents worth €534.9m (€722.3m), fixed-income securities totalling €5,772.9m (down from the €9,185.4m reported at the balance-sheet date, due to assets being reallocated to the banking book), €2,268.3m in equities and fund stock units (up on the €1,512.4m at the balance-sheet date, due to increased client trading), €432.1m (€430.8m) in downward adjustments to derivatives contracts, and €2,995.5m (€3,986.7m) in net applications of funds, such as repos, bank deposits, etc. Asset-backed securities accounted for under this heading reduced from €75.6m to €62.3m.

Tangible and intangible assets — these fell from €762.6m to €756.2m, after depreciation and amortization charges for the period totalling €20.8m (€2.9m of which in respect of assets deriving from the purchase price allocation process for Linea). This includes investments made by Mediobanca (€5.1m, due to an upgrade of the Bank's IT systems) and Seteci (€4.5m, in connection with plans to refurbish and extend the property used by the company). Goodwill and brands continued to be carried at €365.9m and €6.3m respectively.

Provisions — this item consists of the provision for liabilities and charges amounting to €156.5m (€156.3m), and the staff severance indemnity provision totalling €26.8m (€27.3m), both of which fell due to withdrawals during the period.

Net equity — net equity rose by €253m, from €6,330.3m to €6,583.3m, after allocation of the 2010 profit not distributed to shareholders (€257.4m), net of the valuation reserves (€7m), including those arising on consolidation as a result of using the equity method. The AFS securities portfolio valuation reserve declined by over €63m (from minus €22.6m to minus €86.1m), while the cash flow hedges reserve improved by over €55m (from minus €99.5m to minus €44m), and the equity-accounted companies' reserve decreased from €162.1m to €161m.

PROFIT AND LOSS ACCOUNT

Net interest income — this item rose from €441.7m to €531.5m, largely reflecting the positive trend in retail finance, up 29.5% (from €243.3m to €315m). This was due on the one hand to CheBanca! (up €38m), where the cost of funding has gradually reduced as a result of deposits being renewed at lower interest rates; and on the other, to consumer credit (up €32.1m), which was boosted by an upturn in volumes and the reduced cost of funding. The net interest income trend was also positive in corporate finance, rising 3.6%, from €215.8m to €223.6m, due to the higher stock of loans (which was up 5.1%).

Net trading income — in addition to €105.4m in net trading income (31/12/09: €173.3m), this heading also includes €15.2m (€131.1m) in gains on disposal of AFS securities and dividends worth €5.8m (€8.6m). Despite the market turmoil caused by the sovereign debt crisis, the trading result posted in the period was positive (up €33.4m year-on-year), divided equally between the fixed-income (with €13.4m in the second quarter and €68.3m for the half-year) and equity components (€20m and €37.1m respectively).

	6 mths to 31/12/09	6 mths to 31/12/10
	€m	€m
Dealing profits	148.8	215.8
Mark-to-market as at reporting date	23.4	(147.9)
Dividends	1.1	37.5
NET TRADING INCOME	173.3	105.4

Net fee and commission income — this item fell by 6.5%, from €284.3m to €265.9m, chiefly due to a reduced contribution from corporate and investment banking, affected primarily by the slowdown in capital market business (€32.2m, versus €40m); commissions from consumer credit were stable, at €79.3m (€80.5m), whereas private banking continues to be weak, with net fee and commission income of €18.8m (€22.6m) in part due to the absence of performance fees.

Operating costs — these were up 3.2%, from €394.4m to €407.2m, and consist of:

— labour costs amounting to €214.6m (€209.4m); these include €3.9m (€5.5m) in emoluments paid to directors (unchanged) and €4.5m (€2.6m) in stock option costs; the increase reflects strengthening in the Group's headcount during the six months, from 3,196 to 3,320 staff;

— sundry costs and expenses amounting to €192.6m (€185m), including €20.8m (€19.9m) in depreciation and amortization, and administrative expenses totalling €169.9m (€166.3m), made up as follows:

	6 mths to 31/12/09	6 mths to 31/12/10
	€m	€m
Legal, tax and other professional services	17.3	24.1
Bad debt recovery	13.2	13.1
Marketing and communication	33.1	37.9
Rent and property maintenance charges	28.0	18.7
EDP	15.6	15.9
Financial information subscriptions	10.0	11.3
Banking services, collection and payment charges	8.5	9.7
Operating expenses	26.1	25.5
Other labour costs	5.2	5.8
Others	4.8	3.8
Direct and indirect taxes (net of withholding tax)	4.5	4.1
TOTAL	166.3	169.9

Loan loss provisions — the reduction in this item bears out the gradual improvement in all the Group's areas of activity: provisions for consumer finance service business fell from €182.7m to €169.9m, as did those for the corporate loan book, from €87.7m to €49.5m. This is the sixth quarter in a row that loan loss provisions have fallen.

Provisions for financial assets — this item includes €7.4m in respect of bonds, €2.6m in adjustments to equities subject to impairment charges in previous years, to reflect fair value, and €9.9m to cover long-term losses in the value of holdings in unlisted equities and private equity and venture capital fund stock units.

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

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

Corporate and investment banking (wholesale banking and leasing)

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10	Y.o.Y. chg.
	€m	€m	€m	(%)
Profit-and-loss data				
Net interest income	215.8	428.9	223.6	+3.6
Net trading income	263.9	244.4	97.2	–63.2
Net fee and commission income	178.5	332.4	163.7	–8.3
Equity-accounted companies	1.5	0.3	(7.2)	n.m.
TOTAL INCOME	**659.7**	**1,006.0**	**477.3**	**–27.6**
Labour costs	(113.8)	(211.3)	(124.1)	+9.1
Administrative expenses	(43.9)	(91.8)	(46.9)	+6.8
OPERATING COSTS	**(157.7)**	**(303.1)**	**(171.0)**	**+8.4**
Loan loss provisions	(87.7)	(156.0)	(49.5)	–43.6
Provisions for financial assets	(82.6)	(135.8)	(15.0)	–81.8
Other profits (losses)	—	—	0.1	n.m.
PROFIT BEFORE TAX	**331.7**	**411.1**	**241.9**	**–27.1**
Income tax for the period	(122.2)	(166.7)	(94.7)	–22.5
Minority interest	(1.1)	(1.4)	(2.5)	n.m.
NET PROFIT	**208.4**	**243.0**	**144.7**	**–30.6**
Cost/income ratio (%)	23.9	30.1	35.8	

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10
	€m	€m	€m
Treasury funds	14,496.8	16,362.2	12,790.9
AFS securities	5,187.0	5,122.4	6,242.5
Fixed assets (HTM & LR)	1,333.3	1,454.5	1,983.6
Equity investments	414.9	397.8	377.4
Loans and advances to customers	24,821.8	24,629.5	26,515.1
of which to Group companies	*3,427.4*	*3,485.2*	*4,293.8*
Funding	(43,068.8)	(44,921.7)	(44,963.7)

Corporate and investment banking 31 December 2010	Wholesale	Leasing	Total
	€m	€m	€m
Net interest income	187.5	36.1	223.6
Net trading income	97.2	—	97.2
Net fee and commission income	162.2	1.5	163.7
Equity-accounted companies	(7.2)	—	(7.2)
TOTAL INCOME	**439.7**	**37.6**	**477.3**
Labour costs	(114.7)	(9.4)	(124.1)
Administrative expenses	(41.4)	(5.5)	(46.9)
OPERATING COSTS	**(156.1)**	**(14.9)**	**(171.0)**
Loan loss provisions	(36.9)	(12.6)	(49.5)
Provisions for financial assets	(15.0)	—	(15.0)
Other profits (losses)	0.1	—	0.1
PROFIT BEFORE TAX	**231.8**	**10.1**	**241.9**
Income tax for the period	(89.9)	(4.8)	(94.7)
Minority interest	—	(2.5)	(2.5)
NET PROFIT	**141.9**	**2.8**	**144.7**
Cost/income ratio (%)	35.5	39.6	35.8
Other assets	21,329.3	65.1	21,394.4
Loans and advances to customers	22,035.5	4,479.6	26,515.1
of which to Group companies	*4,293.8*	—	*4,293.8*
New loans	n.d.	586.8	—
No. of staff	716	207	923

Corporate and investment banking 31 December 2009	Wholesale	Leasing	Total
	€m	€m	€m
Net interest income	178.8	37.0	215.8
Net trading income	263.9	—	263.9
Net fee and commission income	177.6	0.9	178.5
Equity-accounted companies	1.5	—	1.5
TOTAL INCOME	**621.8**	**37.9**	**659.7**
Labour costs	(104.7)	(9.1)	(113.8)
Administrative expenses	(37.5)	(6.4)	(43.9)
OPERATING COSTS	**(142.2)**	**(15.5)**	**(157.7)**
Loan loss provisions	(70.5)	(17.2)	(87.7)
Provisions for financial assets	(82.6)	—	(82.6)
Other profits (losses)	—	—	—
PROFIT BEFORE TAX	**326.5**	**5.2**	**331.7**
Income tax for the period	(118.8)	(3.4)	(122.2)
Minority interest	—	(1.1)	(1.1)
NET PROFIT	**207.7**	**0.7**	**208.4**
Cost/income ratio (%)	22.9	40.9	23.9
Other assets	21,373.1	58.9	21,432.0
Loans and advances to customers	20,127.3	4,694.5	24,821.8
of which to Group companies	*3,427.4*	—	*3,427.4*
New loans	—	576.5	—
No. of staff	624	211	835

This division reported a net profit of €144.7m. The reduction compared to the €208.4m at the same stage last year is largely attributable to lower net trading income of €97.2m (€263.9m), reflecting a much less favourable market scenario than twelve months previously, and lower gains on disposals of AFS equities (last year's result was boosted by the disposal of a tranche of the Bank's shares in Fiat, which yielded a gain of over €70m). The reduction in total income, from €659.7m to €477.3m, reflects the following performances by individual items:

— net interest income rose by 3.6%, from €215.8m to €223.6m, due solely to the contribution from wholesale banking (which increased from €178.8m to €187.5m) on the back of favourable repricing of assets; net interest income earned from leasing operations was stable at €36.1m (€37m);

— net trading income fell from €263.9m to €97.2m, due to lower gains on disposals of AFS securities totalling €3.9m (compared with €84.6m last year), and dealing profits virtually halving, from €170.8m to €87.5m, in line with the up-and-down movement in credit spreads which narrowed in the autumn of 2009 before widening sharply at the end of the second quarter;

— net fee and commission income declined from €178.5m to €163.7m, reflecting the ongoing market uncertainty for corporate and investment banking.

The 8.4% increase in costs, from €157.7m to €171m, reflects higher labour costs of €124.1m (€113.8m) due to strengthening the headcount both in Italy and elsewhere, and the related increase in administrative expenses, from €43.9m to €46.9m.

Loan loss provisions of €49.5m show a sharp reduction from last year's €87.7m, due entirely to corporate business (€36.9m, versus €70.5m), with two sub-standard accounts having been repaid during the six months (with no further losses of value). Provisions for other financial assets of €15m involved adjustments to reflect fair value for shares already subject to impairment charges (€2.6m) and long-term reductions in value for unlisted shares and bonds totalling €12.4m.

Lending and structured finance — lending to corporates, excluding Group companies, increased by 6.9%, from €16,599.6m to €17,741.7m, showing the first signs of a recovery in demand. Just over one-third of the Group's total exposure was to non-domestic customers, in particular those based in Spain (9.7% of total loans disbursed), France (8.6%) and German (6.2%). Overall this area generated 40% of the Group's revenues from wholesale banking.

Funding and treasury accounts — funding, virtually stable at €44,963.7m (€44,921.7m), consists of: €37,956.1m (€38,625.1m) in debt securities in issue, €253.9m (€798.4m) of which in short-term funding (CDs and commercial paper); €3,772.2m (€3,099.9m) in deposits and current accounts, and €3,235.4m (€3,182.7m) in other forms of funding chiefly attributable to leasing activity. Treasury accounts consist of €239.4m (€264.2m) in cash and cash equivalents, €5,562.6m (€9,002.1m) in debt securities, €1,962.6m (€1,214.2m) in equities, €413.7m in upward adjustments to derivatives contracts (€367.5m), and €5,440m (€6,249.3m) in net short-term applications of funds. This area generated approximately 37% of the Group's wholesale banking revenues.

Fixed financial assets and AFS bonds — these include financial assets held to maturity totalling €1,252.6m (€720m), unlisted debt securities (recognized at cost) worth €731.1m (€734.6m), and AFS bonds amounting to €4,751.2m (€3,727.3m). During the period under review there were purchases totalling €1,931m (almost exclusively in the AFS segment), disposals and redemptions worth €297.7m, the transfer of €473m of AFS bonds to the held-to-maturity portfolio, adjustments of €20.3m to reflect amortized cost, writedowns to the profit and loss account in an amount of €7.4m, and downward adjustments to fair value totalling €101m. The turmoil on financial markets as a result of the sovereign debt crisis affecting peripheral EU member states impacted negatively on the AFS reserve, which went from minus €32.3m at the balance-sheet date to minus €136.1m, and the implicit loss on this portfolio rose from €40.4m to €42.9m.

Equity investments and AFS shares —for operating purposes this portfolio brings together the Group's holdings in equities and convertible bonds held as available for sale, plus its investments in Gemina, Pirelli & C. and Burgo Group. As at 31 December 2010, the portfolio was worth €1,868.7m (€1,792.9m), after purchases totalling €153.9m, disposals of €85.4m yielding gains of €7.7m (including €3.2m in reserves accrued in previous years), writedowns for impairment to AFS equities totalling €7.6m, upward adjustments of €29.2m to reflect fair value at the reporting date, and downward, pro-rata adjustments to net equity amounting to €10.8m (€7.2m of which was taken through the profit and loss account) following the removal of €9.5m in dividends collected from Pirelli & C. The net equity reserve for AFS shares returned to positive territory at €19.2m (compared with minus €13.2m at 30 June 2010).

Investment banking — the value of advisory mandates executed by Mediobanca increased during the six months under review, from €23bn to €26bn, resulting in 29% growth in revenues generated from this activity, from €43m to €56m. International customers and cross-border transactions contributed over 60% of this result. Conversely, capital market activity slowed, ECM in particular, with placements totalling €4.2bn as opposed to €13.9bn. Overall this area generated more than 20% of the Group's revenues from wholesale banking.

Leasing — a profit of €2.8m was made from this business during the six months under review, representing an improvement on the €0.7m posted at the same stage last year, due to a reduction in loan loss provisioning, from €17.2m to €12.6m. Revenues were more or less stable, at €37.6m (compared with €37.9m), as were operating costs at €14.9m (€15.5m). Amounts leased to customers declined from €4,544.7m to €4,479.6m, on new loans for the period totalling €586.8m (€576.5m), reflecting the slowdown in demand.

Principal investing

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10	Y.o.Y. chg.
	€m	€m	€m	(%)
Profit-and-loss data				
Net interest income	(5.2)	(9.6)	(3.9)	–25.0
Net trading income	—	—	—	n.m.
Net fee and commission income	—	—	—	n.m.
Equity-accounted companies	105.6	213.4	116.7	+10.5
TOTAL INCOME	**100.4**	**203.8**	**112.8**	**+12.4**
Labour costs	(2.8)	(5.5)	(2.8)	n.m.
Administrative expenses	(1.3)	(2.6)	(1.2)	–7.7
OPERATING COSTS	**(4.1)**	**(8.1)**	**(4.0)**	**–2.4**
Provisions for financial assets	(6.6)	(12.2)	(4.5)	–31.8
PROFIT BEFORE TAX	**89.7**	**183.5**	**104.3**	**+16.3**
Income tax for the period	(2.7)	1.0	1.0	–137.0
NET PROFIT	**87.0**	**184.5**	**105.3**	**+21.0**

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10
	€m	€m	€m
AFS securities	119.0	114.8	133.9
Equity investments	2,565.3	2,892.2	3,010.3

This division's results for the six months show an increased profit of €105.3m (31/12/09: €87m), following a return to profit by RCS MediaGroup (€4.6m, compared with a €4.7m loss last year) and Telco (€7.3m against a €4.2m loss), and despite a slight reduction in the contribution from Assicurazioni Generali, from €116.4m to €105.1m. The book value of the investments increased by €118.1m, almost all of which due to pro-rata profits for the period. The remainder of the portfolio, which consists of investments made as part of merchant banking activity and in private equity funds, increased from €114.8m to €133.9m, after investments worth €22.3m, adjustments of €4.5m taken through the profit and loss account, and €1.3m in adjustments to reflect fair value.

Retail and private banking

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10	Y.o.Y. chg.
	€m	€m	€m	(%)
Profit-and-loss data				
Net interest income	243.3	525.7	315.0	+29.5
Net trading income	37.2	79.2	49.0	+31.7
Net fee and commission income	125.7	240.0	122.2	–2.8
Equity-accounted companies	(0.2)	(0.3)	—	n.m.
TOTAL INCOME	**406.0**	**844.6**	**486.2**	**+19.8**
Labour costs	(97.6)	(193.1)	(97.4)	–0.2
Administrative expenses	(156.9)	(311.6)	(151.8)	–3.3
OPERATING COSTS	**(254.5)**	**(504.7)**	**(249.2)**	**–2.1**
Loan loss provisions	(182.7)	(360.8)	(169.9)	–7.0
Provisions for financial assets	(0.9)	(1.9)	(0.4)	–55.6
Other profits (losses)	5.6	5.2	—	n.m.
PROFIT BEFORE TAX	**(26.5)**	**(17.6)**	**66.7**	**n.m.**
Income tax for the period	0.3	(14.0)	(28.7)	n.m.
NET PROFIT	**(26.2)**	**(31.6)**	**38.0**	**n.m.**

	6 mths to 31/12/09	12 mths to 30/6/10	6 mths to 31/12/10
	€m	€m	€m
Treasury funds	3,745.7	4,086.8	4,212.6
AFS securities	3,156.4	2,571.8	2,065.6
Fixed assets (HTM & LR)	1,021.7	2,507.4	2,555.5
Equity investments	0.5	1.4	—
Loans and advances to customers	12,104.3	12,563.9	12,894.7
Funding	(19,331.3)	(20,999.9)	(21,183.2)

This division returned to profit during the period under review, with a bottom line of €38m, compared with the €26.2m loss reported at the same stage last year, due to an increase in total income (up 19.8%, from €406m to €486.2m), cost savings (down 2.1%, from €254.5m to €249.2m) and lower loan loss provisions (down 7%, from €182.7m to €169.9m). Revenues were boosted by higher net interest income (up 29.5%, from €243.3m to €315m), on the back of healthy contributions from all three segments, and higher net trading income of €49m (€37.2m) generated by

CheBanca! as part of treasury management. The cost savings were achieved by CheBanca! and Compagnie Monégasque de Banque, and offset the slight, €2m increase in consumer credit costs due to strengthening the headcount. The reduction in loan loss provisions, from €182.7m to €169.9m, was attributable solely to consumer credit operations (down 10.3%, from €172.3m to €154.5m), while for mortgage loans provisioning was higher than for the equivalent period last year, up from €9.1m to €15m, but still at the same levels seen in the last four quarters.

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

Retail and private banking 31 December 2010	Consumer credit	Retail banking	Private banking	Total
	€m	€m	€m	€m
Net interest income	257.5	43.4	14.1	315.0
Net trading income	0.2	43.2	5.6	49.0
Net fee and commission income	83.3	3.5	35.4	122.2
Equity-accounted companies	—	—	—	—
TOTAL INCOME	**341.0**	**90.1**	**55.1**	**486.2**
Labour costs	(41.4)	(28.5)	(27.5)	(97.4)
Administrative expenses	(76.5)	(61.9)	(13.4)	(151.8)
OPERATING COSTS	**(117.9)**	**(90.4)**	**(40.9)**	**(249.2)**
Loan loss provisions	(154.5)	(15.0)	(0.4)	(169.9)
Provisions for financial assets	(0.1)	—	(0.3)	(0.4)
Other profits (losses)	—	—	—	—
PROFIT BEFORE TAX	**68.5**	**(15.3)**	**13.5**	**66.7**
Income tax for the period	(28.8)	0.6	(0.5)	(28.7)
NET PROFIT	**39.7**	**(14.7)**	**13.0**	**38.0**
Cost/income ratio (%)	34.6	n.m.	74.2	51.3
Equity investments	—	—	—	—
Other financial assets	429.9	7,075.0	1,328.8	8,833.7
Loans and advances to customers	8,475.8	3,698.8	720.1	12,894.7
New loans	2,205.5	383.5	—	2,589.0
No. of branches	146	42	—	188
No. of staff	1,316	869	333	2,518

Retail and private banking 31 December 2009	Consumer credit	Retail banking	Private banking	Total
	€m	€m	€m	€m
Net interest income	225.4	5.4	12.5	243.3
Net trading income	—	29.2	8.0	37.2
Net fee and commission income	84.8	2.7	38.2	125.7
Equity-accounted companies	(0.2)	—	—	(0.2)
TOTAL INCOME	**310.0**	**37.3**	**58.7**	**406.0**
Labour costs	(39.6)	(30.6)	(27.4)	(97.6)
Administrative expenses	(76.3)	(62.7)	(17.9)	(156.9)
OPERATING COSTS	**(115.9)**	**(93.3)**	**(45.3)**	**(254.5)**
Loan loss provisions	(172.3)	(9.1)	(1.3)	(182.7)
Provisions for financial assets	—	—	(0.9)	(0.9)
Other profits (losses)	—	—	5.6	5.6
PROFIT BEFORE TAX	**21.8**	**(65.1)**	**16.8**	**(26.5)**
Income tax for the period	(16.0)	16.3	—	0.3
NET PROFIT	**5.8**	**(48.8)**	**16.8**	**(26.2)**
Cost/income ratio (%)	37.4	n.m.	77.2	62.7

Equity investments	0.5	—	—	0.5
Other financial assets	689.6	5,464.5	1,769.6	7,923.7
Loans and advances to customers	8,038.7	3,418.0	647.7	12,104.4
New loans	1,873.2	443.0	—	2,316.2
No. of branches	146	65	—	211
No. of staff	1,279	842	329	2,450

Turning now to the individual sectors, consumer credit reported a 10% increase in revenues, from €310m to €341m, on higher net interest income (up from €225.4m to €257.5m) and fees more or less in line with last year (€83.3m, compared with €84.8m). The increase in costs, from €115.9m to €117.9m, reflects a small contractual increase in the cost of labour and upgrades to the facilities (labour costs up €1.8m). Net profit increased, from €5.8m to €39.7m, on lower loan loss provisions (down from €172.3m to €154.5m) reflecting the improved risk profile of the portfolio confirmed by the reduction in impaired assets (from €238.2m to €192.3m, or from 2.89% to 2.26% of the loan book). At the same time loans and advances to customers for the six months were up 2.5%, from €8,271m to €8,475.8m, on new loans of €2,205.5m for the period, up 17.7% year-on-year (€1,873.2m).

Retail banking activity (CheBanca!) showed a net loss of €14.7m, lower than the €48.8m loss recorded one year previously due to an increase in revenues, from €37.3m to €90.1m, on higher net interest income (€43.4m, against €5.4m) and gains on disposals (€43.2m, compared with €29.2m). Operating costs decreased, from €93.3m last year to €90.4m, helped by the French mortgage lending operations closing from 1 January 2010. The cost of risk increased, from €9.1m to €15m, albeit in line with the average for the last four quarters, while impaired assets grew €90.2m to €100.7m. As at end-December, funding raised from the retail channel totalled €9,950.8m, up 4.1% since the balance-sheet date (€9,561.1m). Loans and advances to customers also increased, from €3,545.8m to €3,698.8m, while new loans for the period were lower, at €383.5m (€443m).

Private banking showed a profit of €13m, down from the €16.8m reported last year (which included one-off gains of €5.5m). Revenues decreased, from €58.7m to €55.1m, on lower trading income (€5.6m, versus €8m), while the downturn in fees (from €38.2m to €35.4m) was offset by the rise in net interest income, from €12.5m to €14.1m. Gross operating profit, net of one-off items, grew from €11.3m to €13.5m, in part due to lower operating costs and provisions for loan losses and securities (€40.9m compared with €45.3m, and €0.7m compared with €2.2m respectively). Assets under management on a discretionary/non-discretionary basis at the reporting date totalled €12.1bn (€11.7bn), €5.7bn of which was attributable to CMB (unchanged) and €6.4bn (€6bn) to Banca Esperia.

* * *

Private banking 31 December 2010	CMB	Banca Esperia 50%	Other	Total PB
	€m	€m	€m	€m
Net interest income	12.9	1.1	0.1	14.1
Net trading income	5.7	(0.2)	0.1	5.6
Net fee and commission income	17.2	15.2	3.0	35.4
TOTAL INCOME	**35.8**	**16.1**	**3.2**	**55.1**
Labour costs	(15.0)	(11.0)	(1.5)	(27.5)
Administrative expenses	(8.7)	(4.3)	(0.4)	(13.4)
OPERATING COSTS	**(23.7)**	**(15.3)**	**(1.9)**	**(40.9)**
Loan loss provisions	(0.4)	—	—	(0.4)
Provisions for financial assets	(0.3)	—	—	(0.3)
Other profits (losses)	—	—	—	—
PROFIT BEFORE TAX	**11.4**	**0.8**	**1.3**	**13.5**
Income tax for the period	—	(0.2)	(0.3)	(0.5)
NET PROFIT	**11.4**	**0.6**	**1.0**	**13.0**
Cost/income ratio (%)	66.2	n.m.	59.4	74.2
Assets under management	5,712.0	6,366.0	n.a.	12,078.0
Securities held on a trustee basis	n.a.	n.a.	1,507.0	1,507.0

Private banking 31 December 2009	CMB	Banca Esperia 50%	Other	Total PB
	€m	€m	€m	€m
Net interest income	11.5	0.9	0.1	12.5
Net trading income	7.9	—	0.1	8.0
Net fee and commission income	20.7	14.1	3.4	38.2
TOTAL INCOME	**40.1**	**15.0**	**3.6**	**58.7**
Labour costs	(14.9)	(10.4)	(2.1)	(27.4)
Administrative expenses	(11.6)	(5.5)	(0.8)	(17.9)
OPERATING COSTS	**(26.5)**	**(15.9)**	**(2.9)**	**(45.3)**
Loan loss provisions	(1.2)	—	(0.1)	(1.3)
Provisions for financial assets	(0.9)	—	—	(0.9)
Other profits (losses)	5.6	—	—	5.6
PROFIT BEFORE TAX	**17.1**	**(0.9)**	**0.6**	**16.8**
Income tax for the period	(0.1)	0.3	(0.2)	—
NET PROFIT	**17.0**	**(0.6)**	**0.4**	**16.8**
Cost/income ratio (%)	66.1	n.m.	80.6	77.2
Assets under management	5,297.0	5,567.0	—	10,864.0
Securities held on a trustee basis	n.a.	n.a.	1,541.0	1,541.0

Review of Group company performances

Mediobanca

In the six months ended 31 December 2010, Mediobanca earned a net profit of €130.1m, down on the €167.1m reported at the same stage last year, which, however, was boosted by unusually high net trading income of (€278.8m) in a particularly favourable market scenario. Total income thus fell from €603.9m to €432.6m, with the main items performing as follows:

— net interest income rose 8.8%, from €155.4m to €169.1m, on higher returns;

— net trading income decreased, from €278,8 to €101m, due to lower gains on disposal of AFS securities of €11.5m (€107m) and dealing profits (down from €171.8m to €89.4m);

— net fee and commission income fell by 9.8% to reach €153m (€169.7m), due to a lower contribution from capital market activity.

The increase in operating costs (up 9.6%, from €146.9m to €161m) was spread between labour costs (up €9.5m) and administrative expenses (up €4.6m), reflecting expansion in Mediobanca's investment banking activities outside Italy.

Loan loss provisions stood at €37m, a considerable improvement on the €70.2m set aside for the first six months of last year, and in line with the trend reported in recent quarters.

Provisions for other financial assets also fell from last year, from €106.7m to €19.5m, €12.1m in respect of AFS shares (to add to the impairment charges booked in previous years) and €7.4m in respect of bonds held to maturity and recognized at cost.

With regard to the main balance-sheet items:

— funding increased slightly by €340.6m, from €40,737.6m to €41,078.2m, due mostly to borrowings from banks, while debt securities in issue remained stable at €36,241.6m (30/6/10: €36,150.3m); issuance activity during the period included a €750m subordinated Lower Tier II bond;

— loans and advances to customers increased by 8.6%, from €20,194.7m to €21,926m; loans to Group companies rose from €7,642m to €8,077.3m;

— equity investments remained stable at €2,828.4m; market prices as at end-December 2010 reflect a surplus of fair value over book value of €1,678.8m (€2,036.6m based on current prices);

— fixed financial assets grew from €1,454.5m to €1,983.6m, due mostly to the transfer of €473m of securities from the AFS portfolio; the implicit loss on this item, based on prices and holdings as at the reporting date, totalled €42.9m (€40.4m);

— AFS securities rose from €5,237.1m to €6,376.5m, and comprise €4,751.2m (€3,727.3m) in debt securities, €1,625.2m (€1,509.9m) in equities and convertible bonds. The increase in debt securities is due to market purchases worth over €1.8bn, net of €290.2m in disposals, the asset transfer referred to above and downward value adjustments to reflect fair value at the reporting date (€101m). The equities also grew during the period, as a result of net investments totalling €90.8m, plus €30.7m in upward value adjustments to reflect fair value at the period-end net of €12.1m in writedowns;

— treasury funds totalled €13,068,7m (€16,241.4m) and include €201.2m (€218.2m) in cash and cash equivalents, €7,355.4m (€9,962.4m) in securities, €978.5m in downward valuations of derivative contracts (compared with €568.3m in positive valuations), and €6,490.6m (€6,629.1m) in short-term funding;

— the Bank's net equity of €4,741.8m (€4,675.5m) includes: share capital amounting to €430.6m, valuation reserves totalling €72.9m, and other reserves and retained earnings amounting to €4,357.1m.

* * *

With reference to the claims made against Mediobanca, jointly with the other parties involved in what is alleged to be their failure to launch a full takeover bid for La Fondiaria in 2002, a total of thirteen are still pending for damages amounting to €100m. The present status of these claims is as follows:

— the court of appeals in Milan has ruled in favour of Mediobanca on five claims, three of which rulings have been challenged in the Court of Cassation;

— the court of Milan has ruled against Mediobanca on seven claims in the first instance, all of which have already been appealed;

— the court of Florence has ruled in favour of Mediobanca in the first instance on one claim, which has been appealed by the plaintiff.

* * *

RESTATED PROFIT AND LOSS ACCOUNT*

	6 mths ended 31/12/09	12 mths ended 30/6/09	6 mths ended 31/12/10	Y.o.Y. chg.
	€m	€m	€m	%
Net interest income	155.4	294.6	169.1	+8.8
Net trading income	278.8	277.0	101.0	–63.8
Net fee and commission income	169.7	308.5	153.0	–9.8
Dividends from equity investments	—	70.2	9.5	n.m.
TOTAL INCOME	**603.9**	**950.3**	**432.6**	–28.4
Labour costs	(107.8)	(197.3)	(117.3)	+8.8
Administrative expenses	(39.1)	(83.1)	(43.7)	+11.8
OPERATING COSTS	**(146.9)**	**(280.4)**	**(161.0)**	**+9.6**
Loan loss provisions	(70.2)	(113.3)	(37.0)	–47.3
Provisions for other financial assets	(106.7)	(165.3)	(19.5)	–81.7
Other profits (losses)	—	(0.2)	—	n.m.
PROFIT BEFORE TAX	**280.1**	**391.1**	**215.1**	–23.2
Income tax for the period	(113.0)	(147.0)	(85.0)	–24.8
NET PROFIT	**167.1**	**244.1**	**130.1**	–22.1

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

RESTATED BALANCE SHEET*

	31/12/09	30/6/10	31/12/10
	€m	€m	€m
Assets			
Treasury funds	14,114.1	16,241.4	13,068.7
AFS securities	5,306.0	5,237.1	6,376.5
Fixed financial assets	1,333.3	1,454.5	1,983.6
Loans and advances to customers	20,919.1	20,194.7	21,926.0
Equity investments	2,828.1	2,828.3	2,828.4
Tangible and intangible assets	127.9	130.6	129.2
Other assets	302.1	519.6	366.5
Total assets	44,930.6	46,606.2	46,678.9
Liabilities and net equity			
Funding	39,173.4	40,737.6	41,078.2
Other liabilities	622.9	788.3	568.3
Provisions	160.8	160.7	160.5
Net equity	4,806.4	4,675.5	4,741.8
Profit for the period	167.1	244.1	130.1
Total liabilities and net equity	44,930.6	46,606.2	46,678.9

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

* * *

A review of the other Group companies' performance is provided below:

- *Compass S.p.A.*, Milan (*consumer credit; 100%-owned by Mediobanca*): the company's accounts for the six months ended 31 December 2010 reflect a profit of €30.4m (€213,000), after loan loss provisions of €151.8m (€170m) and tax of €25.2m (€13m).

  Loans and advances to customers were up 2.4% since the balance-sheet date, from €7,918m to €8,111.6m.

  On 28 September 2010 Compass revised its joint venture with Ducati Motor Holding, entering into a new commercial agreement and acquiring a 50% stake in Ducati Financial Services, which was merged into Compass with effect from 1 July 2010.

- *Futuro S.p.A.*, Milan *(salary-backed finance; 100%-owned by Compass)*: Futuro recorded a net profit for the six months of €2.7m (€1.8m), after loan loss provisions of €0.8m (€0.3m) and tax of €1.5m (€1m). Accounts outstanding at year-end 2010 were up 3.9% on the balance-sheet date, from €609.8m to €633.8m.

- *CheBanca! S.p.A.*, Milan *(retail banking; 100%-owned by Compass)*: CheBanca! reported a net loss of €15m for the period, 70% lower than the €49.3m loss reported for the corresponding period last year, after a positive tax effect amounting to €0.7m (€16.2m). The improvement at the operating level, where the loss reduced from €65.5m to €15.7m, was driven by higher revenues (up from €36.9m to €90m), net interest income in particular (up from €5m to €44.2m) and falling costs (down from €93.3m to €90.7m), only partly offset by the rise in loan loss provisioning (from €9.1m to €15m).

  Retail deposits of €9,956.8m at the reporting date were up approx. 4% on the €9,561.1m recorded at 30 June 2010.

  The technical forms of funding offered, which until October consisted of deposit, current and "pocket" accounts, and repos, have now been extended with the addition of a deposit account for businesses.

  With reference to mortgage lending activity, customer loans were approx. 4% higher than at the balance-sheet date, up from €3,546.1m to €3,699.1m.

— *SelmaBipiemme Leasing S.p.A.*, Milan *(leasing; 60%-owned by Compass)*: this company made a net profit of €2m for the six months, compared with a slight loss of €0.3m during the corresponding period last year, after dividends of €2.7m (unchanged) and adjustments to receivables of €8m (€13.7m); as at 31 December 2010 amounts leased to customers had fallen by 2% since the balance-sheet date, to €2,432.5m (€2,487m).

— *Palladio Leasing S.p.A.*, Vicenza *(leasing; 95%-owned by SelmaBipiemme; 5% treasury shares):* Palladio Leasing's accounts for the six months under review reflect a net profit of €3.2m, up on the €1.9m posted at the equivalent stage last year, after adjustments to receivables totalling €3.5m and tax amounting to €1.9m (compared with €2.7m and €1.1m respectively); as at 31 December 2010 amounts leased to customers were up slightly versus the balance-sheet date, from €1,609.1m to €1,635.4m.

— *Teleleasing S.p.A.*, Milan *(leasing; 80%-owned by SelmaBipiemme* this company earned a net profit of €2.9m during the period, largely in line with the result posted at the same stage last year, after value adjustments to receivables totalling €1.1m and tax amounting to €1.7m (compared with €0.7m and €1.8m last year respectively); as at 31 December 2010 amounts leased to customers had fallen by approx. 6% since the balance-sheet, from €529.9m to €498m.

— *Cofactor S.p.A.*, Milan *(non-recourse factoring; 100%-owned by Compass)*: Cofactor recorded a net profit for the six months of €748,000 (€504,000), after tax amounting to €293,000 (€165,000). Accounts outstanding as at year-end 2010 were booked at €96.6m (compared with €93.5m at the balance-sheet date).

— *Creditech S.p.A.*, Milan *(credit management; 100%-owned by Compass)*: this company reported a net profit of €1.9m (€2.2m), after tax amounting to €1m (€1.1m).

— *Compagnie Monégasque de Banque,* Monaco *(100%-owned by Mediobanca)*: the draft consolidated accounts as at 31 December 2010 reflect a profit of €24.7m (€32.6m), after net fees and commissions of €24.7m (€39.1m). Lendings totalled €706.6m (31/12/09: €631.9m) and deposits €1,211.7m (€1,504.3m). Assets managed on a discretionary and non-discretionary basis amounted to €5.7bn (€5.3bn), up approx. 8%.

— *Banca Esperia S.p.A.*, Milan (*50%-owned Mediobanca*): the draft consolidated accounts as at 31 December 2010 reflect a pre-tax profit of €2.5m, up on the €0.3m posted last year despite restructuring charges and non-recurring losses totalling €7.3m (€4.3m). Total income grew from €57.6m to €64.2m, driven by a rise in net fees and commissions from €51.7m to €57.2m (despite a reduction in performance fees), due to growth in assets under management, from €11.2bn to €12.7bn.

— *Spafid - Società per Amministrazioni Fiduciarie S.p.A.*, Milan *(100%-owned by Mediobanca)*: this company recorded a profit of €337,000 (€409,000), after tax of €198,000 (€210,000). Securities under trust at 31 December 2010 totalled €2,059.5m (€2,121.1m at the balance-sheet date).

— *Prudentia Fiduciaria S.p.A.*, Milan *(100% Mediobanca)*: Prudentia recorded a profit of €302,000 (€11,000), after tax of €165,000 (€35,000). Securities under trust as at 31 December 2010 amounted to €66m (€66.6m at the balance-sheet date).

— *Mediobanca International (Luxembourg) S.A.*, Luxembourg *(99%-owned by Mediobanca; 1%-owned by Compass*): this company recorded a profit of €18.3m for the six months (€12.3m), following an improvement in revenues, from €23.2m to €17.3m, helped by an increase in net interest income (up from €14.1m to €15.3m) and net fees and commissions (up from €7.1m to €9m). Loans and advances to customers fell from €3,844.3m to €3,741.5m; funds raised from debt securities declined from €1,893.6m to €1,703.6m, with a similar trend short-term funding in the form of CDs and Euro commercial paper, which reduced from €741.4m to €207.3m. Net equity stood at €166.5m (€131m).

— *Prominvestment in liquidation*, Rome (*100%-owned by Mediobanca*): Prominvestment made a loss of €284,000 (€256,000) for the period, on net fee and commission income of €233,000 (€266,000).

— *MB Securities USA LLC.*, New York *(100%-owned by Mediobanca)*: this company, which performs order collection services, made a profit of $313,000 ($136,000) in the six months.

— *R. & S. – Ricerche e Studi S.p.A.*, Milan *(100%-owned by Mediobanca)*: this company recorded a profit of €18,000 for the six months, after charging Mediobanca €0.5m (€0.7m). for services and expenses. R&S produced the thirty-fifth edition of its Annual Directory, which includes analysis of leading Italian listed companies, an update to its survey of European banks based on interim data, and in co-operation with Italian daily newspaper *Il Sole 24 Ore* continued its publication of the quarterly survey of blue chip companies' results. It also published and presented the volume which closes the first stage in the research project on medium-sized European companies (in Italy, Germany and Spain) in the first instance, in conjunction with IfM (*Institut für Mittelstandsforschung*) of Bonn and UCM (*Universidad Complutense de Madrid*) of Madrid.

Outlook

Results for the second half of the financial year should show revenues substantially in line with the first six months, for all items except obviously for trading, which remains closely linked with stock market performance. The downward trend in the cost of risk is expected to continue, in both corporate and retail operations.

Reconciliation of shareholders' equity and net profit

	Shareholders' equity €'000	Net profit €'000
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,741,782	130,109
Net surplus over book value for consolidated companies	17,984	57,443
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	1,823,468	77,014
Dividends received during the period	—	(1,642)
TOTAL	6,583,234	262,924

Milan, 25 February 2011

THE BOARD OF DIRECTORS

CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

CONSOLIDATED BALANCE SHEET*

	Assets	31/12/10 €'000		30/6/10 €'000	
10.	Cash and cash equivalents		35,570		26,802
20.	Financial assets held for trading		15,941,064		16,375,379
40.	Financial assets available for sale		7,552,403		6,825,763
50.	Financial assets held to maturity		1,253,362		720,683
60.	Due from banks		3,750,273		5,380,473
70.	Due from customers		40,270,143		39,924,695
80.	Hedging derivatives		1,758,879		1,844,349
100.	Equity investments		3,445,758		3,347,983
120.	Property, plant and equipment		318,105		319,986
130.	Intangible assets		438,068		442,636
	of which:				
	goodwill	*365,934*		*365,934*	
140.	Tax assets:		830,308		914,345
	a) current	*223,984*		*290,975*	
	b) advance	*606,324*		*623,370*	
160.	Other assets		171,915		218,998
	TOTAL ASSETS		**75,765,848**		**76,342,092**

* Some derivative contracts accounted for under asset headings 20 and 80 and liability headings 40 and 60 have been netted compared to the figures published in the financial statements for the year ended 30 June 2010.

	Liabilities and net equity	31/12/10 €'000		30/6/10 €'000	
10.	Due to banks		7,991,622		9,730,654
20.	Due to customers		14,800,194		14,889,121
30.	Debt securities in issue		35,870,107		36,665,547
40.	Trading liabilities		8,331,997		6,108,396
60.	Hedging derivatives		606,984		556,483
80.	Tax liabilities:		476,204		633,289
	a) current	*162,730*		*318,529*	
	b) deferred	*313,474*		*314,760*	
100.	Other liabilities		518,046		726,590
110.	Staff severance indemnity provision		26,766		27,282
120.	Provisions:		156,527		156,318
	b) other provisions	*156,527*		*156,318*	
130.	Technical reserves		32,201		13,913
140.	Revaluation reserves		47,505		55,311
170.	Reserves		4,199,102		3,938,440
180.	Share premium reserve		2,119,920		2,119,913
190.	Share capital		430,551		430,551
200.	Treasury shares		(213,844)		(213,844)
210.	Minority interest		109,042		103,273
220.	Profit for the period		262,924		400,855
	TOTAL LIABILITIES AND NET EQUITY		**75,765,848**		**76,342,092**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

			6 mths to 31/12/10 €'000		12 mths to 30/6/10 €'000		6 mths to 31/12/09 €'000
10.	Interest and similar income		1,374,285		2,820,156		1,389,256
20.	Interest expense and similar charges		(806,263)		(1,764,939)		(893,142)
30.	**Net interest income**		**568,022**		**1,055,217**		**496,114**
40.	Fee and commission income		248,335		499,140		269,933
50.	Fee and commission expense		(22,428)		(37,757)		(25,107)
60.	**Net fee and commission income**		**225,907**		**461,383**		**244,826**
70.	Dividends and similar income		43,376		68,424		9,655
80.	Net trading income		16,833		(59,732)		120,700
90.	Net hedging income (expense)		(2,868)		(15,679)		(12,936)
100.	Gain (loss) on disposal/repurchase of:		32,559		222,607		141,174
	a) loans and advances	*166*		—		—	
	b) AFS securities	*15,166*		*198,924*		*131,078*	
	c) financial assets held to maturity	*(157)*		*26*		*16*	
	d) financial liabilities	*17,384*		*23,657*		*10,080*	
120.	**Total income**		**883,829**		**1,732,220**		**999,533**
130.	Adjustments for impairment to:		(239,258)		(666,855)		(360,851)
	a) loans and advances	*(210,414)*		*(461,321)*		*(228,704)*	
	b) AFS securities	*(12,426)*		*(150,019)*		*(90,442)*	
	c) financial assets held to maturity	*(7,295)*		*(934)*		*250*	
	d) financial liabilities	*(9,123)*		*(54,581)*		*(41,955)*	
140.	**Net income from financial operations**		**644,571**		**1,065,365**		**638,682**
150.	Premiums earned (net)		3,413		959		—
160.	Other income (net) from insurance activities		(1,309)		(353)		—
170.	**Net profit from financial and insurance activities**		**646,675**		**1,065,971**		**638,682**
180.	Administrative expenses:		(412,345)		(779,307)		(395,278)
	a) personnel costs	*(216,444)*		*(396,399)*		*(207,520)*	
	b) other administrative expenses	*(195,901)*		*(382,908)*		*(187,758)*	
190.	Net transfers to provisions		(42)		(1,448)		(661)
200.	Net adjustments to tangible assets		(8,883)		(17,665)		(8,401)
210.	Net adjustments to intangible assets		(11,938)		(22,390)		(11,479)
	of which: godwill	—		—		—	—
220.	Other operating income (expense)		63,915		124,655		66,437
230.	**Operating costs**		**(369,293)**		**(696,155)**		**(349,382)**
240.	Gain (loss) on equity investments		110,165		213,468		106,330
270.	Gain (loss) on disposal of investments in:		73		5		2
	a) property	—		—		—	
	b) other assets	*73*		*5*		*2*	
280.	**Profit (loss) on ordinary activities before tax**		**387,620**		**583,289**		**395,632**
290.	Income tax for the year on ordinary activities		(122,185)		(181,168)		(124,599)
300.	**Profit (loss) on ordinary activities after tax**		**265,435**		**402,121**		**271,033**
320.	**Net profit (loss) for the period**		**265,435**		**402,121**		**271,033**
330.	Net profit (loss) for the period attributable to minorities		(2,511)		(1,266)		(952)
340.	**Net profit (loss) for the period attributable to Mediobanca**		**262,924**		**400,855**		**270,081**

CONSOLIDATED COMPREHENSIVE INCOME

	Headings	31/12/10	31/12/09
10.	Gain (loss) for the period	265,435	271,033
	Other income items net of tax		
20.	AFS securities	(63,519)	226,853
30.	Property, plant and equipment	—	—
40.	Intangible assets	—	—
50.	Foreign investment hedges	—	—
60.	Cash flow hedges	59,515	(26,258)
70.	Exchange rate differences	1,327	468
80.	Non-current assets being sold	—	—
90.	Actuarial gains (losses) on defined-benefit pension schemes	—	—
100.	Share of valuation reserves for equity-accounted companies	(1,174)	294,268
110.	Total other income items net of tax	(3,851)	495,331
120.	Aggregate profit (Heading 10 + Heading 110)	261,584	766,364
130.	Overall consolidated profit attrubutable to minorities	6,467	2,260
140.	Overall consolidated profit attributable to Mediobanca	255,117	764,104

STATEMENT OF CHANGES TO NET EQUITY

	Net profit attributable to minorities at 30/6/10	Previously reported balance at 30/6/10	Allocation of profit for previous period		Changes during the reference period								Overall consolidated profit	Balance at 31/12/10	Net profit attributable to minorities at 31/12/10
						Transactions involving net equity									
			Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options				
Share capital:	25,129	430,551	—	—	(181)	—	—	—	—	—	—	—	430,551	24,948
a) ordinary shares	25,129	430,551	—	—	(181)	—	—	—	—	—	—	—	430,551	24,948
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	7,216	2,119,913	—	—	—	7	—	—	—	—	—	—	2,119,920	7,216
Reserves:	78,133	3,938,440	257,941	—	(1,050)	—	—	—	—	—	4,521	—	4,199,102	78,883
a) retained earnings	78,133	3,895,830	257,941	—	(1,050)	—	—	—	—	—	—	—	4,151,971	78,883
b) others	—	42,610	—	—	—	—	—	—	—	—	4,521	—	47,131	—
Valuation reserves	(8,471)	55,311	—	—	—	—	—	—	—	—	—	(3,851)	47,505	(4,516)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	—	(213,844)	—	—	—	—	—	—	—	—	—	—	(213,844)	—
Profit (loss) for the period	1,266	400,855	(257,941)	(144,180)	—	—	—	—	—	—	—	265,435	262,924	2,511
Net equity	—	6,731,226	—	(143,496)	(1,217)	7	—	—	—	—	4,521	255,117	6,846,158	—
Net profit attributable to minorities	103,273	—	—	(684)	(14)	—	—	—	—	—	—	6,467	—	109,042

STATEMENT OF CHANGES TO NET EQUITY FROM 1/7/09 TO 31/12/09

	Previously reported balance at 30/6/09	Allocation of profit for previous period		Changes during the reference period								Balance at 31/12/09
					Transactions involving net equity							
		Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options	Overall consolidated profit	
Share capital:	410,028	—	—	—	20,501	—	—	—	—	—	—	430,529
a) ordinary shares	410,028	—	—	—	20,501	—	—	—	—	—	—	430,529
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,140,043	—	—	—	(20,501)	—	—	—	—	—	—	2,119,542
Reserves:	3,530,707	2,409	—	233,746	—	—	—	—	—	2,651	—	3,769,513
a) retained earnings	3,493,256	2,409	—	233,746	—	—	—	—	—		—	3,729,411
b) others*	37,451	—	—	—	—	—	—	—	—	2,651	—	40,102
Valuation reserves	(163,300)	—	—	(234,954) [1]	—	—	—	—	—	—	494,023	95,769
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(213,844)	—	—	—	—	—	—	—	—	—	—	(213,844)
Profit (loss) for the period	2,409	(2,409)		—	—	—	—	—	—	—	270,081	270,081
Net equity	5,706,043	—	—	(1,208)	—	—	—	—	—	2,651	764,104	6,471,590
Net profit attributable to minorities	103,260	—	—	(660)	—	—	—	—	—	—	2,260	104,860

* Transfer of stock option scheme reserves.

[1] Equity-accounted companies' share of valuation reserves as at 30 June 2009 reclassified.

CONSOLIDATED CASH FLOW STATEMENT

Direct method

		Amounts	
		31/12/10	31/12/09
A.	**Cash flow from operating activities**		
1.	**Operating activities**	**1,232,762**	**1,051,519**
	- interest received	2,591,898	2,303,960
	-interest paid	(1,542,323)	(1,582,419)
	-dividends and similar income	43,351	12,371
	-net fees and commission income	119,379	213,686
	-cash payments to employees	(181,916)	(139,688)
	-net premium income	16,861	—
	-other premium from insurance activities	(51,109)	(30,277)
	-other expenses paid	(970,198)	(472,346)
	-other income received	1,253,868	883,893
	-income taxes paid	(47,049)	(137,661)
	-net expense/income from groups of assets being sold	—	—
2.	**Cash generated/absorbed by financial assets**	**1,908,855**	**2,943,894**
	- financial assets held for trading	2,413,066	(607,182)
	-AFS securities	(1,213,233)	(1,978,117)
	-due from customers	(850,015)	2,119,713
	-due from banks: on demand	739,201	(899,946)
	-due from banks: other	854,790	2,974,140
	-other assets	(34,954)	1,335,286
3.	**Cash generated/absorbed by financial liabilities**	**(2,913,778)**	**(3,966,167)**
	-due to banks: on demand	(104,064)	2,207,284
	-due to banks: other	(1,513,469)	(3,670,240)
	-due to customers	(281,895)	(1,888,447)
	-debt securities	(983,245)	(519,828)
	-trading liabilities	194,021	252,351
	-financial liabilities assets recognized at fair value	—	—
	-other liabilities	(225,126)	(347,287)
	Net cash flow (outflow) from operating activities	**227,839**	**29,246**
B.	**Investment activities**		
1.	**Cash generated from**	**848**	**466**
	-disposals of shareholdings	—	53
	-dividends received in respect of equity investments	—	—
	-disposals/redemptions of financial assets held to maturity	637	332
	-disposals of tangible assets	192	81
	-disposals of intangible assets	19	—
	-disposals of subsidiaries or business units	—	—
2.	**Cash absorbed by**	**(75,756)**	**(21,623)**
	-acquisitions of shareholdings	(1,612)	(4,337)
	-acquisitions of held-to-maturity investments	(60,910)	(18)
	-acquisitions of tangible assets	(6,360)	(8,950)
	-acquisitions of intangible assets	(6,874)	(8,318)
	-acquisitions of subsidiaries or business units	—	—
	- Net cash flow (outflow) from investment/servicing of finance	**(74,908)**	**(21,157)**
C.	**Funding activities**		
	-issuance/acquisition of treasury shares	17	15
	-issuance/acquisitions of equity instruments	—	—
	-dividends payout and other applications of funds	(144,180)	(3,420)
	Net cash flow (outflow) from funding activities	**(144,163)**	**(3,405)**
	Net cash flow (outflow) during period	**8,768**	**4,684**

RECONCILIATION OF MOVEMENTS IN CASH FLOW DURING PERIOD

	Amounts	
	31/12/10	31/12/09
Cash and cash equivalents: balance at start of period	26,802	20,653
Total cash flow (ouflow) during period	8,768	4,684
Cash and cash equivalents: exchange rate effect	—	3,615
Cash and cash equivalents: balance at end of period	35,570	28,952

NOTES TO THE ACCOUNTS

PART A - ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 31 December 2010 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Council and Commission on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks was governed by Bank of Italy circular no. 262 issued on 22 December 2005. The abridged interim report has been drawn up in conformity with IAS 34 on interim financial reporting.

Section 2

General principles

These consolidated financial statements comprise:

- balance sheet;
- profit and loss account;
- statement of overall profitability;
- statement of changes in 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 section 4, 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 in the case of profit-and-loss account data.

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.

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

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

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

		Registered office	Type of relation-ship[1]	Shareholding		% voting rights[2]
				Investee company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	*Line-by-line*					
1.	MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.p.A. - in liquidation	Rome	1	A.1.1	100.00	100.00
3.	PRUDENTIA FIDUCIARIA S.p.A	Milan	1	A.1.1	100.00	100.00
4.	SETECI - Società Consortile per l'Elaborazione, Trasmissione dati, *Engineering* e Consulenza Informatica S.c.p.A.	Milan	1	A.1.1	100.00	100.00
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.00	100.00
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.00	100.00
7.	C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.6	99.94	99.94
				A.1.7	0.06	0.06
8.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.95	99.95
9.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
10.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.50	99.50
11.	MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.6	99.00	99.00
				A.1.8	1.00	1.00
12.	MOULINS 700 S.A.M.	Monte Carlo	1	A.1.7	99.90	99.90
13.	CMB BANQUE PRIVÈE (Suisse) S.A.	Lugano	1	A.1.6	100.00	100.00
14.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.15	1.00	1.00
15.	COMPASS S.p.A.	Milan	1	A.1.1	100.00	100.00
16.	CHEBANCA! S.p.A.	Milan	1	A.1.15	100.00	100.00
17.	COFACTOR S.p.A.	Milan	1	A.1.15	100.00	100.00
18.	SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.15	60.00	60.00
19.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.18	95.00	100.00
				A.1.19	5.00	
20.	TELELEASING S.p.A.	Milan	1	A.1.18	80.00	80.00
21.	SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.00	100.00
22.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.00	100.00
23.	CREDITECH S.p.A.	Milan	1	A.1.15	100.00	100.00
24.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
25.	CONSORTIUM S.r.l.	Milan	1	A.1.1	100.00	100.00
26.	QUARZO S.r.l.	Milan	1	A.1.15	90.00	90.00
27.	QUARZO LEASE S.r.l.	Milan	1	A.1.18	90.00	90.00
28.	FUTURO S.P.A.	Milan	1	A.1.15	100.00	100.00
29.	JUMP S.r.l.	Milan	4	A.1.15	—	—
30.	MB COVERED BOND S.r.l.	Milan	1	A.1.16	90.00	90.00
31.	COMPASS RE S.A. (Luxembourg)	Luxembourg	1	A.1.15	100.00	100.00

Legend

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

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

Section 4

Significant accounting policies

Financial assets held for trading

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

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

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

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

AFS securities

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

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

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

Financial assets held to maturity

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

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

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

Loans and receivables

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

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

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

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

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

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

Accounts for which there is objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the profit and loss account, as the case may be. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Leasing

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

Hedges

There are two types of hedge:

– fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

Equity investments

This heading consists of investments in:

– associates, which are equity-accounted. These 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, 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.

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

Derecognition of assets

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

Assets or groups of assets which are sold continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Group. A corresponding amount is then entered as a liability to offset any amounts received (as “other amounts due” or “amounts due under repo transactions”).

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

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

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

Trading liabilities

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

Staff severance indemnity provision

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

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

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

Provisions for liabilities and charges

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

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

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

Foreign currency transactions

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

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

Tax assets and liabilities

Income taxes are recorded in the profit and loss account, 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 are calculated on the basis of temporary differences – without time limits – between the carrying amount of an asset or liability and its tax base.

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

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

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

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

Stock options

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

Treasury shares

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

Dividends and commissions

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

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

Related parties (IAS 24)

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

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

b) associate companies;

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

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

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

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

PART A.3 - INFORMATION ON FAIR VALUE

A.3.1 Transfers between portfolios

A.3.1.1 Reclassified financial assets: book value, fair value and effects on overall profitability

Type of instrument	Transferred from	Transferred to	Book value at 31/12/10	Fair value at 31/12/10	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)	Financial assets held for trading	Due from customers	174,678	165,437	(412)	2,206	—	2,206
Debt securities (ABS)	AFS securities	Due from customers	116,116	114,367	(1,707)	1,654	—	1,654
Debt securities	AFS securities	Financial assets held to maturity	472,980	457,258	(15,722)	5,297	—	5,297

A.3.1.2 Reclassified financial assets: value and effects prior to transfer

Type of instrument	Transferred from	Transferred to	Gain (loss) recognized in P&L (pre-tax)		Gain (loss) recognized in net equity (pre-tax)	
			31/12/10	31/12/09	31/12/10	31/12/09
Debt securities	AFS securities	Financial assets held to maturity	—	—	10,220	5,341

A.3.2 Fair value ranking

A.3.2.1 Asset portfolios by fair value ranking

	31/12/10			30/6/10		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	10,299,958	4,448,844	1,192,262 [1]	10,389,237	4,778,290	1,207,852 [1]
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	5,645,742	799,520	1,107,141 [2]	4,653,884	1,110,594	1,061,285 [2]
4. Hedge derivatives	—	1,758,284	—	—	1,844,351	—
Total	15,945,700	7,006,648	2,299,403	15,043,121	7,733,235	2,269,137
1. Financial liabilities held for trading	3,828,322	3,436,361	1,067,314 [1]	1,318,754	3,711,064	1,078,579 [1]
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	606,389	—	—	557,410	—
Total	3,828,322	4,042,750	1,067,314	1,318,754	4,268,474	1,078,579

[1] Includes market value of options hedging options implied in bonds issued by Mediobanca and Mediobanca International (€485m as at 31/12/10 and €498m as at 30/6/10) and options traded (€424m and €319m respectively), the values of which are entered as both assets and liabilities at equal amounts.

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

Level 2 financial assets held for trading include bonds hedged by credit derivatives and specific funding of the same duration. The differences arising on the various instruments being marked to market (negative basis) are released to the profit and loss account pro rata to the duration of the transaction.

A.3.2.2 Annual changes in financial assets recognized at fair value (level 3 assets)

	FINANCIAL ASSETS			
	Held for trading [1 3]	Recognized at fair value	AFS[2]	Hedges
1. Balance at start of period	390,066	—	1,061,285	—
2. Additions	31,764	—	121,614	—
2.1 Purchases	25,546	—	117,580	—
2.2 Profits recognized in:	6,022	—	3,873	—
2.2.1 profit and loss	6,022	—	50	—
- of which, gains	5,933	—	—	—
2.2.2 net equity	—	—	3,823	—
2.3 Transfers from other levels	—	—	—	—
2.4 Other additions	196	—	161	—
3. Reductions	138,822	—	75,758	—
3.1 Disposals	13,636	—	57,791	—
3.2 Redemptions	55,873	—	—	—
3.3 Losses recognized in:	6,294	—	17,967	—
3.3.1 profit and loss	6,294	—	9,733	—
- of which, losses	6,294	—	9,259	—
3.3.2 net equity	—	—	8,234	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other reductions	63,019	—	—	—
4. Balance at end of period	283,008	—	1,107,141	—

[1] Includes market value of options hedging options implied in bonds issued by Mediobanca and Mediobanca International (€485m as at 31/12/10 and €498m as at 30/6/10) and options traded (€424m and €319m respectively), the values of which are entered as both assets and liabilities at equal amounts.

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

[3] The amount of the other changes is due almost entirely to movement involving options on listed securities forming part of delta hedging strategies, the values of which are entered as both assets and liabilities for the same amount.

The parameters in the valuation models used for the more complex, level 3 instruments are calibrated so that the initial mark-to-market is eliminated and released pro-rata over the duration of the contract (“model reserve”). This valuation technique has only been applied to four contracts, with a total residual impact of €7.1m, contributing €0.8m to the profit and loss account for the period.

A.3.2.3 Annual changes in financial liabilities recognized at fair value (level 3 liabilities)

	FINANCIAL LIABILITIES		
	Held for trading [1 2]	Recognized at fair value	Hedges
1. Balance at start of period	260,792	—	—
2. Additions	15,886	—	—
2.1 Issues	—	—	—
2.2 Losses recognized in:	15,886	—	—
2.2.1 profit and loss	15,886	—	—
- of which, losses	15,886	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	—	—	—
3. Reductions	118,619	—	—
3.1 Redemptions	54,178	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	1,176	—	—
3.3.1 profit and loss	1,176	—	—
- of which, gains	1,176	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	63,265	—	—
4. Balance at end of period	158,059	—	—

1 Includes market value of options hedging options implied in bonds issued by Mediobanca and Mediobanca International (€485m as at 31/12/10 and €498m as at 30/6/10) and options traded (€424m and €319m respectively), the values of which are entered as both assets and liabilities at equal amounts.

2 The amount of the other changes is due almost entirely to movement involving options on listed securities forming part of delta hedging strategies, the values of which are entered as both assets and liabilities for the same amount.

PART B - NOTES TO CONSOLIDATED BALANCE SHEET*

Assets

Section 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents

	31/12/10	30/6/10
a) Cash	32,617	25,742
b) Demand deposits held at central banks	2,953	1,060
Total	35,570	26,802

* Figures in €'000 save in footnotes, where figures are provided in full. Information refers to the group of companies as a whole included in the consolidation basis. The contributions of the companies comprised within the "Banking Group" and the "other companies" to assets and earnings are shown as an annex (net of inter-company accounts).

Section 2

Heading 20: Financial assets held for trading

2.1 Financial assets held for trading: composition

Derivative products	31/12/10			30/6/10		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	6,317,004	1,051,451	1	8,721,622	993,055	1
1.1 Structured	177,434	84,884	—	43,462	—	—
1.2 Other debt securities	6,139,570	966,567	1	8,678,160	993,055	1
2. Equities	1,608,975	14,648	184,691	844,163	34,386	190,695
3. UCITS units	337,066	291,027	25,847	335,532	298,179	13,482
4. Loans and advances	—	—	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	—	—	—	—	—
Total A	8,263,045	1,357,126	210,539	9,901,317	1,325,620	204,178
B. Derivative products						
1. Financial derivatives	397,297	2,856,747	977,888	295,189	3,195,311	1,000,761
1.1 Trading	397,297	2,829,583	490,727 [1]	295,189	3,069,204	501,397 [1]
1.2 Linked to fair value options	—	—	—	—	—	—
1.3 Others	—	27,164	487,161 [2]	—	126,107	499,364 [2]
2. Credit derivatives	1,639,616	234,971	3,835	192,731	257,359	2,913
2.1 Trading	1,639,616	166,325	3,835	192,731	227,883	1,543
2.2 Linked to fair value options	—	—	—	—	—	—
2.3 Others	—	68,646	—	—	29,476	1,370
Total B	2,036,913	3,091,718	981,723	487,920	3,452,670	1,003,674
Total (A+B)	10,299,958	4,448,844	1,192,262	10,389,237	4,778,290	1,207,852

[1] Respectively €423,776,000 and €319,636,000 in respect of options traded, with the equivalent amount being recorded as trading liabilities.

[2] Market value of options covering options implicit in bonds issued by Mediobanca S.p.A. and Mediobanca International, with the equivalent amount being recorded as trading liabilities.

2.3 Cash assets held for trading: movements during the period

	Debt securities	Equities	UCITS units	Loans and advances	Total
A. Balance at start of period	9,714,678	1,069,244	647,193	—	11,431,115
B. Additions	20,019,129	4,181,846	321,670	—	24,522,645
B.1 Acquisitions	18,769,343	4,076,808	316,846	—	23,162,997
B.2 Increases in fair value	136,796	40,769	2,937	—	180,502
B.3 Other additions	1,112,990	64,269	1,887	—	1,179,146
C. Reductions	22,365,351	3,442,776	314,923	—	26,123,050
C.1 Disposals	18,310,454	3,314,513	300,291	—	21,925,258
C.2 Redemptions	3,782,522	—	—	—	3,782,522
C.3 Reductions in fair value	139,978	75,001	14,632	—	229,611
C.4 Transfers to other portfolios	—	—	—	—	—
C.5 Other reductions	132,397	53,262	—	—	185,659
D. Balance at end of period	7,368,456	1,808,314	653,940	—	9,830,710

Section 4

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition

Item/value	31/12/10			30/6/10		
	Level 1	Level 2	Level 3 *	Level 1	Level 2	Level 3 *
1. Debt securities	5,102,542	788,921	10,786	4,256,159	992,470	1
1.1 Structured	261,989	—	—	—	—	—
1.2 Other debt securities	4,840,553	788,921	10,786	4,256,159	992,470	1
2. Equities	542,845	643	1,009,380	396,359	87,823	1,024,861
2.1 Recognized at fair value	542,845	643	1,009,328	396,359	87,823	1,024,809
2.2 Recognized at cost	—	—	52	—	—	52
3. UCITS units	355	9,956	86,975	1,366	30,301	36,423
4. Loans and advances	—	—	—	—	—	—
Total	5,645,742	799,520	1,107,141	4,653,884	1,110,594	1,061,285

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

4.4 AFS securities: movements during the period

	Debt securities	Equities	UCITS units	Loans and advances	Total
A. Balance at start of period	5,248,630	1,509,043	68,090	—	6,825,763
B. Additions	2,284,995	381,052	55,310	—	2,721,357
B.1 Acquisitions	2,154,621	264,603	22,704	—	2,441,928
B.2 Increases in fair value	11,683	104,924	2,380	—	118,987
B.3 Writebacks	219	—	3,170	—	3,389
- recognized in profit and loss account	—	X	698	—	698
- recognized in net equity	219	—	2,472	—	2,691
B.4 Transfers from other asset classes	—	—	—	—	—
B.5 Other additions	118,472	11,525	27,056	—	157,053
C. Reductions	1,631,376	337,227	26,114	—	1,994,717
C.1 Disposals	553,753	195,361	21,772	—	770,886
C.2 Redemptions	438,228	—	—	—	438,228
C.3 Reductions in fair value	151,368	70,056	1,777	—	223,201
C.4 Writedowns due to impairment	1,845	11,211	964	—	14,020
- taken to profit and loss account	—	11,211	964	—	12,175
- taken to net equity	1,845	—	—	—	1,845
C.5 Transfers to other asset classes	473,004	—	—	—	473,004
C.6 Other reductions	13,178	60,599	1,601	—	75,378
D. Balance at end of period	5,902,249	1,552,868	97,286	—	7,552,403

Section 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity

Type of transactions/group components	31/12/10				30/6/10			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,253,362	1,016,491	199,415	22,164	720,683	549,292	151,524	9,390
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	1,253,362	1,016,491	199,415	22,164	720,683	549,292	151,524	9,390
2. Loans and advances	—	—	—	—	—	—	—	—
Total	1,253,362	1,016,491	199,415	22,164	720,683	549,292	151,524	9,390

5.4 Assets held to maturity: movements during the period

	Debt securities	Loans and advances	Total
A. Balance at start of period	720,683	—	720,683
B. Additions	541,576	—	541,576
B.1 Acquisitions	60,912	—	60,912
B.2 Writebacks	424	—	424
B.3 Transfers from other asset classes	473,004	—	473,004
B.4 Other additions	7,236	—	7,236
C. Reductions	8,897	—	8,897
C.1 Disposal	494	—	494
C.2 Redemptions	143	—	143
C.3 Value adjustments	7,719	—	7,719
C.4 Transfers to other asset classes	—	—	—
C.5 Other reductions	541	—	541
D. Balance at end of period	1,253,362	—	1,253,362

Section 6

Heading 60 - Due from banks

6.1 Due from banks

Type of transactions/value	31/12/10	30/06/10
A. Due from central banks	79,957	405,429
1. Term deposits	—	300,087
2. Compulsory reserves	79,957	105,342
3. Amounts due under repo agreements	—	—
4. Other amounts due	—	—
B. Due from banks	3,670,316	4,975,044
1. Current accounts and demand deposits	1,067,669	1,336,278
2. Term deposits	234,025	724,950
3. Other receivables:	2,368,622	2,913,816
3.1 amounts due under repo agreements	1,023,634	1,858,499
3.2 amounts due under finance leases	9,177	11,941
3.3 other amounts due	1,335,811	1,043,376
4. Debt securities	—	—
4.1 structured	—	—
4.2 other debt securities	—	—
Total book value	3,750,273	5,380,473
Total fair value	3,639,350	5,379,423

Section 7

Heading 70: Due from customers

7.1 Due from customers: composition

Type of transactions/amounts	31/12/10		30/6/10	
	Performing	Non-performing	Performing	Non-performing
1. Current accounts	46,056	—	85,581	—
2. Amounts due under repo agreements	3,219,836	—	4,439,138	—
3. Mortgages	20,497,812	262,078	19,361,803	333,717
4. Credit cards, personal loans and salary-guaranteed finance	8,238,480	230,584	7,931,884	276,192
5. Amounts due under finance leasing	4,266,417	215,138	4,342,324	189,483
6. Factoring	—	—	—	—
7. Other transactions	2,558,788	3,890	2,226,193	3,729
8. Debt securities	731,064	—	734,652	—
8.1 structured	—	—	—	—
8.2 other debt securities	731,064	—	734,652	—
Total book value	39,558,453	711,690	39,121,575	803,121
Total (fair value)		40,302,143		39,501,695

Section 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by type of contract and underlying asset

	31/12/10 Fair value			Notional value	30/6/10 Fair value			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivates	—	1,758,879	—	19,502,474	—	1,844,351	—	19,070,004
1) Fair value	—	1,757,960	—	19,437,474	—	1,843,383	—	19,030,004
2) Cash flow	—	919	—	65,000	—	968	—	40,000
3) Non-Italian investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	1,758,879	—	19,502,474	—	1,844,351	—	19,070,004

8.2 *Hedging derivatives: by portfolio hedged and hedge type*

Operations/type of hedging	Fair value hedges						Cash flow hedges		Non-Italian investments
	Specific					General	Specific	General	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	More than one risk				
1. AFS securities	—	—	—	—	—	X	—	X	X
2. Loans and advances	—	—	—	X	—	X	—	X	X
3. Financial assets held to maturity	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Non-Italian investments	—	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	X	—	—	—
1. Financial liabilities	1,757,960	—	—	—	—	X	919	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	1,757,960	—	—	—	—	X	919	X	X
1. Estimated transactions	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 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: disclosures on shareholdings

Name	Registered office	Type of relation ship	Shareholding		% of voting rights
			Investor company	% interest	
1. Banca Esperia S.p.A.	Milan	1	Mediobanca	50.0	50.0
2. Fidia SGR S.p.A.	Milan	2	Mediobanca	25.0	25.0
3. Athena Private Equity S.A.	Luxembourg	2	Mediobanca	24.27	24.27
4. Burgo Group S.p.A.	Altavilla Vicentina near Vicenza	2	Mediobanca	22.13	22.13
5. RCS MediaGroup S.p.A.	Milan	2	Mediobanca	14.36	14.94
6. Assicurazioni Generali S.p.A.	Trieste	2	Mediobanca	12.24	12.24
			Spafid	0.10	0.10
			Compass	1.0	1.0
7. Gemina S.p.A.	Milan	2	Mediobanca	12.53	12.56
8. Telco S.p.A.	Milan	2	Mediobanca	11.62	11.62
9. Pirelli & C. S.p.A.	Milan	2	Mediobanca	4.49	4.61

Legend:

1 Joint control.

2 Subject to significant influence.

3 Exclusively controller and not consolidated.

10.2 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: financial information

Name	Book value	Fair value
B. JOINTLY-CONTROLLED COMPANIES (IAS 31)		
1. Banca Esperia S.p.A.	57,964 [1]	—
C. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE (IAS 28)		
1. Burgo Group S.p.A.	76,388	—
2. Assicurazioni Generali S.p.A.	2,418,886	2,928,612
3. RCS MediaGroup S.p.A.	192,997 [2]	112,495
4. Fidia SGR S.p.A.	1,068	—
5. Athena Private Equity S.A.	25,842	—
6. Telco S.p.A.	371,508	—
7. Pirelli & C. S.p.A.	101,469 [3]	132,629
8. Gemina S.p.A.	199,588	98,171
Other minor investments	48	—
Total	3,445,758	—

1 Includes goodwill amounting to €1,833,000.

2 Includes goodwill amounting to €51,003,000.

3 Includes goodwill amounting to €24,272,000.

The earnings performance of the investee companies was in line with the assumptions on which the impairment test carried out on 30 June 2010 was based. This trend is also confirmed by market prices, which remained constant or improved during the six months under review. Accordingly, no investee company was subject to further impairment at end-December.

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost

Assets/value	31/12/10	30/6/10
A. Core assets		
1.1 owned by the Group	290,446	292,113
a) land	83,636	83,636
b) buildings	166,184	165,102
c) furniture	23,322	24,488
d) electronic equipment	11,324	12,766
e) other assets	5,980	6,121
1.2 acquired under finance leases:	11	25
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	11	25
Total A	290,457	292,138
B. Assets held for investment purposes		
2.1 owned by the Group:	27,648	27,848
a) land	20,350	20,350
b) buildings	7,298	7,498
2.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
Total B	27,648	27,848
Total (A+B)	318,105	319,986

12.3 Core tangible assets: movements during the period

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	83,636	190,397	54,237	44,015	27,048	399,333
A.1 Total net value reductions	—	(25,295)	(29,749)	(31,249)	(20,902)	(107,195)
A.2 Net opening balance	83,636	165,102	24,488	12,766	6,146	292,138
B. Additions:	—	2,936	1,637	1,859	1,020	7,452
B.1 Purchases	—	2,811	1,140	1,859	1,020	6,830
B.2 Improvement expenses, capitalized	—	118	—	—	—	118
B.3 Writebacks	—	—	—	—	—	—
B.4 Increases in fair value recognized in:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
B.5 Increases arising due to exchange rates	—	—	148	—	—	148
B.6 Transfers from properties held for investment purposes	—	—	—	—	—	—
B.7 Other additions	—	7	349	—	—	356
C. Reductions:	—	1,854	2,803	3,301	1,175	9,133
C.1 Disposals	—	—	162	45	14	218
C.2 Depreciation charges	—	1,630	2,641	3,253	1,159	8,683
C.3 Value adjustments for impairment taken to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.4 Reductions in fair value charged to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.5 Reductions due to exchange rates	—	—	—	3	2	5
C.6 Transfers to:	—	—	—	—	—	—
a) assets held for investment purposes	—	—	—	—	—	—
b) assets being sold	—	—	—	—	—	—
C.7 Other reductions	—	224	—	—	—	224
D. Net closing balance	83,636	166,184	23,322	11,324	5,991	290,457
D.1 Total net value reductions	—	(26,923)	(32,356)	(32,404)	(21,828)	(113,511)
D.2 Gross closing balance	83,636	193,107	55,678	43,728	27,819	403,968
E. Stated at cost	—	—	—	—	—	—

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

	Total	
	Land	Buildings
A. Gross opening balance	20,350	7,498
B. Additions	—	—
B.1 Purchases	—	—
B.2 Improvement expenses, capitalized	—	—
B.3 Net increases in fair value	—	—
B.4 Writebacks	—	—
B.5 Increases arising due to exchange rates	—	—
B.6 Transfers from core assets	—	—
B.7 Other additions	—	—
C. Reductions	—	200
C.1 Disposals	—	—
C.2 Depreciation charges	—	200
C.3 Reductions in fair value	—	—
C.4 Value adjustments for impairment	—	—
C.5 Reductions arising due to exchange rates	—	—
C.6 Transfers to other asset portfolios	—	—
a) core assets	—	—
b) non-current assets being sold	—	—
C.7 Other reductions	—	—
D. Closing balance	20,350	7,298
E. Stated at fair value	87,325	37,361

Section 13

Heading 130: Intangible assets

13.1 Intangible assets

Assets/ amounts	31/12/10		30/6/10	
	Limited useful life	Unlimited useful life	Limited useful life	Unlimited useful life
A.1 Goodwill	X	365,934	X	365,934
A.1.1 attributable to the Group	X	365,934	X	365,934
A.1.2 attributable to third parties	X	—	X	—
A.2 Other intangible assets	65,834	6,300	70,402	6,300
A.2.1 Recognized at cost:	65,834	6,300	70,402	6,300
a) intangible assets generated internally	—	—	—	—
b) other assets	65,834	6,300	70,402	6,300
A.2.2 Recognized at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	65,834	372,234	70,402	372,234

13.2 *Intangible assets: movements during the period*

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Limited useful life	Unlimited useful life	Limited useful life	Unlimited useful life	
A. Balance at start of period	365,934	—	—	107,427	6,300	479,661
A.1 Total net value reductions	—	—	—	(37,025)	—	(37,025)
A.2 Net opening balance	365,934	—	—	70,402	6,300	442,636
B. Additions	—	—	—	7,511	—	7,511
B.1 Purchases	—	—	—	7,480	—	7,480
B.2 Increases in internally generated assets	—	—	—	—	—	—
B.3 Revaluations	—	—	—	—	—	—
B.4 Increases in fair value taken to:	—	—	—	—	—	—
– net equity	—	—	—	—	—	—
– profit and loss account	—	—	—	—	—	—
B.5 Increases arising on exchange rates	—	—	—	31	—	31
B.6 Other additions	—	—	—	—	—	—
C. Reductions	—	—	—	12,079	—	12,079
C.1 Disposals	—	—	—	19	—	19
C.2 Value adjustments	—	—	—	11,936	—	11,936
– amortization	—	—	—	11,936	—	11,936
– writedowns	—	—	—	—	—	—
+ net equity	—	—	—	—	—	—
+ profit and loss account	—	—	—	—	—	—
C.3 Reductions in fair value charged to:	—	—	—	—	—	—
– net equity	—	—	—	—	—	—
– profit and loss account	—	—	—	—	—	—
C.4 Transfers to non-current assets being sold	—	—	—	—	—	—
C.5 Reductions due to exchange rate differences	—	—	—	—	—	—
C.6 Other reductions	—	—	—	124	—	124
D. Balance at end of period	365,934	—	—	65,834	6,300	438,068
D.1 Total net value adjustments	—	—	—	(61,971)	—	(61,971)
E. Gross closing balance	365,934	—	—	127,805	6,300	500,039
F. Stated at cost	—	—	—	—	—	—

Section 14

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

14.1 Advance tax assets

	31/12/10	30/6/10
Corporate income tax (IRES)	566,732	586,926
Regional production tax (IRAP)	39,592	36,444
Total	606,324	623,370

14.2 Deferred tax liabilities

	31/12/10	30/6/10
Corporate income tax (IRES)	302,681	306,674
Regional production tax (IRAP)	10,793	8,086
Total	313,474	314,760

14.3 Changes in advance tax during the period

	31/12/10	30/6/10
1. Opening balance	512,720	413,268
2. Additions	38,087	121,731
2.1 Advance tax originating during the period	37,326	121,576
a) for previous years	—	8,101
b) due to changes in accounting policies	—	—
c) amounts written back	12	63
d) other additions	37,314	113,412
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	761	155
3. Reductions	54,129	22,279
3.1 Advance tax reversed during the period	46,283	17,956
a) reclassifications	45,155	17,218
b) amounts written off as unrecoverable	—	—
c) due to changes in accounting policies	—	—
d) other	1,128	738
3.2 Reductions in tax rates	—	—
3.3 Other reductions	7,846	4,323
4. Balance at end of period	496,678	512,720

14.4 Changes in deferred tax during the period

	31/12/10	30/6/10
1. Opening balance	282,662	316,256
2. Additions	4,703	3,829
2.1 Deferred tax originating during period	3,542	3,095
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	3,542	3,095
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	1,161	734
3. Reductions	10,760	37,423
3.1 Deferred tax reversed during period	2,822	9,171
a) reclassifications	2,733	8,947
b) due to changes in accounting policies	—	—
c) others	89	224
3.2 Reductions in tax rates	—	—
3.3 Other reductions	7,939	28,252
4. Balance at end of period	276,604	282,662

14.5 Changes in advance tax during the period[1]

	31/12/10	30/6/10
1. Opening balance	110,650	125,446
2. Additions	81,510	82,870
2.1 Advance tax originating during period	81,268	82,870
a) for previous years	—	—
b) due to changes in accounting policies	—	—
c) others	81,268	82,870
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	242	—
3. Reductions	82,514	97,666
3.1 Advance tax reversed during period	82,514	97,666
a) reclassifications	78,225	97,666
b) writedowns of non-recoverable items	—	—
c) due to changes in accounting policies	—	—
d) others	4,289	—
3.2 Reductions in tax rates	—	—
3.3 Other reductions	—	—
4. Balance at end of period	109,646	110,650

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

14.6 Changes in deferred tax during the period[1]

	31/12/10	30/6/10
1. Opening balance	32,098	31,039
2. Additions	35,247	21,747
2.1 Deferred tax originating during period	35,247	21,747
a) for previous years	—	—
b) due to changes in accounting policies	—	—
c) others	35,247	21,747
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions	30,475	20,688
3.1 Advance tax reversed during the period	30,475	20,688
a) reclassifications	28,332	12,052
b) due to changes in accounting policies	—	—
c) others	2,143	8,636
3.2 Reductions in tax rates	—	—
3.3 Other reductions	—	—
4. Balance at end of period	36,870	32,098

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

Section 16

Heading 160: Other assets

16.1 Other assets

	31/12/10	30/6/10
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	7,074	5,696
3. Trade receivables or invoices to be issued	17,278	40,197
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	40,476	16,664
5. Other items	106,385	155,742
- bills for collection	22,082	36,596
- bmounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	33,276	56,578
- futures and other securities transactions	657	3,304
- advance payments on deposit commissions	6,615	7,518
- other items in transit	15,255	21,661
- amounts due to staff	199	267
- downpayments made on derivative contracts	—	—
- sundry other items	28,301	29,818
6. Adjustment arising on consolidation	7	4
Total	171,915	218,998

Liabilities

Section 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/amounts	31/12/10	30/6/10
1. Due to central banks	—	494,940
2. Due to banks	7,991,622	9,235,714
2.1 Current accounts and demand deposits	1,845,306	1,886,475
2.2 Term deposits	122,297	1,008,162
2.3 Borrowings	5,749,612	5,887,726
2.3.1 Reverse repos	709,678	568,134
2.3.2 Others	5,039,934	5,319,592
2.4 Liabilities in respect of assets sold but not derecognized	—	—
2.5 Other amounts due	274,407	453,351
Total book value	7,991,622	9,730,654
Total fair value	7,991,622	9,730,654

1.2 Breakdown of Heading 10: "Due to banks": subordinated debt

Subordinated liabilities included under the heading *Due to banks* amount to €43,522,000 and refer to amounts payable by Linea to its former shareholders.

Section 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/amounts	31/12/10	30/6/10
1. Current accounts and demand deposits	2,640,872	2,335,307
2. Term deposits	8,147,999	7,199,409
3. Borrowings	3,511,017	4,958,286
3.1 Reverse repos	2,136,484	3,473,314
3.2 others	1,374,533	1,484,972
4. Liabilities in respect of assets sold but not derecognized	—	—
5. Other amounts due	500,306	396,119
Total book value	14,800,194	14,889,121
Total fair value	14,800,194	14,889,121

Section 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/amounts	31/12/10				30/6/10			
	Book value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Book value	Fair value Level 1	Fair value Level 2	Fair value Level 3
A. Listed securities								
1. bonds	35,616,100	30,041,589	5,796,774	—	35,867,094	32,098,135	6,430,661	—
1.1 structured	13,051,278	10,508,123	2,556,105	—	12,184,238	11,613,942	556,029	—
1.2 others	22,564,822	19,533,466	3,240,669	—	23,682,856	20,484,193	5,874,632	—
2. other securities	254,007	—	254,007	—	798,453	—	741,440	57,012
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	254,007	—	254,007	—	798,453	—	741,440	57,012
Total	35,870,107	30,041,589	6,050,781	—	36,665,547	32,098,135	7,172,101	57,012

Subordinated liabilities included under the heading *Debt securities in issue* total €1,642,420,000 and are attributable to Mediobanca S.p.A.

Section 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/amounts	31/12/10					30/6/10				
	Nominal value	Fair value			Fair Value*	Nominal value	Fair value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	23	6,978	23	—	7,001	136,050	130,831	—	—	130,831
2. Due to customers	1,796,561	1,782,545	—	—	1,782,545	610,007	602,065	460	—	602,525
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	X	—	—	—	—	X
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total A	1,796,584	1,789,523	23	—	1,789,546	746,057	732,896	460	—	733,356
B. Derivative products										
1. Financial derivatives	X	363,082	3,097,321	1,066,796	X	X	263,973	3,594,235	1,077,426	X
1.1 Trading	X	363,082	2,984,130	576,054 [1]	X	X	263,973	3,470,438	577,551 [1]	X
1.2 Linked to fair value options	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	113,191	490,742 [2]	X	X	—	123,797	499,875 [2]	X
2. Credit derivatives	X	1,675,717	339,017	518	X	X	321,885	116,368	1,153	X
2.1 Trading	X	1,675,717	332,980	518	X	X	321,885	105,170	1,153	X
2.2 Linked to fair value options	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	6,037	—	X	X	—	11,198	—	X
Total B	X	2,038,799	3,436,338	1,067,314	X	X	585,858	3,710,603	1,078,579	X
Total (A+B)	X	3,828,322	3,436,361	1,067,314	X	X	1,318,754	3,711,063	1,078,579	X

* Fair value does not reflect changes in valuation due to changes in issuers' credit standing versus the issue date.

1 €423,776,000 and €319,636,000 respectively in respect of options traded, against equivalent amounts recorded as financial assets held for trading.

2 Options embedded in bonds issued by the Group and fully hedged by similar options, with the equivalent amounts being recorded as financial assets held for trading.

Section 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of product/underlying asset

Items/amounts	31/12/10 Fair value			31/12/10 Nominal value	30/6/10 Fair value			30/6/10 Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	606,980	—	13,969,475	—	556,480	—	15,254,923
1) Fair value	—	542,625	—	11,778,975	—	450,418	—	11,941,923
2) Cash flow	—	64,355	—	2,190,500	—	106,062	—	3,313,000
3) Non-Italian investments	—	—	—	—	—	—	—	—
B. Financial derivatives	—	4	—	12,500	—	3	—	12,500
1) Fair value	—	4	—	12,500	—	3	—	12,500
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	606,984	—	13,981,975	—	556,483	—	15,267,423

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/type of hedging	Fair value hedges						Cash flow hedges		Non-Italian investments
	Specific					General	Specific	General	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	More than one risk				
1. AFS securities	—	—	—	—	—	X	—	X	X
2. Loans and advances	69,631	—	4	X	—	X	—	X	X
3. Financial assets held to maturity	X	—	—	X	—	X	—	X	X
4. Portfolio	—	—	—	—	—	—	—	—	X
5. Other operations	X	X	X	X	X	X	X	X	—
Total assets	69,631	—	4	—	—	—	—	—	—
1. Financial liabilities	472,994	—	—	X	—	X	64,355	X	X
2. Portfolio	—	—	—	—	—	—	—	—	X
Total liabilities	472,994	—	—	—	—	—	64,355	—	X
1. Expected transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

Section 8

Heading 80: Tax liabilities

See assets, section 14.

Section 10

Heading 100: Other liabilities

10.1 Other liabilities

	31/12/10	30/6/10
1. Payment agreements (IFRS 2)	56	80
2. Impaired endorsements	39,988	102,510
3. Working capital payables and invoices pending receipt	166,217	191,037
4. Prepaid expenses other than capitalized expenses on related financial assets	121	178
5. Amounts due to revenue authorities	49,088	95,303
6. Amounts due to staff	120,428	144,552
7. Other items:	142,138	192,921
- bills for collection	22,634	24,927
- coupons and dividends pending collection	2,262	2,179
- fees payable to banks	—	—
- underwriting syndicate commissions payable	3,268	890
- available sums payable to third parties	37,302	41,003
- premiums, grants and other items in respect of lending transactions	23,539	67,216
- credit notes to be issued	15,490	18,532
- other	37,643	38,174
8. Adjustments upon consolidation	10	6
Total	518,046	726,590

Section 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	31/12/10	30/6/10
A. Balance at start of period	27,282	28,898
B. Additions	7,095	12,727
B.1 Transfers during period	6,876	11,859
B.2 Other additions	219	868
C. Reductions	7,611	14,343
C.1 Indemnities paid out	788	5,302
C.2 Other reductions[1]	6,823	9,041
D. Balance at end of period	26,766	27,282

[1] Includes €5,553,000 in transfers to external, defined contribution pension schemes (6,500,000 at 30/6/10).

Section 12

Heading 120: Provisions

12.1 Provisions: composition

Item/amounts	31/12/10	30/06/10
1. Company post-employment benefit provision	—	—
2. Other provisions	156,527	156,318
2.1 litigation	690	690
2.2 staff-related	—	—
2.3 other	155,837	155,628
Total	156,527	156,318

12.2 Provisions: movements during the period

	Post-employment benefit provision	Litigation	Other provisions	Total
A. Balance at start of period	—	690	155,628	156,318
B. Additions	—	—	615	615
B.1 Transfers during period	—	—	42	42
B.2 Changes due to passing of time	—	—	—	—
B.3 Additions due to changes in discount rate	—	—	—	—
B.4 Other additions	—	—	573	573
C. Reductions	—	—	406	406
C.1 Transfers during period	—	—	400	400
C.2 Reductions due to changes in discount rate	—	—	—	—
C.3 Other reductions	—	—	6	6
D. Balance at end of period	—	690	155,837	156,527

Section 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	31/12/10	30/6/10
A. Non-life business				
A1. Reserves for premiums	—	18,137	18,137	8,609
A2. Reserves for claims	—	349	349	62
A3. Other reserves	—	—	—	—
B. Life business				
B.1 Mathematical reserves	—	13,715	13,715	5,242
B.2 Reserves for sums to be paid out	—	—	—	—
B.3 Other reserves	—	—	—	—
C. Technical reserves where risk of investment is borne by insured parties				
C1. reserves for contracts in which performance is related to investment funds and market indexes	—	—	—	—
C2. Reserves deriving from pension fund management	—	—	—	—
D. Total technical reserves	—	32,201	32,201	13,913

Section 15

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

15.1 Group capital: 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 period

Item/type	Ordinary
A. Shares in issue at start of period	861,102,077
– entirely unrestricted	861,102,077
– with restrictions	—
A.1 Treasury shares	(17,010,000)
A.2 Shares in issue: balance at start of period	844,092,077
B. Additions	883
B.1 New share issuance as a result of:	883
– rights issues	883
- business combinations	—
- bond conversions	—
- exercise of warrants	883
- others	—
– bonus issues	—
- to staff members	—
- to Board members	—
- others	—
B.2 Treasury share disposals	—
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	844,092,960
D.1 Add: treasury shares	(17,010,000)
D.2 Shares in issue at end of period	861,102,960
– entirely unrestricted	861,102,960
– with restrictions	—

15.5 Profit reserves: other information

Item	31/12/10	30/6/10
1. Legal reserve	90,306	86,106
2. Statutory reserves	1,089,213	992,771
3. Treasury shares	213,844	213,844
4. Others	2,758,608	2,603,109
Total	4,151,971	3,895,830

Section 16

Heading 210: Net equity attributable to minorities

16.1 Net equity attributable to minorities: composition

Item/amounts	31/12/10	30/6/10
1. Share capital	24,948	25,129
2. Share premium reserve	7,216	7,216
3. Reserves	78,883	78,133
4. Treasury shares	—	—
5. Valuation reserves[1]	(4,516)	(8,471)
6. Equity instruments	—	—
7. Profit (loss) for the period attributable to minorities	2,511	1,266
Total	109,042	103,273

[1] Relates to cash flow hedges.

Other information

1. Guarantees and commitments

Transactions	31/12/10	30/6/10
1. Financial guarantees given to:	400,433	334,186
a) Banks	33,133	19,366
b) Customers	367,300	314,820
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds to:	23,427,365	21,504,580
a) Banks	2,609,490	1,795,578
i) specific	2,474,390	1,390,859
ii) standby basis	135,100	404,719
b) Customers	20,817,875	19,709,002
i) specific	14,843,010	14,349,269
ii) standby basis	5,974,865	5,359,733
4. Commitments underlying credit derivatives: hedge sales[1]	75,167,502	12,204,310
5. Assets pledged as collateral for customer obligations	—	—
6. Other commitments	2,922,536	3,886,305
Total	101,917,836	37,929,381

[1] Balance at 31/12/10 includes €60,691,271,000 in transactions fully matched by hedge buys.

5. *Assets managed and traded on behalf of customers: Banking Group*

Transactions	31/12/10	30/6/10
1. Securities traded on behalf of customers	14,699,510	33,528,965
a) Purchases	5,945,914	16,818,865
1. settled	5,650,534	14,700,968
2. pending settlement	295,380	2,117,897
b) Disposals	8,753,596	16,710,100
1. settled	8,458,247	14,592,203
2. pending settlement	295,349	2,117,897
2. Asset management[1]	2,931,000	2,883,000
a) individuals	874,000	845,000
b) groups	2,057,000	2,038,000
3. Securities under custody/managed on a non-discretionary basis	40,393,431	48,177,007
a) customers' securities held on deposit: in connection with the Bank's activity as deposit bank (not including asset management)[2]	4,722,289	6,877,572
1. securities issued by bank drawing up consolidated financial statements	457,639	783,763
2. other securities	4,264,650	6,093,809
b) other customers' securities held on deposit (not including asset management): others	4,994,782	4,968,836
1. securities issued by bank drawing up consolidated financial statements	82	82
2. other securities	4,994,700	4,968,754
c) customers' securities held on deposit with customers	6,775,379	11,241,635
d) own securities held on deposit with customers	23,900,981	25,088,964
4. Other transactions	—	—

[1] The Esperia group has assets worth under management €8,496m (€8,286m at 30/6/10).

[2] The Esperia group manages assets on a non-discretionary basis worth €3,815m (€3,522m at 30/6/10).

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

Line items/technical forms	Debt securities	Loans and advances	Other transactions	6 mths ended 31/12/10	6 mths ended 31/12/09
1. Financial assets held for trading	131,803	—	—	131,803	171,769
2. Financial assets recognized at fair value	—	—	—	—	—
3. AFS securities	111,825	—	—	111,825	107,349
4. Financial assets held to maturity	21,296	—	—	21,296	12,631
5. Due from banks	32,143	14,244	71	46,458	35,872
6. Due from customers	11,691	778,923	—	790,614	793,903
7. Hedge derivatives	X	X	270,347	270,347	265,966
8. Other assets	X	X	1,942	1,942	1,766
Total	308,758	793,167	272,360	1,374,285	1,389,256

1.4 Interest expense and similar charges: composition

Line items/technical forms	Accounts payable	Securities	Other liabilities	6 mths ended 31/12/10	6 mths ended 31/12/09
1. Due to central banks	(24)	X	—	(24)	—
2. Due to banks	(42,971)	X	—	(42,971)	(34,913)
3. Due to customers	(121,279)	X	—	(121,279)	(168,387)
4. Debt securities in issue	—	(641,976)	—	(641,976)	(689,810)
5. Trading liabilities	X	—	—	—	—
6. Financial liabilities recognized at fair value	—	—	—	—	—
7. Other liabilities	X	X	(13)	(13)	(32)
8. Hedging derivatives	X	X	—	—	—
Total	(164,274)	(641,976)	(13)	(806,263)	(893,142)

Section 2

Headings 40 and 50: Net fee and commission income

2.1 Net fee and commission income: composition

Type of service/sectors	6 mths ended 31/12/10	6 mths ended 31/12/09
a) guarantees given	1,220	1,848
b) credit derivatives	—	—
c) management, trading and advisory services:	105,465	129,781
1. securities trading	5,276	9,396
2. foreign currency trading	23	56
3. asset management [1]	4,490	3,442
3.1 individuals	4,490	3,442
3.2 groups	—	—
4. securities under custody and non-discretionary management	2,494	2,512
5. deposit bank services	—	—
6. securities placement	30,966	54,537
7. procurement of orders	5,234	5,056
8. advisory services	—	11
8.1 investment advisory services	—	11
8.2 structured finance advisory services	—	—
9. agency fees	56,982	54,771
9.1 asset management	8,447	7,774
9.1.1 individuals	8,447	7,774
9.1.2 groups	—	—
9.2 insurance products	48,535	46,997
9.3 other products	—	—
d) collection and payment services	1,542	536
e) securitization services	84	91
f) factoring services	—	—
g) tax collection and receipt services	—	—
h) multilateral trading systems activity	—	—
i) current account keeping and management	170	—
j) other services	139,854	137,677
Total	248,335	269,933

[1] Banca Esperia recorded net fee and commission income of €33,851,000.

2.2 *Fee and commission expense*

Services/amounts	6 mths ended 31/12/10	6 mths ended 31/12/09
a) guarantees received	—	(110)
b) credit derivatives	—	—
c) management and trading services:	(4,686)	(3,856)
1. securities trading	(1,312)	(1,793)
2. foreign currency trading	—	—
3. asset management:	—	(1)
3.1 proprietary	—	(1)
3.2 on behalf of customers	—	—
4. securities under custody/held on a non-discretionary basis	(1,353)	(1,426)
5. securities placement	(2,021)	(636)
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	(4,155)	(1,251)
e) other services	(13,587)	(19,890)
Total	(22,428)	(25,107)

Section 3

Heading 70: Dividends and similar income

3.1 *Dividends and similar income: composition*

Line items/income	6 mths ended 31/12/10		6 mths ended 31/12/09	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	38,098	—	1,104	—
B. AFS securities	5,278	—	8,551	—
C. Financial assets recognized at fair value	—	—	—	—
D. Equity investments	—	—	—	—
Total	43,376	—	9,655	—

Section 4

Heading 80: Net trading income

4.1 Net trading income: composition

Transactions/income elements	Gains (A)	Dealing profits (B)	Value reductions (C)	Dealing losses (D)	Net trading income [(A+B)-(C+D)]
1. Trading assets	120,126	139,479	(202,345)	(100,164)	(42,904)
1.1 Debt securities	78,026	75,229	(128,048)	(54,474)	(29,267)
1.2 Equities	40,705	64,250	(74,296)	(45,690)	(15,031)
1.3 UCITS units	1,395	—	(1)	—	1,394
1.4 Loans and advances	—	—	—	—	—
1.5 Others	—	—	—	—	—
2. Trading liabities	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Debts	—	—	—	—	—
2.3 Others	—	—	—	—	—
3. Other assets and liabilities: differences arising on exchange rates	X	X	X	X	(47,637)
4. Derivative products	3,425,519	1,648,437	(3,629,050)	(1,449,717)	107,374
4.1 Financial derivatives:	1,530,643	1,011,885	(1,643,424)	(806,428)	204,861
– debt securities and interest rates [1]	837,474	256,079	(791,686)	(196,187)	105,680
– equities and stock market indexes	642,319	670,210	(678,483)	(610,241)	23,805
– foreign currency and gold	X	X	X	X	112,185
– others	50,850	85,596	(173,255)	—	(36,809)
4.2 Credit derivatives	1,894,876	636,552	(1,985,626)	(643,289)	(97,487)
Total	3,545,645	1,787,916	(3,831,395)	(1,549,881)	16,833

[1] Of which €33,200,000 in margins on interest rate derivatives (31/12/09: €54,007,000).

Section 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/amounts	6 mths ended 31/12/10	6 mths ended 31/12/09
A. Income from:		
A.1 Fair value hedge derivatives	55,796	343,658
A.2 Financial assets hedged (fair value)	5,945	—
A.3 Financial liabilities hedged (fair value)	335,067	66,443
A.4 Cash flow hedge derivatives	17	5
A.5 Assets and liabilities in foreign currencies	—	—
Total hedging income (A)	396,825	410,106
B. Expense related to:		
B.1 Fair value hedge derivatives	(339,249)	(79,653)
B.2 Financial assets hedged (fair value)	(18,869)	(4,957)
B.3 Financial liabilities hedged (fair value)	(41,573)	(338,432)
B.4 Cash flow hedge derivatives	(2)	—
B.5 Assets and liabilities in foreign currencies	—	—
Total hedging expense (B)	(399,693)	(423,042)
Net hedging income (A–B)	(2,868)	(12,936)

Section 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Line items/income elements	6 mths ended 31/12/10			6 mths ended 31/12/09		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Due from banks	166	—	166	—	—	—
2. Due from customers	—	—	—	—	—	—
3. AFS securities	20,311	(5,145)	15,166	138,495	(7,417)	131,078
3.1 Debt securities	11,444	(4,280)	7,164	53,725	(4,111)	49,614
3.2 Equities	8,044	(33)	8,011	81,627	(231)	81,396
3.3 UCITS units	823	(832)	(9)	3,143	(3,075)	68
3.4 Loans and advances	—	—	—	—	—	—
4. Financial assets held to maturity	—	(157)	(157)	22	(6)	16
Total assets	20,477	(5,302)	15,175	138,517	(7,423)	131,094
Financial liabilities						
1. Due to banks	—	—	—	—	—	—
2. Due to customers	298	—	298	—	—	—
3. Debt securities in issue	17,939	(853)	17,086	10,563	(483)	10,080
Total liabilities	18,237	(853)	17,384	10,563	(483)	10,080

Section 8

Heading 130: Adjustments for impairment

8.1 Adjustments for impairment: composition

Transactions/income elements	Value adjustments			Amounts recovered				6 mths ended 31/12/10	6 mths ended 31/12/09
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Due from banks	—	—	—	—	21	—	891	912	101
- Loans	—	—	—	—	21	—	891	912	101
- Debt securities	—	—	—	—	—	—	—	—	—
B. Due from customers	(210,983)	(154,378)	(28,071)	2,752	175,528	—	3,826	(211,326)	(228,805)
- Loans	(210,983)	(154,378)	(28,071)	2,752	175,528	—	3,826	(211,326)	(228,805)
- Debt securities	—	—	—	—	—	—	—	—	—
C. Total	(210,983)	(154,378)	(28,071)	2,752	175,549	—	4,717	(210,414)	(228,704)

Legend

A = interest

B = other amounts recovered

8.2 Net value adjustments for impairment to AFS securities: composition

Transactions/income elements	Value adjustments		Amounts recovered		6 mths ended 31/12/10	6 mths ended 31/12/09
	Specific		Specific			
	Writeoffs	Others	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equities	—	(12,089)	—	—	(12,089)	(89,556)
C. UCITS units	—	(337)	—	—	(337)	(886)
D. Loans and advances to banks	—	—	—	—	—	—
E. Loans and advances to customers	—	—	—	—	—	—
F. Total	—	(12,426)	—	—	(12,426)	(90,442)

Legend

A = interest

B = other amounts recovered

8.3 *Adjustments for impairment to financial assets held to maturity: composition*

Transactions/income elements	Value adjustments			Amounts recovered				6 mths ended 31/12/10	6 mths ended 31/12/09
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Debt securities	—	(7,719)	—	315	109	—	—	(7,295)	250
B. Loans and advances to banks	—	—	—	—	—	—	—	—	—
C. Loans and advances to customers	—	—	—	—	—	—	—	—	—
D. Total	—	(7,719)	—	315	109	—	—	(7,295)	250

Legend
A = interest
B = other amounts

8.4 *Adjustments for impairment to other financial transactions: composition*

Transactions/income-linked components	Value adjustments			Amounts recovered				6 mths ended 31/12/10	6 mths ended 31/12/09
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Guarantees given	—	(6,544)	(2,726)	—	—	—	22	(9,248)	(15,913)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	(913)	—	672	—	366	125	(26,042)
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(6,544)	(3,639)	—	672	—	388	(9,123)	(41,955)

Legend
A = interest
B = other amounts recovered

Section 9

Heading 150: Net premium

9.1 Net premium income: composition

Premium income from insurance operations	Direct business	Indirect business	6 mths to 31/12/10	6 mths to 31/12/09
A. Life business				
A.1 Gross premiums written (+)	—	1,319	1,319	—
A.2 Premiums ceded to reinsurers (—)	—	(18)	(18)	—
A.3 Total	—	1,301	1,301	—
B. Non-life business				
B.1 Gross premiums written (+)	—	11,696	11,696	—
B.2 Premiums ceded to reinsurers (—)	—	(56)	(56)	—
B.3 Changes in gross amount of reserve for premiums (+/—)	—	(9,528)	(9,528)	—
B.4 Changes in reserve for premiums payable by reinsurers (— /+)	—	—	—	—
B.5 Total	—	2,112	2,112	—
C. Total net premium income	—	3,413	3,413	—

Section 10

Heading 160: Income less expense from insurance operations

10.1 Income less expense from insurance operations: composition

Items	6 mths to 31/12/10	6 mths to 31/12/09
1. Net change in technical reserves	(306)	—
2. Claims paid out during the year	(374)	—
3. Other income (expense) from insurance operations	(629)	—
Total	(1,309)	—

10.2 Breakdown of sub-heading changes to technical reserves

Net changes in technical reserves	6 mths to 31/12/10	6 mths to 31/12/09
1. Life business		
A. Mathematical reserves	(306)	—
A.1 Gross annual amount	(306)	—
A.2 (—) Share payable by reinsurers	—	—
B. Other technical reserves	—	—
B.1 Gross annual amount	—	—
B.2 (—) Share payable by reinsurers	—	—
C. Technical reserves where the insurance risk is borne by the insured parties	—	—
C.1 Gross annual amount	—	—
C.2 (—) Share payable by reinsurers	—	—
Total, life business reserves	(306)	—
2. Non-life business Changes in technical reserves in non-life business other than reserves for claims net of accounts ceded to reinsurers	—	—

10.3 Breakdown of sub-heading claims for the period

Claims expenses	6 mths to 31/12/10	6 mths to 31/12/09
Life business: expenses for claims net of amounts ceded to reinsurers		
A. Amounts paid	—	—
A.1 Gross annual amount	—	—
A.2 (–) Share payable by reinsurers	—	—
B. Changes to reserve due to sums to be paid	—	—
B.1 Gross annual amount	—	—
B.2 (–) Share payable by reinsurers	—	—
Total claims, life business	—	—
Non-life business: expenses for claims net of amounts recovered and ceded to reinsurers		
C. Amounts paid	(88)	—
C.1 Gross annual amount	(88)	—
C.2 (–) Share payable by reinsurers	—	—
D. Changes to amounts recovered net of shares payable by reinsurers	—	—
E. Changes to reserve for claims	(286)	—
E.1 Gross annual amount	(286)	—
E.2 Share payable by reinsurers (–)	—	—
Total claims, non-life business	(374)	—

Section 11

Heading 180: Administrative expenses

11.1 Personnel costs: composition

Type of expense/sectors	6 mths ended 31/12/10	6 mths ended 31/12/09
1. Employees	(208,155)	(196,611)
a) wages and salaries	(148,818)	(140,199)
b) social security contributions	(31,331)	(31,166)
c) severance indemnities	—	—
d) pension contributions	—	—
e) transfers to severance indemnity provisions	(5,773)	(8,043)
f) transfers to post-employment and similar benefits provisions:	—	—
– defined benefit	—	—
– defined contribution	—	—
g) amounts paid to external complementary pension schemes:	(6,256)	(5,775)
– defined benefit	(6,256)	(5,775)
– defined contribution	—	—
h) expenses incurred in connection with share payment schemes	(4,505)	(2,633)
i) other staff benefits	(11,472)	(8,795)
2. Other staff	(2,943)	(2,796)
3. Board members	(3,945)	(5,482)
4. Expenses incurred in connection with staff retiring	(1,401)	(2,631)
Total	(216,444)	(207,520)

11.2 Average number of staff by category

	6 mths ended 31/12/10	6 mths ended 31/12/09
Employees:		
a) Senior executives	176	171
b) Excutives	1,069	1,000
c) Other employees	2,046	1,932
Other staff	205	164
Total	3,496	3,267

11.5 Other administrative expenses: composition

	6 mths ended 31/12/10	6 mths ended 31/12/09
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(25,942)	(17,285)
– loan recovery activity	(24,242)	(24,709)
– marketing and communications	(37,918)	(33,128)
– property	(18,684)	(27,940)
– EDP	(15,862)	(15,612)
– info-provider	(11,285)	(10,049)
– bank charges, collection and payment fees	(9,747)	(8,487)
– operating expenses	(25,528)	(26,122)
– other staff expenses	(5,788)	(5,188)
– other costs	(4,034)	(4,422)
– indirect and other taxes	(16,871)	(14,816)
Total other administrative expenses	(195,901)	(187,758)

Section 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: composition

	6 mths ended 31/12/10	6 mths ended 31/12/09
TRANSFERS MADE TO COVER:		
– litigation	—	—
– advertising expenses	—	—
– certain or probable exposures or commitments[1]	(42)	(661)
Total net transfers to provisions	(42)	(661)

[1] Includes the effect of discounting such items.

Section 13

Heading 200: Net adjustments to tangible assets

13.1 Net adjustments to tangible assets: composition

Assets/income elements	Depreciation	Value adjustments for impairment	Amounts recovered	Net result
A. Tangible assets				
A.1 Owned	(8,883)	—	—	(8,883)
– core	(8,683)	—	—	(8,683)
– for investment purposes	(200)	—	—	(200)
A.2 Acquired under finance leases	—	—	—	—
– core	—	—	—	—
– for investment purposes	—	—	—	—
Total	(8,883)	—	—	(8,883)

Section 14

Heading 210: Net adjustments to intangible assets

14.1 Net adjustments to intangible assets

Assets/income elements	Amortization	Value adjustments for impairment	Amounts recovered	Net result
A. Intangible assets				
A.1 Owned	(11,938)	—	—	(11,938)
– software	(7,722)	—	—	(7,722)
– other	(4,216)	—	—	(4,216)
A.2 Goodwill	—	—	—	—
Total	(11,938)	—	—	(11,938)

Section 15

Heading 220: Other operating income (expense)

15.1 Other operating expense: composition

Income-based components/values	6 mths ended 31/12/10	6 mths ended 31/12/09
a) Leasing activity	2,192	(11,180)
d) Sundry costs and expenses	(287)	(921)
Total	1,905	(12,101)

15.2 Other operating income: composition

Income-based components/values	6 mths ended 31/12/10	6 mths ended 31/12/09
a) Amounts recovered from customers	26,341	22,313
b) Other income	35,669	56,225
Total	62,010	78,538

Section 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: composition

Income-based components/values	6 mths ended 31/12/10	6 mths ended 31/12/09
1. Jointly-controlled companies		
A. Income	—	—
1. Revaluations	—	—
2. Gains on disposals	—	—
3. Amounts recovered	—	—
4. Other increases	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Adjustments for impairment	—	—
3. Losses from disposals	—	—
4. Other reductions	—	—
Net income	—	—
2. Companies subject to significant influence		
A. Income	117,788	117,926
1. Revaluations	—	—
2. Gains on disposals	—	—
3. Amounts recovered	—	—
4. Other increases	117,788	117,926
B. Expenses	(7,623)	(11,596)
1. Writedowns	—	—
2. Adjustments for impairment	—	—
3. Losses from disposals	—	—
4. Other reductions	(7,623)	(11,596)
Net income	110,165	106,330
Total	110,165	106,330

Section 19

Heading 270: Net gain (loss) upon disposal of investments

19.1 Net gain (loss) upon disposal of investments: composition

Income elements/sectors	6 mths ended 31/12/10	6 mths ended 31/12/09
A. Properties	—	—
– gains on disposals	—	—
– losses on disposals	—	—
B. Other assets	73	2
– gains on disposals	75	5
– losses on disposals	(2)	(3)
Net gain (loss)	73	2

Section 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: composition

Income elements/sectors	6 mths ended 31/12/10	6 mths ended 31/12/09
1. Current taxes	(112,141)	(164,161)
2. Changes in current taxes for previous financial years	46	—
3. Reductions in current tax for the period	96	139
4. Changes in advance tax	(138,166)	36,336
5. Changes in deferred tax	127,980	3,087
Income tax for the year	(122,185)	(124,599)

Section 24

Earnings per share

24.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/10	6 mths ended 31/12/09
Net profit	262,924	270,081
Avg. no. of shares in issue	844,092,620	824,388,935
Avg. no. of potentially diluted shares	155,562,613	158,886,786
Avg. no. of diluted shares	999,655,233	983,275,721
Earnings per share	0.31	0.33
Earnings per share, diluted	0.26	0.27

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Section 1

Banking Group risks

1.1 Credit risk

QUALITATIVE INFORMATION

Basel II project

In compliance with the Basel II New Capital Accord transposed into the Italian regulatory framework under Bank of Italy circular no. 263 issued on 27 December 2006 ("New regulations on capital requirements for banks"), the Mediobanca Group has set itself the objective of measuring credit risk using internal ratings.

A specific project has therefore been launched with a view to obtaining ratification by the Bank of Italy of the internal rating models to be used in calculating the capital requirements for credit risk. The internal rating models regard the following customer segments: Banks, Insurances, Large corporate, Holding companies, Specialized lending (customers mostly targeted by Mediobanca), Mid corporate and Small businesses (customers targeted mostly by the leasing companies) and Private individuals (targeted by Compass for consumer credit and CheBanca! for mortgage lending). In addition, a plan is being implemented to comply with the experience requirement for the models to be ratified, which will involve the existing procedures for approving, monitoring and renewing loans (described below) being gradually revised to incorporate the risk parameters calculated via the internal models that have been developed.

Given the above, discussions have begun with the Bank of Italy regarding the timeframe for submitting the application for the IRB system to be validated; until the system has been validated, the Mediobanca Group will continue to use the standardized methodology it has adopted since 1 January 2008.

* * *

Corporate banking (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. Where possible, covenants are incorporated into the terms and conditions of the loan (having regard *inter alia* to the maturity and average size of the facilities concerned) in order to provide for protection against impairment. Applications for finance are processed through the different operating levels, and, if successful, are submitted for approval to the relevant bodies, i.e. the Risks Committee and Executive Committee, depending on the amount required and the credit standing of the counterparty involved, including both internal and external ratings. Once the finance has been disbursed the account is monitored on an ongoing basis, via analysis of published financial statements and a series of other controls to ensure that the covenants have not been breached. Any deterioration in the risk profile of a loan is brought swiftly to the attention of head of the operating unit and management.

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. At SelmaBipiemme and Teleleasing, applications for assets worth less than €75,000 are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the individual applicant's sector of operation.

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. All non-performing, potential problem and restructured accounts and other accounts deemed to be "high risk" are tested analytically to establish the relative estimated loss against the value of the security provided and/or any other form of real or personal guarantees issued. Other doubtful accounts are measured individually on the basis of statistics.

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 company's Board of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, etc. After five overdue instalments 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. Between the ninth and the twelfth overdue instalments, such accounts are usually sold to Cofactor or to other factoring companies for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. Approval depends partly on the outcome of a credit scoring system, which is largely determined through 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 appraised in view of a wide range of indicators, such as amount, sales channel, loan-to-value, etc.

During the period under review a project has been launched to implement advanced early warning systems (linked to public and private databases), to allow irregular customer behaviour to be assessed early.

Irregular accounts are managed through monthly reports analysing the commercial, personal and financial aspects of the accounts in order to flag up promptly any potential problem areas. Procedurally mortgage loans with four or more unpaid instalments are designated as potential problem accounts, and following the eighth/ninth unpaid instalment become non-performing and are handed over to the company's lawyers accordingly. Credit recovery is largely managed through property enforcement procedures.

QUANTITATIVE INFORMATION

CREDIT QUALITY

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

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolio/quality	Banking Group[1]					Others[2]		Total
	Non-performing	Potential problem	Restructured	Overdue	Other assets	Overdue	Other assets	
1. Financial assets held for trading	—	—	—	—	13,485,738	—	—	13,485,738
2. AFS securities	—	—	—	—	5,902,430	—	—	5,902,430
3. Financial assets held to maturity	—	—	—	—	1,253,362	—	—	1,253,362
4. Due from banks	127	—	—	—	3,745,678	—	25,548	3,771,353
5. Due from customers	204,042	244,893	181,712	81,593	39,789,806	—	16,251	40,518,297
6. Financial assets recognized at fair value	—	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	1,758,285	—	—	1,758,285
Total at 31/12/10	204,169	244,893	181,712	81,593	65,935,299	—	41,799	66,689,465
Total at 30/6/10	188,815	347,359	166,397	101,438	67,714,472	—	30,013	68,548,494

[1] Includes Banca Esperia, consolidated pro rata.
[2] Includes Creditech, R&S, Sade and Compass RE.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Portfolio/quality	Impaired assets			Performing			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading	—	—	—	X	X	13,485,738	13,485,738
2. AFS securities	—	—	—	5,902,430	—	5,902,430	5,902,430
3. Financial assets held to maturity	—	—	—	1,265,021	(11,659)	1,253,362	1,253,362
4. Due from banks	127	—	127	3,747,232	(1,554)	3,745,678	3,745,805
5. Due from customers	1,321,748	(609,508)	712,240	40,127,286	(337,480)	39,789,806	40,502,046
6. Financial assets recognized at fair value	—	—	—	X	X	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	X	X	1,758,285	1,758,285
Total A	1,321,875	(609,508)	712,367	51,041,969	(350,693)	65,935,299	66,647,666
B. Others							
1. Financial assets held for trading	—	—	—	—	—	—	—
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	—	—	—	—
4. Due from banks	—	—	—	25,548	—	25,548	25,548
5. Due from customers	—	—	—	16,251	—	16,251	16,251
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	—	—	—
Total B	—	—	—	41,799	—	41,799	41,799
Total at 31/12/10	1,321,875	(609,508)	712,367	51,083,768	(350,693)	65,977,098	66,689,465
Total at 30/6/10	1,447,760	(643,751)	804,009	51,027,833	(256,198)	67,744,485	68,548,494

A.1.3 Banking Group: cash and off-balance-sheet exposure to banks – gross/net values

Type of exposure/amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing	127	—	X	127
b) Potential problem	—	—	X	—
c) Restructured	—	—	X	—
d) Overdue	—	—	X	—
ef) Other assets	6,336,338	X	(1,554)	6,334,784
Total A	6,336,465	—	(1,554)	6,334,911
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	—	—	X	—
b) Other assets[1]	83,401,219	X	(397)	83,400,822
Total B	83,401,219	—	(397)	83,400,822
Total (A + B)	89,737,684	—	(1,951)	89,735,733

[1] Balance at 31/12/10 includes €60,691,271,000 in transactions fully matched by hedge buys.

A.1.4 Banking Group: cash and off-balance-sheet exposure to banks – trends in gross impaired positions

Description/category	Non-performing	Potential problem	Restructured	Overdue
A. Gross exposure at start of period	127	140	—	—
of which: accounts sold but not derecognized	—	—	—	—
B. Additions	—	—	—	—
B.1 transfers from performing loans	—	—	—	—
B.2 transfers from other categories of impaired assets	—	—	—	—
B.3 other additions	—	—	—	—
C. Reductions	—	(140)	—	—
C.1 transfers to performing loans	—	—	—	—
C.2 amounts written off	—	(119)	—	—
C.3 amounts collected	—	(21)	—	—
C.4 gains realized on disposals	—	—	—	—
C.5 transfers to other categories of impaired assets	—	—	—	—
C.6 other reductions	—	—	—	—
D. Gross exposure at end of period	127	—	—	—
of which: accounts sold but not derecognized	—	—	—	—

A.1.5 Banking Group: cash exposures to banks – trends in collective value adjustments

Description/category	Non-performing	Potential problem	Restructured	Overdue
A. Adjustments at start of period	—	(140)	—	—
of which: accounts sold but not derecognized	—	—	—	—
B. Additions		—		
B.1 value adjustments	—	—	—	—
B.2 transfers from other categories of impaired assets	—	—	—	—
B.3 other additions	—	—	—	—
C. Reductions		140		
C.1 writebacks based on valuations	—	—	—	—
C.2 writebacks due to amounts collected	—	21	—	—
C.3 amounts written off	—	119	—	—
C.4 transfers from other categories of impaired assets	—	—	—	—
C.5 other additions	—	—	—	—
D. Adjustments at end of period	—	—	—	—
of which: accounts sold but not derecognized	—	—	—	—

A.1.6 Banking Group: cash and off-balance-sheet exposures to customers – gross/net values

Type of exposure/amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing[1]	650,601	(446,559)	X	204,042
b) Potential problem	350,333	(105,440)	X	244,893
c) Restructured	228,745	(47,033)	X	181,712
d) Overdue	92,069	(10,476)	X	81,593
e) Other assets	52,081,072	X	(349,139)	51,731,933
Total A	53,402,820	(609,508)	(349,139)	52,444,173
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	112,319	(15,179)	X	97,140
b) Other assets	21,720,392	X	(21,739)	21,698,653
Total B	21,832,711	(15,179)	(21,739)	21,795,793
Total (A+B)	75,235,531	(624,687)	(370,878)	74,239,966

[1] Includes accounts acquired from third parties as part of Cofactor's business.

A.1.7 Banking Group: cash exposures to customers – trends in gross impaired positions

Description/category	Non-performing	Potential problem	Restructured	Overdue
A. Gross exposure at start of period	688,432	468,025	183,290	107,747
of which: accounts sold but not derecognized	*29,687*	*16,895*	*1,938*	*3,868*
B. Additions	225,127	275,474	73,702	47,091
B.1 transfers from performing loans	42,570	230,235	4,164	41,135
B.2 transfers from other categories of impaired assets	164,426	33,889	45,307	4,620
B.3 other additions	18,131	11,350	24,231	1,336
C. Reductions	(262,958)	(393,166)	(28,247)	(62,769)
C.1 transfers to performing loans	(5,210)	(36,970)	(17,245)	(14,927)
C.2 amounts written off	(214,173)	(11,522)	(87)	(179)
C.3 amounts collected	(33,911)	(135,900)	(6,122)	(13,430)
C.4 gains realized on disposals	(787)	—	—	—
C.5 transfers to other categories of impaired assets	(6,837)	(204,079)	(3,468)	(33,861)
C.6 other reductions	(2,040)	(4,695)	(1,325)	(372)
D. Gross exposure at end of period	650,601	350,333	228,745	92,069
of which: accounts sold but not derecognized	*27,105*	*14,957*	*1,971*	*5,512*

A.1.8 Banking Group: cash exposures to customers – trends in collective value adjustments

Description/category	Non-performing	Potential problem	Restructured	Overdue
A. Adjustments at start of period	(499,744)	(120,666)	(16,893)	(6,309)
of which: accounts sold but not derecognized	*(27,896)*	*(4,585)*	—	—
B. Additions	(124,613)	(66,816)	(30,781)	(7,942)
B.1 value adjustments	(78,748)	(61,022)	(30,396)	(4,963)
B.2 transfers from other categories of impaired assets	(44,673)	(5,433)	(4)	(820)
B.3 other additions	(1,192)	(361)	(381)	(2,159)
C. Reductions	177,798	82,042	641	3,775
C.1 writebacks based on valuations	10,151	9,462	268	572
C.2 writebacks due to amounts collected	9,180	19,942	11	556
C.3 amounts written off	146,695	6,537	2	1
C.4 transfers to other categories of impaired assets	3,939	44,177	360	2,454
C.5 other reductions	7,833	1,924	—	192
D. Adjustments at end of period	(446,559)	(105,440)	(47,033)	(10,476)
of which: accounts sold but not derecognized	*(24,516)*	*(5,001)*	—	*(283)*

B. EXPOSURES: DISTRIBUTION AND CONCENTRATION

B.5a Credit risk indicators

	31/12/10	30/6/10
a) Gross NPLs/total loans	1.85%	2.04%
b) Irregular items/total loans	3.76%	4.29%
c) Net NPLs/regulatory capital	2.60%	2.72%

B.5b Large risks

	31/12/10	30/6/10
a) Total weighted amount	10,610,600	11,306,315
b) No. of exposures	7	11
c) Large risks/regulatory capital	1.4	1.6

Leveraged finance transactions

As part of its corporate lending activity, the Mediobanca Group takes an active part in buyout transactions promoted or sponsored almost entirely by private equity funds in order to take over companies with promising growth prospects, low debt levels and stable cash flow over time. Such transactions have a sub-investment grade rating, a non-recourse contractual structure, and borrowing is commensurate with future cash flow levels. The purpose of such transactions is never for Mediobanca to acquire target companies, as the majority stakes are held directly by the private equity funds.

As at 31 December 2010, deals of this nature amounted to €2,337.8m, down slightly on the figure of €2,380m reported at 30 June 2010, just over 13% of the corporate loan book, slightly under half of which in relation to domestic transactions, with the remainder for deals within the confines of the Eurozone. Movements during the period included four new deals worth a total of €108m, and an increase due to use of credit lines and capitalization of interest on previous balances amounting to €137.6m net of repayments totalling €287.8m, with four accounts having been repaid in full.

C. Securitizations and asset disposals

C.1 Securitizations

Qualitative information

No new securitizations were launched during the six months under review.

In addition to its traditional activity as sponsor and lead manager, Mediobanca also invests in securities originating from securitizations by other issuers. As at the reporting date these totalled €450,5m (30/6/10: €444.5m). The main movements during the period involved purchases of €59.6m, disposals and repayments amounting to €46m (generating gains of €1.2m), downward adjustments as at the reporting date totalling €8.9m (€7.4m of which in respect of the partial writedown of ELM), and €2m in adjustments to reflect fair value as at the reporting date. During the six months under review there were recoveries by both the primary market (with new deals involving European asset portfolios plus launch of the first issue of securities backed by Italian mortgages post-crisis) and the secondary market (with investors interested in the mezzanine and junior classes which are offering higher returns).

Holdings in junior and mezzanine tranches totalled approximately €32.8m, and chiefly involve mezzanine tranches of mortgage receivables, both Italian (Bpm Securitisation Srl, €5.4m) and British RMAC PLC (€9.3m), plus Telecom Italia's IMSER securitization (€18.1m); the junior tranches securitizations of mortgages executed by BCC Mortgages PLC (€1.4m), Loggi (€1.5m) and Casaforte (€2.4m).

Mediobanca does not have on its books, and indeed never has had, any credit exposures backed by US subprime or Alt-A (Alternative – A, i.e. positions with underlying mortgages featuring incomplete documentation that does not allow them to be classified). Neither does it have any exposures to monoline insurers, i.e. insurance companies specializing in covering default risk on public and corporate bond issues with the exception of one credit default swap worth a nominal USD 10m entered into with MBIA (Municipal Bond Insurance Association), after early closure in respect of a nominal $20m, with a negative fair value of €1.1m (30/6/09: €4.6m).

The credit quality of the securities owned by the Mediobanca Group has shown no particular signs of deterioration. Around half of the new purchases involved Italian securitizations (in particular the securitization of commercial properties launched by Telecom Italia through its vehicle company IMSER), and the remainder securitizations backed by mortgages, British (Permanent and RMAC) and German (E-MAC). At the reporting date the portfolio was written down by €9.5m, €7.3m of which taken directly through the profit and loss account and €2.1m in lower net equity reserves; in addition, the implicit losses arising on the fixed portfolio of securities amounted to €11.3m. These valuations have been made based on prices supplied by the leading financial information providers, i.e. Reuters, Bloomberg and Mark-it, giving priority to marked-to-market data rather than fair value models (which have been used only for certain unlisted positions), and for the most part made using a pricing model supplied by the main rating agencies.

The portfolio continues to be concentrated on securities backed by Italian domestic assets in two sectors in particular: mortgage lending (approx. 45% of the portfolio) and state-owned properties (slightly under 25%). The other deals involve securitizations of leasing receivables, a restructured securitization launched by Capitalia (Entasi), one synthetic securitization (ELM), Telecom Italia commercial properties (IMSER) and other European mortgages, British (Permanent and RMAC) and German (E-MAC), both markets which have experienced upturns in house prices and transactions.

Slightly under 75% of the portfolio has a rating consistent with securities of high credit standing attributed by at least one of the main credit rating agencies (Standard & Poor's, Moody's and Fitch). During the period under review no particular action was taken by any of the rating agencies, reflecting the solidity and the conservative nature of these transactions which have always been a feature of the Italian domestic market. Some 90% of these securities are eligible for financing transactions with the European Central Bank.

The only positions which are either unrated or which have non-performing assets underlying them are in deals where Mediobanca played an active role in the securitization, e.g. as sponsor, manager, etc.

The main individual areas of activity underlying the securities held by the Group performed as follows during the period under review:

— Italian mortgage loans: delinquency levels remain at historically high levels, even though the low interest rates are helping to make repayments sustainable for borrowers, at least in the short term; the increase in unemployment, the reduction in household incomes and the removal of temporary benefits granted by banks have led to a deterioration in the percentage rates of default and delinquency over the long term, which has meant reserves being drawn on increasingly and a slowdown in the rate of prepayments (which is still falling, averaging around 5%). The positions within the portfolio, which are of superior quality (lower loan-to-value and reduced concentration), still show an excess spread which allows any difficulties to be absorbed and ensures all terms provided for repayment of capital and payment of interest can be met;

— state-owned properties: this sector has suffered from the Italian debt crisis following on from the turmoil affecting peripheral EU member states, but has been helped by the resilience of the Italian domestic property market.

Quantitative information

C.1.1 Exposures deriving from securitizations by underlying asset

Type of underlying asset/exposures	Cash exposure[1]					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Using own underlying assets	—	—	—	—	—	—
a) Impaired	—	—	—	—	—	—
b) Other	—	—	—	—	—	—
B) Using customers' underlying assets	425,103	417,665	27,434	27,434	5,391	5,391
a) Impaired	163,515	163,515	—	—	—	—
b) Other	261,588	254,150	27,434	27,434	5,391	5,391

[1] Includes a commitment of €123.2m to subscribe for Zeus F07-25 A FRN, and a refinancing credit line to Island in an amount of €20.6m.

C.1.3 Banking Group – Exposures deriving from main customer securitizations by asset type/exposure

	Cash exposures [1]					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Rettifiche/ riprese di valore	Book value	Writedowns/ writebacks
A. Mortgage loans on property						
A.1 Argo Mortgage srl 1 A IT0003246276	262	1	—	—	—	—
A.2 Mantegna-37 A2 ind IT0003443527	600	(55)	—	—	—	—
A.3 Siena M-39 A2 FRN IT0003588958	86	—	—	—	—	—
A.4 CASSA 2007-1 A1 07-43 IT0004247687	2,778	17	—	—	—	—
A.5 Atlante F-47 A FRN IT0004069032	3,258	40	—	—	—	—
A.6 CASAFORTE srl 30/06 IT0004644677	—	—	—	—	2,405	—
A.7 Velah 4 A2 IT0004102007	26,762	—	—	—	—	—
A.8 Cordusio 3 A2 06-42 TV IT0004144892	123	(4)	—	—	—	—
A.9 BPM Securitisation Srl 06-43 IT0004083033	—	—	5,232	(59)	—	—
A.10 BP MORTG-43 A2 ind IT0004215320	10,055	89	—	—	—	—
A.11 CASSA 2007-1 A1 07-43 IT0004247687	206	2	—	—	—	—
A.12 Island Ref-25 A FRN IT0004293558	33,374	—	—	—	—	—
A.13 Zeus F07-25 A FRN IT0004306186	77,591	—	—	—	—	—
A.14 Tower Finance Float Nov27 IT0004386683	11,646	—	—	—	—	—
A.15 E-MAC XS0475282322	8,312	(17)	—	—	—	—
A.16 DOMOS 2001-1 A 31/1 FR0000487589	279	24	—	—	—	—
A.17 RMAC PLC 12/12/2043 XS0235778106	—	—	4,100	605	—	—
A.18 Permanent 10/06/2042 XS0197069072	5,758	18	—	—	—	—
A.19 Sintonia Finance srl 2030 XS0163298432	519	(1)	—	—	—	—
A.20 BCC Mrtg-38 A FRN XS0256813048	5,819	(92)	—	—	—	—
A.21 BCCM1B 0 Mar38 XS0256815688	—	—	—	—	1,439	111
A.22 LOGGI 2001-1 SUB FR0000488470	—	—	—	—	1,547	28
TOTAL MORTGAGE LOANS ON PROPERTY	187,428	22	9,332	546	5,391	139
B. State-owned properties						
B.1 Fip Fund-23 A2 FRN IT0003872774	100,517	—	—	—	—	—
B.2 SCC INPS 31lG19 FR IT0003953384	104	4	—	—	—	—
TOTAL B STATE-OWNED PROPERTIES	100,621	4	—	—	—	—
C. Leasing receivables						
C.1 Locat MTGE 04-24 FLT IT0003733083	4,747	(20)	—	—	—	—
C.2 Split 2-18 A FRN IT0003763882	1,318	8	—	—	—	—
C.3 Imser-06/25 A1B FRN IT0004082712	215	1	—	—	—	—
C.4 Imser Securit.2025 IT0004082746	4,552	—	—	—	—	—
C.5 Imser Securit.2021 IT0003382972	—	—	18,102	—	—	—
C.6 Agri 2006-1 A2 IT0004137417	10,932	1	—	—	—	—
C.7 Locat 12/12/2028 A2 IT0004153679	708	(4)	—	—	—	—
C.8 Abest 2 A 1/10/2015 XS0232767631	2,015	(700)	—	—	—	—
C.9 Quarzo-13 CL1 FRN IT0003487011	14,989	7	—	—	—	—
TOTAL C LEASING RECEIVABLES	39,476	(707)	18,102	—	—	—
D. Other receivables						
D.1 Entasi srl 16/08/2016 IT0003142996	56,020	(182)	—	—	—	—
D.2 Romolus 4.940 02/2013 (EUR) XS0161620439	935	—	—	—	—	—
D.3 Astrea srl 17/01/2013 IT0003331292	235	6	—	—	—	—
D.4 Elm BB.V. FL XS0247902587	22,164	(7,438)	—	—	—	—
D.5 Permanent Master Jul42 XS0454733358	10,786	(1,870)	—	—	—	—
TOTAL D OTHER RECEIVABLES	90,140	(9,484)	—	—	—	—
Total at 31/12/10	417,665	(10,165)	27,434	546	5,391	139
Total at 30/6/10	420, 068	1,129	8,156	1,734	1,327	697

[1] Includes a commitment of €123.2m to subscribe for Zeus F07-25 A FRN, and a refinancing credit line to Island in an amount of €20.6m.

C.1.4 Banking Group: exposures to securitizations by asset/portfolio type

Exposure/portfolio	Held for trading	Recognized at fair value	Available for sale	Held to maturity	Loans and advances	31/12/10	30/6/10
1. Cash exposures	62,346	—	56,149	41,201	290,794	450,490	444,531
- Senior	50,028	—	53,744	23,099	290,794	417,665	435,048
- Mezzanine	9,332	—	—	18,102	—	27,434	8,156
- Junior	2,986	—	2,405	—	—	5,391	1,327
2. Off-balance-sheet exposures	—	—	—	—	143,843	143,843	145,091
- Senior	—	—	—	—	143,843	143,843	145,091
- Mezzanine	—	—	—	—	—	—	—
- Junior	—	—	—	—	—	—	—

C.1.7 Banking Group: servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets 31/12/10		Receivables collected during the year		Percentage share of securities repaid 31/12/10					
		Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
						Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
SelmaBipiemme S.p.A.	Quarzo Lease S.r.l.	—	375,926	1,363	66,420	—	—	—	—	—	—
SelmaBipiemme S.p.A.	Quarzo Lease S.r.l.	—	437,046	2,021	68,113	—	—	—	—	—	—
Compass S.p.A.	Jump S.r.l.	5,639	668,086	1,135	192,859	—	18.0%	—	—	—	—
Compass S.p.A.	Quarzo S.r.l.	20,881	2,193,600	2,749	514,014	—	—	—	—	—	—

1.2 BANKING GROUP MARKET RISK

1.2.1 INTEREST RATE AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Mediobanca monitors interest rate risk on its trading book on a daily basis, by calculating sensitivity to movements in the interest rate curve and as part of its overall measurement of market risk, by calculating value at risk (VaR)[1]. VaR is measured for the Bank's entire asset structure, i.e. banking as well as trading book, so that all risks, including those relating to lending and funding activities, may be perceived more fully by the Bank's Financial Markets division.

The authorization structure governing Mediobanca's operations is based on value-at-risk readings for the various organizational units. VaR is calculated based on expected volatility and the correlation between risk factors concerned, assuming a disposal period of a single trading day and based on a 99% confidence level. VaR is calculated using the Monte Carlo method, along with historical simulations for indicative purposes.[2] Historical simulation is also used to calculate the expected shortfall, which measures average loss in 1% of the most unfavourable scenarios. The main risk factors on which the analysis is based are exchange rates, share prices and interest rates, with the general market component being kept separate from issuer-specific credit risk. Inflation and volatility trends are also factored into calculations of VaR.

In addition to these indicators, stress tests on the main risk factors are carried out weekly, to show the impact which sharp movements in the main market variables (such as share prices and interest or exchange rates) and the recurrence of historical crisis scenarios might have on the Bank's risk positions. Such scenarios include the Russian crisis of 1998, the shock induced by the terrorist attacks on September 11, 2001, the bankruptcy of Lehman Brothers, and the recent widening of spreads on European government securities.

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1 VaR: maximum potential loss over a specified time horizon and a given confidence level.

2 Determines portfolio value based on random and historical variations in risk factors respectively.

QUANTITATIVE INFORMATION

The start of the financial year was marked by the aftershocks of the crisis which hit the Eurozone government bonds market in spring 2010. The overall value at risk and VaR for the individual trading books recorded their highs at the start of July, due to a significant contribution from the interest rate component. This then weakened in the following months, until the crisis broke out again following the Irish government's application for aid, which led to a new record widening of spreads between peripheral member states' paper (including Italy) and German bonds. The enhanced coverage of positions at the time of this second crisis meant the impact was mitigated, on the trading book in particular.

Although the average VaR reading for the aggregate (i.e. comprising equities and bonds held as available for sale) was higher than the levels seen last year (at €36.5m, versus €34.8m), the reporting-date figure at 31 December 2010 was almost €10m.

Table 1 - Value at risk and expected shortfall of asset structure

Risk factors	6 mths to 31/12/10				12 mths to 30/6/10
(€'000)	31/12	Min.	Max.	Avg.	Avg.
Interest rates	16,101	13,266	42,726	20,716	18,644
- of which: specific risk	*15,169*	*8,741*	*28,278*	*15,391*	*9,348*
Share prices	16,681	13,896	35,746	21,488	20,585
Exchange rates	4,032	909	4,835	2,324	1,999
Inflation	411	225	979	525	1,566
Volatility	1,359	1,297	4,297	2,406	1,490
*Diversification effect**	(12,476)	(4,533)	(19,340)	(10,430)	(9,479)
TOTAL	25,697	21,606	71,126	36,503	34,805
Expected shortfall	*80,055*	*70,501*	*85,819*	*79,232*	*65,098*

* Due to mismatches between risk factors.

The gradually diminishing impact of the sovereign debt crisis is confirmed by the reporting-date interest rate risk reading of just over €16m, compared to an average for the six months of €20.7m and a high of over €42m. This reduction in interest rate risk increased the significance of the equities component, which, at €16.7m as at end-December was nonetheless a long way not only from its high for the period, of €35.7m, but also from the average reading for the six months, of €21.5m. Exchange rate risk and volatility reflected differing trends, despite having similar average values (around €2.4m): the former increased towards the end of the period, due to temporary growth in exposures, while the latter reflected the opposite trend (the figure as at end-December being near its low for the period) due to enhanced coverage of movements in volatility.

The six months under review saw the gap between the expected shortfall[3] and VaR widening, with the former at €80m and the latter €25.7m as at end-December. The reduction in volatility kept VaR down, which is much less affected by the events of last spring whereas the effects of these are still felt in the average of the extreme losses used to calculate the expected shortfall.

Analysis of VaR for the trading book alone (cf. Table 2 below) mirrors the trends in the aggregate data, with the highs reducing and the interest rate component having the greater relative weight. The average value at risk reading of €19.9m was higher than the €18.1m at the same time last year, although compared to a high of €39.8m, the end-December figure was just €14.1m, dragged down by the interest rate component which, compared with a high of over €36m, stood at just €12.2m at the reporting date, with a strong contribution from specific risk (€10.9m), confirming the major reduction in exposures to peripheral member states' sovereign debt.

Table 2: Value at risk and expected shortfall: trading book

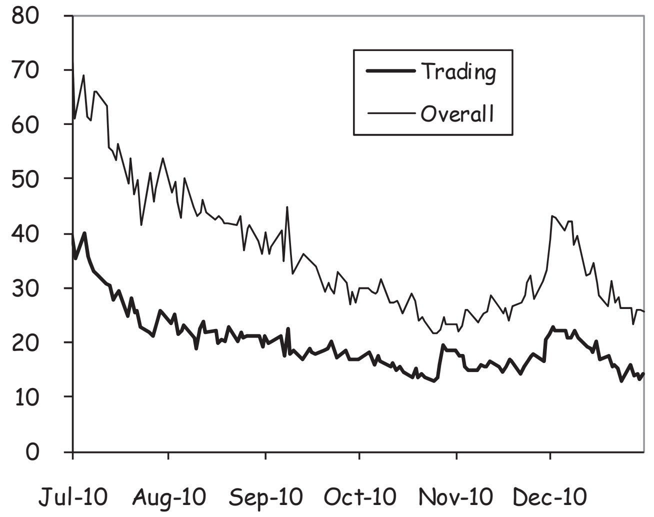
Risk factors	6 mths to 31/12/10				6 mths to 31/12/09
(€'000)	31/12	Min.	Max.	Avg.	Avg.
Interest rates	12,230	11,069	36,212	17,318	16,976
- of which: specific risk	*10,906*	*6,807*	*20,589*	*11,625*	*6,468*
Share prices	5,486	2,027	9,305	5,832	2,378
Exchange rates	3,154	312	3,746	1,419	1,638
Inflation	412	704	979	525	1,566
Volatility	1,359	1,297	4,291	2,407	1,455
*Diversification effect**	(8,078)	(3,303)	(13,396)	(7,054)	(5,879)
TOTAL	14,151	12,729	39,854	19,916	18,134
Expected shortfall	*46,369*	*40,089*	*50,693*	*45,011*	*30,186*

* Due to mismatches between risk factors.

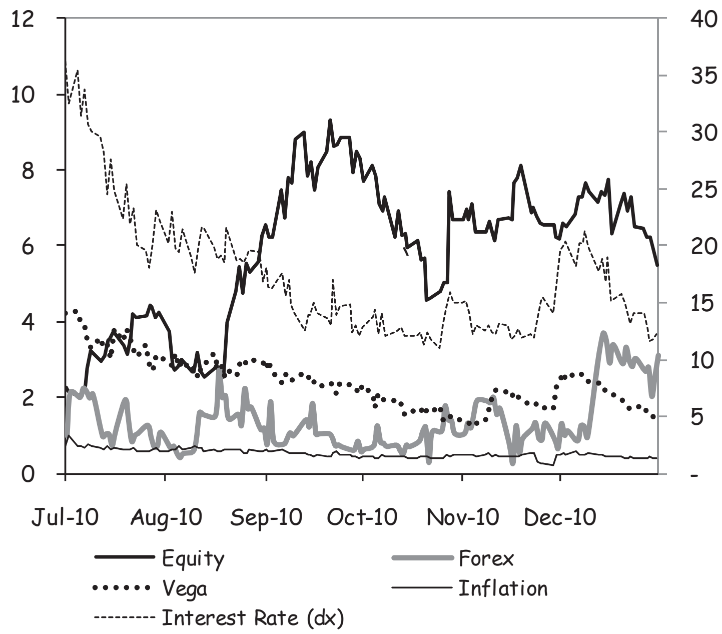
Of the other components, share prices reported a sharp increase in the average reading, from €2.4m to €5.8m (with a high of over €9m), due to increased trading activity, which also drove up the volatility reading (with average up from €1.4m to €2.4m). The end-year peak registered by exchange rate risk appears to be temporary, as confirmed by the fact that the average reading declined slightly, while inflation remained at low levels during the period.

3 Average of losses recorded in 1% of the most unfavourable scenarios.

Trends in VaR



Trends in VaR constituents



Although these data refer only to Mediobanca, it is worth stressing the fact that the market risks faced by the other Group companies are negligible. The most significant is that of Compagnie Monégasque de Banque, whose average VaR for the period based on a 99% confidence level was just €119,000, with a high of €159,000, and below the €138,000 recorded last year.

The reduction in value at risk has come about as a result of increased coverage of risk positions rather than a reduction in market volatility. Government bond prices fluctuated wildly during the autumn months as well, which explains why the VaR limits were breached on several occasions, as recorded by the daily back-testing based on the calculation of implied profits and losses.[4] The VaR limit was breached on just one occasion for the portfolio as a whole during the period and twice for the trading book. The number of breaches for the calendar year rises to 5 and 4 respectively, which is admittedly higher than the 2-3 times per financial year implied in a value-at-risk model at 99%, but is justified by the exceptional volatility on financial markets during 2010, and returns to normal levels if the time horizon is extended. In the past two and a half years, the VaR limit has been breached on just six occasions for the whole portfolio and 7 for the trading book, out of a total of around 650 readings.

[4] Based on repricing the previous day's positions using data from the following business day, in order to eliminate intraday trading items.

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The continuing size of the bond portfolio, much of which consists of bonds eligible for refinancing with the monetary authorities, meant that there continued to be a mismatch between assets and liabilities on the banking book, which accentuated the gap between an increase/decrease in interest rates on the banking book alone as opposed to the asset base as a whole.

A 100 basis point increase in interest rates would generate a reduction of €7.4m in estimated net interest income for the six months, representing the combined effect of a €22.9m addition for the trading book and a €30.3m reduction for the banking book. With virtually all interest rates now back above 1% (only the very short-term rates are still below this level), the impact of a shock in the opposite direction becomes virtually symmetrical: in the event of a 100 basis point reduction, the gain would be €8.6m on all assets (representing the balance between a €30.8m increase on the banking book and a €22.2m reduction on the trading book).

As for the other Group companies, the most significant exposures are those of Compass and CheBanca!, albeit in opposite directions. For Compass, the impact is similar to that for Mediobanca: a 100 basis point increase in the curves would generate a €9.4m reduction in net interest income, while the gain in the opposite scenario would amount to approximately €8.1m. For CheBanca!, on the other hand, the presence of fixed-rate deposits, albeit of limited duration, along with funding based on a repayment on demand model, generates a positive correlation: a 100 basis point increase leads to a gain of €5.6m, while the loss in the event of a 100 basis point reduction in interest rates would be €3.8m.

In addition to the sensitivity of net interest income to interest rates, the impact which a 100 basis point shock would have on the discounted value of future cash flows from the banking book has also been estimated. The fact that assets were lower than the level of liabilities is more than offset not just by their longer duration, but also by the presence of significant holdings in AFS and held-to-maturity assets. Hence the loss in the event of a rise in interest rates would be €116m for Mediobanca, while the gain in the opposite scenario is largely symmetrical and would amount to a total of €118.3m.

The sensitivity of CheBanca!'s banking book is equally significant, owing to its containing a sizeable portfolio of medium-term securities and its funding having a higher repricing frequency. Despite having much smaller asset levels than Mediobanca, the effect of a 100 basis point change in interest rates are significant and largely symmetrical: an increase in interest rates produces a loss of €95.4m, while the opposite scenario generates a gain of €94.5m.

Hedging

Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties. All structured bond issues are fair-value hedged as to the interest rate component, while index-linked issues are accounted for as part of the trading book. Fair value hedges are also used in corporate finance for certain bilateral, fixed-rate transactions and to mitigate price risk on equity investments held as available for sale.

Cash flow hedges

These are used chiefly as part of the Compass group's operations. 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 by correlating the relevant cash flows. Mediobanca S.p.A. implemented some cash flow hedges of future transaction flows during the period under review (AFS securities disposals hedged through forward contracts).

Counterparty risk

This is measured in terms of expected potential market value, thus doing away with the need to set arbitrary weightings for each type of fund employed, and identifies a maximum potential exposure to groups of the Bank's counterparties based on a given confidence level and over a specific time horizon.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Risk hedge activity

Risks deriving from movements in exchange rates for all the Bank's positions are managed by the Financial Markets division. The VaR measurements shown on page 136 thus reflect the extent of the aggregate exposures entered into on the foreign exchange market for both the banking and trading books. The average VaR reading shows an increase from €2m to €2.3m, confirming the fundamentally conservative approach adopted by Mediobanca in foreign exchange markets. The €4.8m high for the period and the reporting-date figure of €4m are both linked to temporary exposures rather than any increase in operations.

1.2.4 FINANCIAL DERIVATIVE PRODUCTS

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: average and reporting-date notional values

Type of transaction	31/12/10		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	100,727,849	8,546,903	108,320,896	45,676,567
a) Options	—	—	—	34,609,375
b) Swaps	98,719,760	—	94,267,070	—
c) Forwards	—	—	1,917,648	165,254
d) Futures	—	8,546,903	—	10,901,938
e) Others	2,008,089	—	12,136,178	—
2. Equities and share indexes	34,462,455	11,666,334	22,528,544	23,121,148
a) Options	32,412,687	11,522,320	20,061,175	23,031,364
b) Swaps	2,049,768	—	2,467,369	—
c) Forwards	—	—	—	6,903
d) Futures	—	144,014	—	82,881
e) Others	—	—	—	—
3. Exchange rates and gold	6,630,895	—	6,049,748	—
a) Options	1,760,557	—	1,881,017	—
b) Swaps	2,160,109	—	1,118,033	—
c) Forwards	2,710,229	—	3,050,698	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	141,821,199	20,213,237	136,899,188	68,797,715
Average values	139,503,447	44,505,476	110,156,539	39,575,216

A.2. Banking book: average and reporting-date notional values

A.2.1 Hedge derivatives

Type of transaction	31/12/10		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	33,950,651	—	35,221,809	—
a) Options	—	—	—	—
b) Swaps	33,850,651	—	35,021,809	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	200,000	—
2. Equities and share indexes	2,399	1,280	2,377	4,397
a) Options	22	1,280	—	4,397
b) Swaps	—	—	—	—
c) Forwards	2,377	—	2,377	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	33,297	—	43,716	—
a) Options	—	—	—	—
b) Swaps	33,297	—	43,716	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	33,986,347	1,280	35,267,902	4,397
Average values	34,416,335	4,027	33,756,115	3,387

A.2.2 Other derivatives

Type of transaction	31/12/10		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	155,340	—	12,251	—
a) Options	—	—	—	—
b) Swaps	12,251	—	12,251	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	143,089	—	—	—
2. Equities and share indexes	10,335,965	—	10,673,581	—
a) Options	10,335,965	—	10,673,581	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	43,489	—	51,489	—
a) Options	43,489	—	51,489	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	10,534,794	—	10,737,321	—
Average values	10,949,287	—	17,872,889	—

A.3 Financial derivatives: gross positive fair value by product

Type of transactions	Positive fair value			
	31/12/10		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	3,578,918	394,854	3,777,654	294,494
a) Options	924,208	384,769	919,433	288,325
b) Interest rate swaps	2,304,177	—	2,453,180	—
c) Cross currency swaps	62,968	—	30,053	—
d) Equity swaps	205,284	—	315,821	—
e) Forwards	82,280	—	59,117	1,122
f) Futures	—	10,085	—	5,047
g) Others	1	—	50	—
B. Banking book: hedge derivatives	1,772,730	—	1,961,652	—
a) Options	—	—	—	—
b) Interest rate swaps	1,772,361	—	1,960,333	—
c) Cross currency swaps	369	—	1,319	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	265,164	—	286,284	—
a) Options	265,164	—	286,284	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	5,616,812	394,854	6,025,590	294,494

A.4 *Financial derivatives: gross negative fair value by product*

Type of transaction	Negative fair value			
	31/12/10		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	(3,738,883)	(361,994)	(4,154,396)	(255,896)
a) Options	(858,027)	(353,242)	(905,586)	(239,051)
b) Interest rate swaps	(2,430,886)	—	(2,730,724)	—
c) Cross currency swaps	(145,896)	—	(135,793)	—
d) Equity swaps	(237,075)	—	(223,127)	—
e) Forwards	(66,998)	—	(159,127)	(126)
f) Futures	—	(8,752)	—	(16,719)
g) Others	(1)	—	(39)	—
B. Banking book: hedge derivatives	(693,799)	—	(789,716)	—
a) Options	(88,495)	—	(92,311)	—
b) Interest rate swaps	(598,865)	—	(689,757)	—
c) Cross currency swaps	(4,485)	—	(5,483)	—
d) Equity swaps	—	—	—	—
e) Forwards	(1,954)	—	(2,165)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	(353,334)	—	(343,651)	—
a) Options	(349,383)	—	(340,251)	—
b) Interest rate swaps	(3,951)	—	(3,400)	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(4,786,016)	(361,994)	(5,287,763)	(255,896)

A.5 *OTC financial derivatives: trading book – notional values, positive and negative fair values by counterparty, contracts not forming part of netting arrangements*

Contracts not forming part of netting arrangements	31/12/10						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	2,507,293	5,438,201	1,334,178	7,761,784	—
- positive fair value	—	—	36,219	73,470	59,026	236,756	—
- negative fair value	—	—	(55,449)	(92,145)	(5,138)	(46,242)	—
- future exposure	—	—	17,198	16,099	15,782	54,388	—
2. Equities and share indexes							
- notional value	—	—	39,386	528,175	111,118	734,660	—
- positive fair value	—	—	496	164,107	3,412	75,574	—
- negative fair value	—	—	(38)	(4,544)	(1,639)	(457)	—
- future exposure	—	—	2,823	37,202	6,667	44,198	—
3. Exchange rates and gold							
- notional value	—	—	118,865	45,022	—	419,791	2,066
- positive fair value	—	—	1,371	718	—	18,886	67
- negative fair value	—	—	(1,573)	(504)	—	(24,204)	(5)
- future exposure	—	—	1,179	450	—	21,770	21
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives: trading book – notional values, positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts forming part of netting arrangements	31/12/10						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	71,638,730	12,047,663	—	—	—
- positive fair value	—	—	1,628,778	281,876	—	—	—
- negative fair value	—	—	(2,025,652)	(238,596)	—	—	—
2. Equities and share indexes							
- notional value	—	—	15,141,330	17,795,914	—	111,872	—
- positive fair value	—	—	454,308	407,122	—	—	—
- negative fair value	—	—	(295,269)	(728,095)	—	(20,209)	—
3. Exchange rates and gold							
- notional value	—	—	5,335,323	709,828	—	—	—
- positive fair value	—	—	103,533	33,199	—	—	—
- negative fair value	—	—	(184,987)	(14,140)	—	—	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives: banking book – notional value, positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not forming part of netting arrangements	31/12/10						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	2,780,875	8,085	—	—	—
- positive fair value	—	—	13,931	—	—	—	—
- negative fair value	—	—	(40,995)	(112)	—	—	—
- future exposure	—	—	4,087	25	—	—	—
2. Equities and share indexes							
- notional value	—	—	2,377	—	—	—	22
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	(1,954)	—	—	—	(4)
- future exposure	—	—	238	—	—	—	2
3. Exchange rates and gold							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives: banking book – notional values, positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts forming part of netting arrangements	31/12/10						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	28,925,956	2,235,735	—	—	—
- positive fair value	—	—	1,722,239	36,191	—	—	—
- negative fair value	—	—	(594,739)	(51,509)	—	—	—
2. Equities and share indexes							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Exchange rates and gold							
- notional value	—	—	33,297	—	—	—	—
- positive fair value	—	—	369	—	—	—	—
- negative fair value	—	—	(4,485)	—	—	—	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

B. CREDIT DERIVATIVES

B.1 Credit derivatives: average and reporting-date notional values

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Hedge buys				
a) Credit default	2,061,981	72,028,210	551,981	—
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total A at 31/12/10	2,061,981	72,028,210	551,981	—
Average values	2,073,572	40,712,197	471,086	—
Total A at 30/6/10	2,109,324	9,355,437	403,429	40,746
2. Hedge sales				
a) Credit default	1,163,334	72,203,854	498,314	1,302,000
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total B at 31/12/10	1,163,334	72,203,854	498,314	1,302,000
Average values	1,187,323	40,909,467	549,639	1,102,000
Total B at 30/6/10	1,176,265	9,615,081	510,964	902,000

B.2 OTC credit derivatives: gross positive fair value – breakdown by product

Portfolio/derivative instrument type	Positive fair value	
	31/12/10	30/6/10
A. Regulatory trading book	1,708,918	382,619
a) Credit default products	1,708,918	382,619
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	170,063	69,481
a) Credit default products	170,063	69,481
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	1,878,981	452,100

B.3 OTC credit derivatives: gross negative fair value – breakdown by product

Portfolios/derivative instruments type	Negative fair value	
	31/12/10	30/6/10
A. Regulatory trading book	(1,778,070)	(397,501)
a) Credit default products	(1,778,070)	(397,501)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	(130,840)	(39,139)
a) Credit default products	(130,840)	(39,139)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	(1,908,910)	(436,640)

B.4 *OTC credit derivatives: gross positive and negative fair values by counterparty – contracts not forming part of netting arrangements*

Contracts not forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
Regulatory trading book							
1. Hedge buys							
- notional value	—	—	20,000	—	—	—	—
- positive fair value	—	—	8	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	1,000	—	—	—	—
2. Hedge sales							
- notional value	—	—	—	13,017	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	(112)	—	—	—
- future exposure	—	—	—	651	—	—	—
Banking book*							
1. Hedge buys							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Hedge sales							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Does not include implicit derivatives in bonds issued.

B.5 *OTC credit derivatives: gross positive and negative fair values by counterparty – contracts forming part of netting arrangements*

Contracts forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
Regulatory trading book							
1. Hedge buys							
- notional value	—	—	72,655,374	1,414,816	—	—	—
- positive fair value	—	—	690,947	19,341	—	—	—
- negative fair value	—	—	(1,044,634)	(17,974)	—	—	—
2. Hedge sales							
- notional value	—	—	72,176,051	1,178,120	—	—	—
- positive fair value	—	—	987,781	10,842	—	—	—
- negative fair value	—	—	(699,093)	(16,257)	—	—	—
Banking book*							
1. Hedge buys							
- notional value	—	—	12,500	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Hedge sales							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Does not include implicit derivatives in bonds issued.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1) Financial derivatives bilateral agreements							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Credit derivatives bilateral agreeements							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) "Cross product" agreements*							
- positive fair value	—	—	1,270,631	209,718	—	—	—
- negative fair value	—	—	(527,877)	(317,082)	—	(20,209)	—
- future exposure	—	—	2,372,582	398,824	—	—	—
- net counterparty risk	—	—	2,465,250	592,579	—	—	—

* Net of €1,193,927,000 in cash collateral.

1.3 BANKING GROUP LIQUIDITY RISK

QUALITATIVE INFORMATION

Although liquidity risk is monitored using similar methods to previous years (with appropriate additions), a new liquidity policy is in the process of being approved which aims to:

— identify precisely the persons responsible for controlling liquidity risk for the Group as a whole, their responsibilities and duties;

— describe the instruments and methodologies to be adopted in measuring liquidity risk;

— set risk limits for operating liquidity and the process for monitoring compliance with them;

— introduce monitoring of structuring liquidity and the funding plan, using long-term indicators.

With regard to liquidity indicators specifically, this will involve monitoring cumulative liquidity mismatches. For short-term maturities, the restriction will take the form of a counterbalance capacity which must always be higher than net outflows, including in stress situations. For structural liquidity, after mapping the various balance-sheet items on the temporal axis based on the ease with which they may effectively be cashed, the restriction is that inflows must cover 100% of outflows on maturities of more than one year and 90% of maturities of more than five years.

This methodology will complement those utilized during the six months under review, in which a time profile for future cash requirements is generated daily for measurements based on definite cash flows (that is, not including possible renewals/early redemptions), and is supplemented weekly with readings incorporating the estimate component. These balances are then compared with the amount of the counterbalance capacity, defined narrowly as the aggregate of securities that can be allocated for refinancing transactions with the monetary authorities, and including more illiquid assets (such as undeliverable bonds, shares, deliverable receivables), to which major haircuts are applied.

Stress testing is carried out weekly, assuming:

— extraordinary drawdowns on committed lines granted to customers;

— major reductions in interbank funding raised by Group companies (which depend *inter alia* on commercial relations);

— partial failure to renew CheBanca! funding when term deposits expire.

During the six months under review, the presence of a substantial amount of liquid items (for the most part repos) along with the large securities portfolio ensured that the balance of estimated net outflows was well below the counterbalance capacity, even in stress situations.

A steering committee also analyses the Bank's liquidity situation, the sustainability of business development on the Bank's asset structure, and the sensitivity of earnings to movements in interest rates on a fortnightly basis.

QUANTITATIVE INFORMATION

1. *Financial assets and liabilities by outstanding life Currency of denomination: EURO*

Type	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	2,549,849	1,959,301	461,728	2,887,005	2,535,266	3,006,374	4,203,882	25,873,094	14,866,861	112,374
A.1 Government securities	5,006	—	—	—	932,145	1,122,063	366,559	1,115,569	1,569,107	—
A.2 Other debt securities	49,398	26,968	10,825	97,602	192,256	253,224	794,575	7,594,218	4,240,433	—
A.3 OICR units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	2,495,445	1,932,333	450,903	2,789,403	1,410,865	1,631,087	3,042,748	17,163,307	9,057,321	112,374
– to banks	999,565	376,222	28	716,310	159,582	12,922	83,503	359,202	130,167	19,915
– to customers	1,495,880	1,556,111	450,875	2,073,093	1,251,283	1,618,165	2,959,245	16,804,105	8,927,154	92,459
Cash liabilities	4,139,808	1,983,674	277,983	1,852,121	4,447,110	5,252,025	7,624,236	27,530,623	6,284,911	12,432
B.1 Deposits	4,139,808	964,154	272,524	1,282,612	2,588,054	3,439,261	4,771,046	954,036	1,429,084	12,432
– to banks	1,873,886	522,539	101,908	915,101	587,095	1,313,259	1,837,473	790,475	356,981	1,230
– to customers	2,265,922	441,615	170,616	367,511	2,000,959	2,126,002	2,933,573	163,561	1,072,103	11,202
B.2 Debt securities	—	31,939	2,459	62,554	1,859,056	1,720,105	2,853,190	26,576,587	4,855,827	—
B.3 Other liabilities	—	987,581	3,000	506,955	—	92,659	—	—	—	—
Off-balance-sheet transactions	5,808,839	3,157,268	307,117	2,166,983	4,419,567	5,740,451	5,387,418	52,846,263	10,714,731	—
C.1 Financial derivatives with exchange of principal	—	34,136	24,595	5,824	2,020,633	74,287	266,897	1,141,441	191,555	—
– long positions	—	33,056	23,473	2,879	1,498,077	54,293	78,998	742,074	45,466	—
– short positions	—	1,080	1,122	2,945	522,556	19,994	187,899	399,367	146,089	—
C.2 Financial derivatives without exchange of principal	5,735,285	6,319	17,737	85,109	293,745	263,689	1,253,210	10,121	—	—
– long positions	3,230,713	4,779	13,088	39,974	207,114	146,061	969,318	1,803	—	—
– short positions	2,504,572	1,540	4,649	45,135	86,631	117,628	283,892	8,318	—	—
C.3 Deposits and loans for collection	—	544,605	—	—	—	—	—	248,573	296,032	—
– long positions	—	544,605	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	248,573	296,032	—
C.4 Irrevocable commitments to disburse funds [1]	56,915	2,572,208	264,785	2,071,178	2,105,069	5,402,475	3,867,010	51,431,109	10,223,091	—
– long positions	—	271,000	10,000	6,997	56,948	2,701,535	2,035,449	26,853,327	7,061,664	—
– short positions	56,915	2,301,208	254,785	2,064,181	2,048,121	2,700,940	1,831,561	24,577,782	3,161,427	—
C.5 Financed guaranties issued	16,639	—	—	4,872	120	—	301	15,019	4,053	—

[1] This item includes hedge sales, fully matched by purchases for the same amount.

Currency of denomination: US DOLLAR

Type	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	119,744	142,402	4,204	411,164	94,958	66,881	40,208	1,233,289	247,773	1
A.1 Government securities	—	—	—	—	26	—	26	208	517	—
A.2 Other debt securities	—	103,101	3,591	12,495	84,598	10,298	29,382	540,395	210,790	—
A.3 OICR units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	119,744	39,301	613	398,669	10,334	56,583	10,800	692,686	36,466	1
– to banks	36,575	37,423	—	261	—	527	870	3,715	857	—
– to customers	83,169	1,878	613	398,408	10,334	56,056	9,930	688,971	35,609	1
Cash liabilities	546,885	180,543	37,763	225,316	342,698	16,657	37,758	199,608	—	3
B.1 Deposits	546,885	180,543	12,692	225,316	59,537	15,628	19,850	153	—	3
– to banks	9,740	163	—	102,535	24,599	1,081	1,797	—	—	—
– to customers	537,145	180,380	12,692	122,781	34,938	14,547	18,053	153	—	3
B.2 Debt securities	—	—	25,071	—	283,161	1,029	17,908	199,455	—	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	498,269	304,384	978,355	156,051	683,830	4,086,944	1,662,650	66,584,982	11,231,328	—
C.1 Financial derivatives with exchange of principal	—	238,526	365,429	156,051	617,972	460,896	949,858	650,898	149,678	—
– long positions	—	165,046	337,753	149,802	395,689	271,384	14,968	14,070	—	—
– short positions	—	73,480	27,676	6,249	222,283	189,512	934,890	636,828	149,678	—
C.2 Financial derivatives without exchange of principal	498,269	—	—	—	—	—	—	—	—	—
– long positions	58,614	—	—	—	—	—	—	—	—	—
– short positions	439,655	—	—	—	—	—	—	—	—	—
C.3 Deposits and loans for collection	—	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.4 Irrevocable commitments to disburse funds [1]	—	65,858	612,926	—	65,858	3,626,048	712,792	65,934,084	11,081,650	—
– long positions	—	32,929	306,463	—	32,929	1,813,024	356,396	32,963,300	5,544,567	—
– short positions	—	32,929	306,463	—	32,929	1,813,024	356,396	32,970,784	5,537,083	—
C.5 Financed guaranties issued	—	—	—	—	—	—	—	—	—	—

[1] This item includes hedge sales, fully matched by purchases for the same amount.

Currency of denomination: OTHER

Type	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	130,293	86	4,254	46,814	150,167	9,449	37,024	616,491	103,024	3,539
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Other debt securities	—	—	84	23	34,078	8,561	34,813	253,006	17,382	—
A.3 OICR units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	130,293	86	4,170	46,791	116,089	888	2,211	363,485	85,642	3,539
– to banks	126,174	—	—	—	—	—	—	—	1	16
– to customers	4,119	86	4,170	46,791	116,089	888	2,211	363,485	85,641	3,523
Cash liabilities	56,774	232	33,189	48,241	43,942	296,949	15,251	19,227	250,312	4,524
B.1 Deposits	56,774	209	—	27,639	3,955	5,871	2,762	—	—	4,524
– to banks	2,859	209	—	21,760	1,057	632	1,257	—	—	—
– to customers	53,915	—	—	5,879	2,898	5,239	1,505	—	—	4,524
B.2 Debt securities	—	—	33,189	20,602	39,987	291,078	12,489	19,227	250,312	—
B.3 Other liabilities	—	23	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	874,440	23,961	433	126,560	84,903	303,628	618,379	2,790,087	202,005	—
C.1 Financial derivatives with exchange of principal	—	23,961	—	126,560	84,903	303,189	605,818	553,547	202,005	—
– long positions	—	16	—	32,477	9,151	293,895	309,894	78,126	17,956	—
– short positions	—	23,945	—	94,083	75,752	9,294	295,924	475,421	184,049	—
C.2 Financial derivatives without exchange of principal	874,440	—	433	—	—	439	12,561	—	—	—
– long positions	355,743	—	—	—	—	—	11,668	—	—	—
– short positions	518,697	—	433	—	—	439	893	—	—	—
C.3 Deposits and loans for collection	—	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.4 Irrevocable commitments to disburse funds [1]	—	—	—	—	—	—	—	2,236,540	—	—
– long positions	—	—	—	—	—	—	—	1,118,270	—	—
– short positions	—	—	—	—	—	—	—	1,118,270	—	—
C.5 Financed guaranties issued	—	—	—	—	—	—	—	—	—	—

[1] This item includes hedge sales, fully matched by purchases for the same amount.

1.4 BANKING GROUP - OPERATING RISK

QUALITATIVE INFORMATION

Definition

Operating risk is the risk of incurring losses as a result of external events or the inadequacy or malfunctioning of procedures, staff and internal systems. Operating risk includes litigation risk, but does not include strategic or reputational risk.

Capital requirements for operating risk

Mediobanca has decided to adopt the Basic Indicator Approach ("BIA") in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the average of the last three readings of total income. Based on this method of calculation, the capital requirement as at 31 December 2010 was €244.2m (unchanged since the balance-sheet date).

Risk mitigation

In the review of its internal procedures as part of the "Head of company financial reporting" project, the Group has sought to identify the major sources of possible risk and the relevant measures to be taken in order to control and mitigate it, by formulating company procedures and focusing mitigation activity on the most serious aspects.

With reference to the possibility of losses caused by interruptions in operations or systems being unavailable, the Group has drawn up operating continuity and disaster recovery plans to ensure that activity can continue and to limit operating losses in the event of prolonged interruptions. The Group reviews the operating continuity and emergency plans regularly, to ensure that these are consistent with its activities and current operating strategies.

Internal access computer systems is also monitored, in particular attacks from outside, using the appropriate computer and observation instruments.

Insurance policies have been taken out to cover the most valuable staff members and assets and as protection for management of cash.

As for the possibility of risks deriving from outsourcing activities, the Group has implemented a continuous monitoring and regular review system to assess the continuity and level of the service provided by suppliers.

Litigation risk: risks deriving from litigation pending

Apart from the claim pending against Mediobanca for the alleged failure to launch a full takeover bid for La Fondiaria in 2002 (cf. p. 35), the Group faces no litigation risk worthy of note.

1.5 BANKING GROUP – OTHER RISKS

QUALITATIVE INFORMATION

As part of the Internal Capital Adequacy Assessment Process (or 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, market risk, liquidity and operating risk):

— interest rate risk on the banking book, deriving from possible changes in interest rates;

— concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);

— strategic risk, 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 business discontinuities 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;

— 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;

— securitization risk, i.e. the risk that the economic substance of a securitization might not be fully reflected in the risk assessment and management decisions taken.

The Group publishes information regarding its exposure to risks, and the general characteristics of the systems put in place to identify, measure and manage such risks, in the disclosure document required under pillar III of the Basel II regulations, to be found on the Bank's website at www.mediobanca.it.

PART F - INFORMATION ON CONSOLIDATED CAPITAL

Section 1

Consolidated capital

A. Qualitative information

Capital is the first and most important safeguard of a bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply. In particular, the ratio between risk-weighted assets and regulatory capital must not fall below 8%. The Bank of Italy has established a prudential level of 10%, which falls to 6% if only Tier 1 capital is considered (the core Tier 1 ratio).

Since its inception one of the distinguishing features of Mediobanca has been the solidity of its financial structure, with capital ratios that have been consistently and significantly higher than those required by the regulatory guidelines.

In October the first full internal capital adequacy assessment process (ICAAP) was completed and the relevant information disclosed to the public in accordance with Basel 2 pillar III; the document may be found on the Bank's website at www.mediobanca.it.

B. Quantitative information

B.1 Consolidated net equity: breakdown by type of company

Net equity constituents	Banking group [1]	Insurance companies	Other companies	Elisions/adjustments upon-consolidation	Total
Share capital	455,499	—	—	—	455,499
Share premium	2,127,136	—	—	—	2,127,136
Reserves	4,277,985	—	—	—	4,277,985
Equity instruments	—	—	—	—	—
Treasury shares	(213,844)	—	—	—	(213,844)
Valaution reserves:	42,989	—	—	—	42,989
- AFS securities	(88,779)	—	—	2,674	(86,105)
- Property, plant and equipment	—	—	—	—	—
- Intangible assets	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—
- Cash flow hedges	(50,077)	—	—	—	(50,077)
- Exchange rate differences	3,172	—	—		3,172
- Non-current assets being sold	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	—	—	—	—	—
- Share of valuation reserves represented by equity-accounted companies	163,611	—	—	(2,674)	160,937
- Special valuation laws	15,062	—	—	—	15,062
Gain (loss) for the period attributable to the Group/minorities	265,435	—	—	—	265,435
Total	6,955,200	—	—	—	6,955,200

[1] Includes pro-rata consolidation of banca Esperia.

B.2 *AFS valuation reserves: composition*

Assets/amounts	Banking group		Insurance companies		Other companies		Elisions/adjustments upon consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	46,289	(151,362)	—	—	—	—	—	10	46,289	(151,352)
2. Equities	122,959	(107,246)	—	—	—	—	—	—	122,959	(107,246)
3. OICR units	6,590	(6,009)	—	—	—	—	(386)	3,050	6,204	(2,959)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 31/12/10	175,838	(264,617)	—	—	—	—	(386)	3,060	175,452	(261,557)
Total at 30/6/10	146,026	(170,296)	—	—	—	—	—	2,322	146,026	(168,614)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equities	UCITS units	Loans	Total
1. Opening balance	(21,542)	(4,374)	3,328	—	(22,588)
2. Additions	27,586	92,876	4,794	—	125,256
2.1 Increases in fair value	22,247	85,489	4,486	—	112,222
2.2 Negative reserves charged back to profit and loss as a result of	5,339	3,470	308	—	9,117
– impairment	—	—	—	—	—
– disposals	5,339	3,470	308	—	9,117
2.3 Other additions	—	3,917	—	—	3,917
3. Reductions	111,107	72,789	4,877	—	188,773
3.1 Reductions in fair value	108,229	72,341	509	—	181,079
3.2 Adjustments for impairment	—	—	200	—	200
3.3 Positive reserves credited back to profit and loss as a result of: disposals	2,878	448	144	—	3,470
3.4 Other reductions	—	—	4,024	—	4,024
4. Balance at end of period	(105,063)	15,713	3,245	—	(86,105)

Section 2

Regulatory and supervisory capital requirements for banks

2.1 *Scope of application of regulations*

Regulatory capital has been calculated on the basis of Bank of Italy circulars no. 263 issued on 27 December 2006 (seventh update issued on 28 January 2011) and no. 155 (twelfth update issued on 5 February 2008), which transpose the new prudential guidelines for banks and banking groups introduced by the New Basel Capital Accord (Basel II) into the Italian regulatory framework.

The Group has opted for the "full neutralization" permitted by the Bank of Italy in its guidance issued on 18 May 2010, whereby the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets can be neutralized for the purpose of calculating regulatory capital.

New supervisory regulations for banks in the form of the Basel III agreements were released in September 2010, the purpose of which is to bring about a general improvement in the quality of regulatory capital. Once the new regulations have been adopted by the European Commission, they will gradually be implemented starting from January 2013.

2.2 *Regulatory capital requirements for banks*

A. Qualitative information

1. *Tier 1 and 2 capital*

Tier 1 capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves, and profit for the period net of treasury shares (€213.8m), intangible assets (€62.3m), goodwill (€460.7m), and 50% of the book value of the Bank's investments in banks and financial services companies (equal to €45.3m).

Tier 2 capital includes 50% of the positive reserves for AFS securities (€123.8m, net of the prudential filter for government securities), the positive valuation reserves (€15.1m), Tier 2 subordinated liabilities (€1,670.7m, up as a result of the €750m subordinated bond issue) positive exchange rate differences (€53.3m) less unrealized losses on investments (€75.4m) and the remaining share of the book value of investments in banks and financial companies (€45.3m).

B. Quantitative information

	31/12/10	30/6/10
A. Tier 1 capital prior to application of prudential filters	6,172,389	5,966,447
B. Tier 1 prudential filters:		
B.1 IAS/IFRS positive filters	—	—
B.2 IAS/IFRS negative filters	(17,686)	(23,704)
C. Tier 1 capital gross of items to be deducted	6,154,703	5,942,743
D. Items for deduction from Tier 1 capital	(45,348)	(18,538)
E. Total Tier 1 capital	6,109,355	5,924,205
F. Tier 2 capital prior to application of prudential filters	1,806,742	1,100,100
G. Tier 2 prudential filters:		
G.1 IAS/IFRS positive filters	104,486	38,099
G.2 IAS/IFRS negative filters	(123,781)	(115,972)
H. Tier 2 capital gross of items to be deducted da dedurre	1,787,447	1,022,227
I. Items for deduction from Tier 2 capital	(45,348)	(18,538)
L. Total Tier 2 capital	1,742,099	1,003,689
M. Items for deduction from Total Tier 1 and Tier 2 capital	—	—
N. Regulatory capital	7,851,454	6,927,894
O. Total Tier 3 capital	—	—
P. Total regulatory capital including Tier 3	7,851,454	6,927,894

2.3 Capital adequacy

A. Qualitative information

As at 31 December 2010, the Bank's total core ratio, calculated as regulatory capital as a percentage of risk-weighted assets, stood at 14.26%, while the core Tier 1 ratio, calculated as Tier 1 capital as a percentage of risk-weighted assets, amounted to 11.10%, up on the figures reported at the balance-sheet date, that is, 12.97% and 11.09%, driven by an increase in regulatory capital, following the issue of a new subordinated bond and the capitalization of profit for the period, which offset a slight increase in risk-weighted assets, up 3%, from €53.4bn to €55bn, chiefly due to growth in the trading book.

B. Quantitative information

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/10	30/6/10	31/12/10	30/6/10
A. RISK ASSETS				
A.1 Credit and counterpart risk	71,194,012	72,387,799	44,301,677	43,773,283
1. Standard methodology	70,807,957	72,048,600	44,034,662	43,620,095
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	386,055	339,199	267,015	153,188
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterpart risk			3,522,773	3,501,863
B.2 Market risk			636,004	528,034
1. Standard methodology			613,084	528,034
2. Internal models			—	—
3. Concentration risk			22,920	—
B.3 Operational risk			244,179	244,179
1. Basic Indicator Approach (BIA)			244,179	244,179
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.4 other prudential requirements			—	—
B.5 Other calculation elements			—	—
B.6 Total prudential requirements			4,403,576	4,274,076
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			55,044,662	53,425,956
C.2 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			11.10%	11.09%
C.3 Regulatory capital/risk-weighted assets (total capital ratio)			14.26%	12.97%

PART H - RELATED PARTY DISCLOSURE

1. *Related party disclosure*

At a Board meeting held on 23 November 2010, the Directors of Mediobanca approved the procedure in respect of transactions involving related parties, after the Related Parties Committee (made up solely of independent Directors) had given its approval; the procedure, adopted in pursuance of Consob resolution no. 17221 issued on 12 March 2010, is intended to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The full document is published on the Bank's website at www.mediobanca.it.

The procedure came into force on 1 January 2011, without prejudice to the publicity profiles in force since 1 December 2010.

For the definition of related parties adopted, please see Part A of the Notes to the Accounts, "Significant 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 indicated in a footnote to the tables. No transactions were entered into with related parties during the six months that could have impacted significantly on the Group's assets or earnings results.

The exposure to related parties (defined as the sum of assets plus guarantees and commitments) fell from €4.1bn to €3.4bn, due to the reduction in treasury positions.

Overall, accounts with related parties represent approx. 5% of the total balance-sheet aggregates, and approx. 5% of net interest income.

Situation at 31 December 2010

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
	€m	€m	€m	€m
Assets	0.2	1,641.0	1,430.6	3,071.8
of which: other assets	—	*241.6*	*157.9*	*399.5*
loans and advances	*0.2*	*1,399.4*	*1,272.7*	*2,672.3*
Liabilities	21.4	45.4	329.2	396.0
Guarantees and commitments	—	134.2	209.6	343.8
Interest income	—	39.7	33.1	72.8
Interest expense	(0.2)	(0.2)	(2.9)	(3.3)
Net fee income	—	(0.5)	2.6	2.1
Other income (costs)	(13.0)[1]	(37.1)	(5.0)	(55.1)

[1] Of which: short-term benefits amounting to €11.4m, and stock options worth €0.8m; this amount reflects the expansion in the numbers of strategic management approved by the Board of Directors during the financial year.

Situation at 30 June 2010*

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
	€m	€m	€m	€m
Assets	—	1,733.8	1,980.1	3,713.9
of which: other assets	—	*281.3*	*699.9*	*981.2*
loans and advances	—	*1,452.5*	*1,280.2*	*2,732.7*
Liabilities	27.1	258.0	134.4	419.5
Guarantees and commitments	—	62.2	330.5	392.7
Interest income	—	76.7	73.2	149.9
Interest expense	(0.9)	(0.3)	(0.2)	(1.4)
Net fee income	—	31.7	38.2	69.9
Other income (costs)	(19.2)[1]	39.4	21.1	41.3

[1] Of which: short-term benefits amounting to €18.6m, and stock options worth €0.5m.

* Accounts with companies directly controlled by Board members and strategic management are included under Other related parties.

PART I - SHARE-BASED PAYMENT SCHEMES

A. QUALITATIVE INFORMATION

1. *Description*

Information on the increases in the Bank's share capital as a result of stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, is as follows:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of shares awarded
29 March 1999	3,130,000	Expired	31 December 2011	3,130,000
30 July 2001	50,000,000	Expired	1 July 2015	49,634,000
28 October 2004	15,000,000	Expired	1 July 2020	14,375,000
of which to directors[1]	*4,000,000*	*Expired*	*1 July 2020*	*3,375,000*[2]
27 June 2007	40,000,000	27 June 2012	1 July 2022	16,561,000
TOTAL	**108,130,000**			**83,675,000**

The schemes provide for a maximum duration of ten 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.

[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.

A total of 16,360,000 stock options were awarded during the six months, as part of variable staff remuneration for 2010. Of these new options, 950,000 were granted to Directors (all of which from the amount approved by shareholders at a general meeting held on 27 June 2007) at a price of €6.537, vesting for three years and exercisable in eight years.

Mediobanca, along with Mediolanum, also participates in the stock option scheme operated by Banca Esperia for its staff, reserving a portion of its investment in the company for use in connection with this scheme.

2. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2010. Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

— bring the Bank's remuneration structure into line with guidance issued by regulatory authorities requiring that significant percentages of the variable remuneration component annually assigned be paid in the form of equity instruments, making it consistent with results sustainable over time;

— encourage the involvement of key staff in a mechanism for co-investing in the share capital of Mediobanca;

— introduce a new instrument alongside the stock options, with a limited number of newly-issued shares and by using the treasury shares owned by the Bank, in order to limit the dilutive impact on the ownership structure.

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, and treasury shares owned by the Bank used for this purpose.

B. QUANTITATIVE INFORMATION

1. Changes during the period

	31/12/10			30/6/10		
	No. of options	Avg. Price	Avg. expiry	No. of options	Avg. price	Avg. expiry
A. Balance at start of period	24,365,750	12.21	June 2015	24,610,750	12.23	May 2015
B. Additions						
B.1 New issues	16,360,000	6.54	August 2018	310,000	7.84	July 2017
B.2 Other additions	—	—	—	—	—	—
C. Reductions						
C.1 Options cancelled	—	—	—	525,000	10.87	—
C.2 Options exercised	—	—	—	—	—	—
C.3 Options expired	—	—	—	—	—	—
C.4 Other reductions	—	—	—	30,000	7.84	—
D. Balance at end of period	40,725,750	9,93	September 2016	24,365,750	12.21	June 2015
E. Options exercisable as at reporting date	13,399,750	13.77	August 2014	12,029,750	13.64	June 2014

PART L - SEGMENT REPORTING

A. PRIMARY SEGMENT REPORTING

A.1 Profit-and-loss figures by business segment

Profit-and-loss figures	Corporate & Investment Banking €m	Principal Investing €m	Retail & Private banking €m	Others €m	Writeoffs [1] €m	Group €m
Net interest income	223.6	(3.9)	315.0	(0.1)	(3.1)	531.5
Net trading income	97.2	—	49.0	—	(19.8)	126.4
Net fee and commission income	163.6	—	122.2	3.5	(23.4)	265.9
Share in profits earned by equity-accounted companies	(7.2)	116.7	—	—	0.7	110.2
Total income	**477.2**	**112.8**	**486.2**	**3.4**	**(45.6)**	**1,034.0**
Personnel costs	(120.3)	(2.8)	(91.5)	(2.1)	9.9	(206.8)
Administrative expenses	(50.7)	(1.2)	(157.8)	(4.4)	13.7	(200.4)
Operating costs	**(171.0)**	**(4.0)**	**(249.3)**	**(6.5)**	**23.6**	**(407.2)**
Gain (loss) on disposal of AFS securities	(49.5)	—	(169.9)	—	—	(219.4)
Gain (loss) on disposal of other securities	(15.0)	(4.5)	(0.3)	—	(0.1)	(19.9)
Others	—	—	—	—	0.1	0.1
Profit before tax	**241.7**	**104.3**	**66.7**	**(3.1)**	**(22.0)**	**387.6**
Income tax for the period	(94.7)	1.0	(28.8)	(0.1)	0.4	(122.2)
Minority interest	(2.5)	—	—	—	—	(2.5)
Net profit	**144.5**	**105.3**	**37.9**	**(3.2)**	**(21.6)**	**262.9**
Cost/income ratio (%)	*35.8*	*3.5*	*51.3*	*n.s.*	*n.s.*	*39.4*

Business divisions comprise:

- *CIB (Corporate and Investment Banking)*: comprises corporate and investment banking activities, including leasing, plus the Group's AFS portfolio, The companies which contribute to this line of business are: Mediobanca, Mediobanca International, MB Securities USA, Consortium, Prominvestment, SelmaBipiemme Leasing, Palladio Leasing and Teleleasing;
- *Principal Investing*: this comprises the Group's shareholdings in Assicurazioni Generali, RCS MediaGroup and Telco, plus stakes acquired as part of merchant banking activity and investments in private equity funds;
- *Retail and Private Banking*: this division comprises activities targeting retail customers through consumer credit products, mortgages, deposit accounts, private banking and fiduciary business, The companies which form part of this division are Compass, CheBanca!, Cofactor, Futuro and Creditech and Compass RE (consumer finance), Compagnie Monégasque de Banque, Spafid and Prudentia Fiduciaria plus 50% of Banca Esperia (private banking).

[1] The column headed "Adjustments" includes the contribution of Banca Esperia, which for operating purposes is consolidated pro-rata, plus any adjustments made upon consolidation (including elimination of inter-company positions) between the different business areas, and in particular includes €21.5m in dealing profits on intra-group trades attributable to the retail area.

A.2 *Balance-sheet data by business segment (net contributions)*

Balance-sheet data	Corporate & Investment Banking €m	Principal Investing €m	Retail & Private banking €m	Others €m	Writeoffs [1] €m	Group €m
Treasury funds	12,790.9	—	4,212.6	0.9	(5,864.9)	11,139.5
AFS securities	6,242.5	133.9	2,065.6	—	(889.6)	7,552.4
Equity investments	1,983.6	—	2,555.5	—	(2,554.7)	1,984.4
Funding	377.4	3,010.3	—	—	58.1	3,445.8
Loans and advances to customers	26,515.1	—	12,894.7	—	(4,307.8)	35,102.0
Financial assets held to maturity (HTM & LR)	(44,963.7)	(259.8)	(21,183.2)	(11.3)	13,512.3	(52,905.7)

[1] The column headed "Adjustments" includes the contribution of Banca Esperia, which for operating purposes is consolidated pro-rata, plus any adjustments made upon consolidation (including elimination of inter-company positions) between the different business areas.

INDEPENDENT AUDITORS' REVIEW REPORT

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Independent auditors' review report
on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Mediobanca S.p.A.

1. We have reviewed the interim condensed consolidated financial statements of Mediobanca S.p.A. and its subsidiaries ("Mediobanca Group") as of 31 December 2010, comprising the balance sheet, the profit and loss account, the comprehensive income statement, the statement of changes to net equity, the cash flow statement and the related explanatory notes. The Board of Directors of Mediobanca S.p.A. is responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the comparative figures for the year ended 30 June 2010 and for the six months ended 31 December 2009, reference should be made to our reports issued on 29 September 2010 and on 26 February 2010, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Mediobanca Group as of 31 December 2010 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 28 February 2011

Reconta Ernst & Young S.p.A.
Signed by: Davide Lisi, Partner

This report has been translated into the English language solely for the convenience of international readers

Annexes

CONSOLIDATED BALANCE SHEET (IAS/IFRS-compliant) *

Assets	IAS-compliant 31/12/10	IAS-compliant 30/6/10	IAS-compliant 31/12/09
	€m	€m	€m
10. Cash and cash equivalents	35.6	26.8	28.9
20. Financial assets held for trading	15,941.0	16,375.4	15,692.0
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	7,552.4	6,825.8	7,807.1
50. Financial assets held to maturity	1,253.3	720.7	577.8
60. Due from banks	3,750.3	5,380.5	4,690.7
of which:			
other trading items	*2,941.9*	*4,739.3*	*3,927.1*
securities	—	—	—
other items	*15.6*	*2.8*	*3.4*
70. Due from customers	40,270.1	39,924.7	39,385.2
of which:			
other trading items	*5,006.6*	*5,868.4*	*5,751.5*
securities	*731.1*	*734.7*	*756.2*
other items	*114.7*	*76.7*	*76.3*
80. Hedging derivatives	1,758.9	1,844.3	1,840.5
of which:			
funding hedge derivatives	*1,758.5*	*1,844.3*	*1,837.6*
lending hedge derivatives	—	—	*1.2*
90. Value adjustments to financial assets subject to general hedging	—	—	—
100. Equity investments	3,445.8	3,348.0	3,037.7
110. Total reinsurers' share of technical reserves	—	—	—
120. Property, plant and equipment	318.1	320.0	318.7
130. Intangible assets	438.1	442.6	444.2
of which:			
goodwill	*365.9*	*365.9*	*365.9*
140. Tax assets	830.3	914.3	700.3
a) current	*224.0*	*290.9*	*177.7*
b) advance	*606.3*	*623.4*	*522.5*
150. Other non-current and Group assets being sold	—	—	—
160. Other assets	171.9	219.0	158.6
of which:			
other trading items	*7.9*	*24.7*	*5.9*
TOTAL ASSETS	75,765.8	76,342.1	74,681.7

*** Figures in €m**

The balance sheet provided on p. 11 reflects the following restatements:

- *Treasury funds* comprises asset headings 10 and 20 and liability heading 40, plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10 and 20, which chiefly consist of repos, interbank accounts and margins on derivatives;
- *Funding* comprises the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;
- *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds*), the relevant amounts of asset heading 80 and liability heading 60 in respect of hedging derivatives, plus the relevant share of liability heading 100.

	Liabilities and net equity	IAS-compliant 31/12/10	IAS-compliant 30/6/10	IAS-compliant 31/12/09
		€m	€m	€m
10.	Due to banks	7,991.6	9,730.7	10,317.2
	of which:			
	other trading items	*2,467.6*	*3,778.9*	*4,544.6*
	other liabilities	*0.4*	*0.4*	*0.4*
20.	Due to customers	14,800.2	14,889.1	13,368.4
	of which:			
	other trading items	*1,993.3*	*2,171.2*	*2,212.9*
	other liabilities	*9.9*	*10.3*	*7.1*
30.	Debt securities	35,870.1	36,665.5	36,944.5
40.	Trading liabilities	8,332.0	6,108.4	5,145.2
50.	Liabilities recognized at fair value	—	—	—
60.	Hedging derivatives	607.0	556.5	1,049.1
	of which:			
	funding hedge derivatives	*473.4*	*372.1*	*876.8*
	lending hedge derivatives	*69.6*	*78.9*	*27.5*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	476.2	633.2	541.4
	a) current	*162.7*	*318.4*	*189.6*
	b) deferred	*313.5*	*314.8*	*351.8*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	Other liabilities	518.0	726.7	555.6
	of which:			
	other trading items	*38.8*	*102.9*	*66.0*
	loan loss provisions	*0.6*	—	—
110.	Staff severance indemnity provision	26.8	27.3	27.2
120.	Provisions	156.5	156.3	156.6
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*156.5*	*156.3*	*156.6*
130.	Technical reserves	32.2	13.9	—
140.	Valuation reserves	47.5	55.3	95.8
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	4,199.1	3,938.4	3,769.5
180.	Share premium reserve	2,119.9	2,119.9	2,119.5
190.	Share capital	430.6	430.6	430.5
200.	Treasury shares	(213.8)	(213.8)	(213.8)
210.	Net equity attributable to minorities	109.0	103.3	104.9
220.	Profit (loss) for the year	262.9	400.8	270.1
	TOTAL LIABILITIES AND NET EQUITY	**75,765.8**	**76,342.1**	**74,681.7**

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

		6 mths to 31/12/10	12 mths to 30/6/10	6 mths to 31/12/09
	Profit and loss account	€m	€m	€m
10.	Interest and similar income	1,374.3	2,820.2	1,389.2
20.	Interest expense and similar charges	(806.3)	(1,764.9)	(893.1)
30.	**Net interest income**	**568.0**	**1,055.3**	**496.1**
40.	Fee and commission income	248.3	499.1	269.9
50.	Fee and commission expense	(22.4)	(37.7)	(25.1)
60.	**Net fee and commission income**	**225.9**	**461.4**	**244.8**
70.	Dividends and similar income	43.4	68.4	9.6
80.	Net trading income	16.8	(59.7)	120.7
90.	Net hedging income (expense)	(2.9)	(15.7)	(12.9)
100.	Gain (loss) on disposal of:	32.6	222.6	141.2
	a) loans and receivables	*0.2*	—	—
	b) AFS securities	*15.2*	*198.9*	*131.1*
	c) financial assets held to maturity	*(0.2)*	—	—
	d) other financial liabilities	*17.4*	*23.7*	*10.1*
120.	**Total income**	**883.8**	**1,732.3**	**999.5**
130.	Adjustments for impairment to:	(239.2)	(666.9)	(360.8)
	a) loans and receivables	*(210.4)*	*(461.3)*	*(228.7)*
	b) AFS securities	*(12.4)*	*(150.0)*	*(90.4)*
	c) financial assets held to maturity	*(7.3)*	*(1.0)*	*0.3*
	d) other financial liabilities	(9.1)	(54.6)	(42.0)
140.	**Net income from financial operations**	**644.6**	**1,065.4**	**638.7**
150.	Net premium income	3.4	1.0	—
160.	Income less expense from insurance operations	(1.3)	(0.4)	—
170.	**Net income from financial and insurance operations**	**646.7**	**1,066.0**	**638.7**
180.	Administrative expenses:	(412.3)	(779.3)	(395.3)
	a) personnel costs	*(216.4)*	*(396.4)*	*(207.5)*
	b) other administrative expenses	*(195.9)*	*(382.9)*	*(187.8)*
190.	Net transfers to provisions for liabilities and charges	(0.1)	3.8	(0.7)
200.	Net adjustments to property, plant and equipment	(8.9)	(17.7)	(8.4)
210.	Net adjustments to intangible assets	(11.9)	(22.4)	(11.5)
	of which: goodwill	—	—	—
220.	Other operating income (expenses)	63.9	119.4	66.5
230.	**Operating costs**	**(369.3)**	**(696.2)**	**(349.4)**
240.	Profit (loss) from equity-accounted companies	110.2	213.5	106.3
270.	Gain (loss) on disposal of investments	—	—	—
280.	**Profit (loss) before tax on ordinary activities**	**387.6**	**583.3**	**395.6**
290.	Income tax on ordinary activities for the year	(122.2)	(181.2)	(124.6)
300.	**Profit (loss) after tax on ordinary activities**	**265.4**	**402.1**	**271.0**
310.	Net gain (loss) on non-current assets being sold	—	—	—
320.	**Profit (loss) for the year**	**265.4**	**402.1**	**271.0**
330.	Profit (loss) for the year attributable to minorities	(2.5)	(1.3)	(0.9)
340.	**Net profit (loss) for the year attributable to Mediobanca**	**262.9**	**400.8**	**270.1**

*** Figures in €m**

The profit and loss account reported on p. 10 reflects the following restatements:

– *Net interest income* includes the total reported under Heading 90, plus margins on swaps reported under Heading 80 amounting to €33.2m, €135.6m and €54.1m respectively, net of €0.4m in interest income and €0.6m and €0.4m in interest expense, respectively, on securities lending accounted for as *Net trading income*;
– Amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered amounting to €26m, €47.9m and €21.4m respectively which net operating costs; Heading 150 and Heading 160 have also been accounted for as *Net fee and commission income*;
– In addition to the items already stated, *Net trading income* includes dividends from trading and the gains (losses) on financial liabilities reported under Heading 100.

MEDIOBANCA S.p.A. BALANCE SHEET *

	Assets	IAS-compliant 31/12/10	IAS-compliant 30/6/10	IAS-compliant 31/12/09
		€m	€m	€m
10.	Cash and cash equivalents	2.0	—	0.1
20.	Financial assets held for trading	15,243.2	15,705.0	14,622.7
40.	AFS securities	6,376.5	5,237.2	5,306.0
50.	Financial assets held to maturity	1,252.6	719.8	577.1
60.	Due from banks	6,415.7	7,527.0	6,929.9
	of which:			
	other trading items	*3,654.3*	*4,748.2*	*3,978.1*
	securities	—	—	—
	other items	*26.2*	*29.7*	*15.3*
70.	Due from customers	27,044.7	26,280.2	26,797.1
	of which:			
	other trading items	*6,910.0*	*7,801.2*	*7,849.4*
	securities	*731.1*	*734.7*	*756.2*
	other items	*47.8*	*112.7*	*74.9*
80.	Hedging derivatives	1,789.6	1,879.2	1,859.0
	of which:			
	funding hedge derivatives	*1,789.6*	*1,879.2*	*1,857.3*
	lending hedge derivatives	—	—	*1.2*
100.	Equity investments	2,828.4	2,828.3	2,828.1
120.	Property, plant and equipment	118.0	118.9	119.0
130.	Intangible assets	11.2	11.7	9.0
140.	Tax assets	272.2	331.1	174.4
	a) current	*115.6*	*178.7*	*70.1*
	b) advance	*156.6*	*152.4*	*104.3*
150.	Other assets	20.1	53.0	36.9
	TOTAL ASSETS	61,374.2	60,691.4	59,259.3

*** Figures in €m**

The balance sheet provided on p. 38 reflects the following restatements:

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

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

— *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds* and other items), the relevant amounts of asset heading 80 and liability heading 60 in respect of hedging derivatives, plus the relevant share of liability heading 100.

Liabilities and net equity	IAS-compliant 31/12/10	IAS-compliant 30/6/10	IAS-compliant 31/12/09
	€m	€m	€m
10. Due to banks	6,849.3	7,954.7	7,892.6
of which:			
other trading items	*2,322.9*	*3,619.7*	*4,771.1*
other liabilities	*0.3*	*18.1*	*12.4*
20. Due to customers	1,910.9	2,051.9	2,246.4
of which:			
other trading items	*1,551.1*	*1,704.1*	*1,978.8*
other liabilities	*49.2*	*77.3*	*34.2*
30. Debt securities	37,421.3	37,518.2	36,721.7
40. Trading liabilities	8,866.3	6,696.3	5,586.3
60. Hedging derivatives	703.2	601.7	1,020.6
of which:			
funding hedge derivatives	*609.9*	*511.4*	*966.5*
lending hedge derivatives	*69.6*	*69.6*	*27.5*
80. Tax liabilities	374.2	517.1	435.5
a) current	*109.9*	*254.4*	*170.6*
b) deferred	*264.3*	*262.7*	*264.9*
100. Other liabilities	216.5	271.2	221.9
of which:			
Adjustments to L & R	*95.0*	*120.3*	*107.8*
other trading items	*0.6*	*8.5*	*0.2*
110. Staff severance indemnity provision	9.8	9.9	10.1
120. Provisions	150.8	150.8	150.8
a) post-employment and similar benefits	—	—	—
b) other provisions	*150.8*	*150.8*	*150.8*
130. Valuation reserves	—	—	—
140. Valuation reserves	(72.9)	(34.0)	99.8
170. Reserves	2,477.6	2,372.4	2,369.9
180. Share premium reserve	2,119.9	2,119.9	2,119.5
190. Share capital	430.6	430.6	430.5
200. Treasury shares (–)	(213.4)	(213.4)	(213.4)
200. Profit (loss) for the period	130.1	244.1	167.1
Total liabilities and net equity	**61,374.2**	**60,691.4**	**59,259.3**

MEDIOBANCA S.p.A. PROFIT AND LOSS ACCOUNT *

		6 mths to 31/12/10	12 mths to 30/6/10	6 mths to 31/12/09
	Profit and loss account	€m	€m	€m
10.	Interest and similar income	855.7	1,824.2	898.9
20.	Interest expense and similar charges	(688.9)	(1,473.2)	(727.0)
30.	**Net interest income**	**166.8**	**351.0**	**171.9**
40.	Fee and commission income	154.6	303.9	168.3
50.	Fee and commission expense	(7.3)	(7.0)	(3.6)
60.	**Net fee and commission income**	**147.3**	**296.9**	**164.7**
70.	Dividends and similar income	52.9	138.6	9.6
80.	Net trading income	46.3	9.9	158.1
90.	Net hedging income (expense)	(0.6)	(16.0)	(14.0)
100.	Gain (loss) on disposal of:	14.1	158.3	108.6
	a) loans and receivables	0.2	—	—
	b) AFS securities	*5.7*	*138.8*	*98.4*
	c) financial assets held to maturity	(0.2)	—	—
	d) other financial liabilities	*8.4*	*19.5*	*10.2*
120.	**Total income**	**426.8**	**938.7**	**598.9**
130.	Adjustments for impairment to:	(56.5)	(261.3)	(159.4)
	a) loans and receivables	*(28.0)*	*(57.7)*	*(28.5)*
	b) AFS securities	*(12.1)*	*(148.0)*	*(89.2)*
	c) financial assets held to maturity	*(7.4)*	*(1.4)*	—
	d) other financial liabilities	*(9.0)*	*(54.2)*	*(41.7)*
140.	**Net income from financial operations**	**370.3**	**677.4**	**439.5**
180.	Administrative expenses:	(156.4)	(271.6)	(144.1)
	a) personnel costs	*(117.3)*	*(197.3)*	*(104.5)*
	b) other administrative expenses	*(39.1)*	*(74.3)*	*(36.2)*
190.	Net transfers to provisions for liabilities and charges	—	—	—
200.	Net adjustments to property, plant and equipment	(1.5)	(3.1)	(1.6)
210.	Net adjustments to intangible assets	(4.9)	(6.0)	(2.5)
	of which: goodwill	—	—	—
220.	Other operating income (expenses)	7.6	11.9	4.5
230.	**Operating costs**	**(155.2)**	**(268.8)**	**(143.7)**
240.	Profit (loss) from equity investments	—	(17.4)	(17.4)
270.	Gain (loss) on disposal of investments	—	(0.1)	—
280.	**Profit (loss) before tax on ordinary activities**	**215.1**	**391.1**	**278.4**
290.	Income tax on ordinary activities for the year	(85.0)	(147.0)	(113.0)
300.	**Profit (loss) after tax on ordinary activities**	**130.1**	**244.1**	**165.4**
330.	**Net profit (loss) for the period**	**130.1**	**244.1**	**165.4**

*** Figures in €m**

The profit and loss account reported on p. 37 reflects the following restatements:

— *Net interest income* includes the total reported under Heading 90, plus margins on swaps reported under Heading 80 amounting to €3.1m, minus €53.6m and minus €15.1m respectively, net of interest income of €0.1m and interest expense of €0.7m and €0.4m, respectively, on securities lending accounted for as *Net trading income*;

— Amounts under Heading 190 have been restated as *Net fee and commission income*, save for amounts refunded/recovered amounting to €1.9m, €0.6m and €0.3m respectively which net operating costs;

— In addition to the items already stated, *Net trading income* also includes the net amounts stated under Headings 70, 80 and 100.

*Declaration in respect of condensed interim financial statements as required by Article 81-*ter *of Consob resolution no. 11971 issued on 14 May 1999 as amended*

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1. The undersigned Alberto Nagel and Massimo Bertolini, in their respective capacities as Chief Executive Officer and Head of Financial Reporting of Mediobanca, hereby declare, and in view *inter alia* of the provisions contained in Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   - — were adequate in view of the company's characteristics; and that
   - — were effectively applied during the six months ended 31 December 2010.
2. Assessment of the adequacy of said administrative and accounting procedures for the financial statements for the six months ended 31 December 2010 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems generally accepted at international level (i.e. the CoSO and CobiT frameworks).
3. It is further hereby declared that:

   3.1 the condensed interim financial statements:
   - — have been drawn up in accordance with the international accounting standards recognized in the European Community adopted pursuant to CE regulation no. 1606/02 issued by the European Council and Parliament on 19 July 2002;
   - — correspond to the data recorded in the company's books and account ledgers;
   - — are such as to provide 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 interim review of operations contains reliable analysis of the most important events to take place in the first six months of the financial year and their impact on the condensed interim financial statements, along with a description of the main risks and uncertainties for the remaining six months. The interim review of operations also contains reliable analysis of information on major transactions involving related parties.

Milan, 25 February 2011

Chief Executive Officer	*Head of Company Financial Reporting*
Alberto Nagel	Massimo Bertolini