



MEDIOBANCA

**Basel III pillar 3
Disclosure to the public**

Situation as at 30 June 2017



Contents

Introduction	2
Section 1 – General disclosure requirement	3
Section 2 – Scope of application	19
Section 3 – Composition of regulatory capital.....	22
Section 4 – Capital adequacy	30
Section 5 – Financial leverage	37
Section 6 – Credit risk	41
6.1 Credit risk: general information for all banks.....	41
6.2 ECAIs	52
6.3 Unencumbered assets.....	54
Section 7 – Counterparty risk.....	55
Section 8 – Risk mitigation techniques.....	65
Section 9 – Securitizations.....	68
Section 10 – Operational risk.....	71
Section 11 – Exposures to equities: information on banking book positions	72
Section 12 – Interest rate risk on banking book positions	75
Section 13 – Market risk	77
Section 14 - Remunerations policies	81
Declaration by Head of Company Financial Reporting.....	119



Introduction

The regulations governing banking supervision have been revised with the issue of Capital Requirements Directive IV and the Capital Requirements Regulation (CRD IV/CRR), which have been incorporated into Italian legislation under Bank of Italy circular no. 285 issued in December 2013 as amended, in order to bring the national regulations into line with the changes introduced to the EU banking supervisory framework, which includes Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, to harmonize the diverging interpretations by institutions of the methods by which the Leverage Ratio is calculated. The body of regulations on prudential supervision and corporate governance of banks has incorporated the changes made by the Basel Committee with its "Global regulatory framework for more resilient banks and banking systems".

The prudential regulatory structure remains based around three so-called "pillars":

- *"Pillar 1" introduces a capital requirement to manage typical risks of banking and financial activity, which involves the use of alternative methodologies to calculate capital requirements;*
- *"Pillar 2" requires banks to equip themselves with a strategy and process for controlling current and future capital adequacy (ICAAP) and liquidity adequacy (ILAAP);*
- *"Pillar 3" introduces obligations of disclosure to the public aimed at allowing market operators to make a more accurate assessment of banks' capital solidity and exposure to risks.*

The hereby document by the Mediobanca Group (the "Group") includes information regarding the capital adequacy, exposure to risks, and the general characteristics of the systems put in place to identify, measure and manage such risks.

The document follows the articles contained in Part 8 of the CRR, to provide qualitative and quantitative information where this is considered to be applicable to the Group, within the term set for the annual financial statements to be published; unless otherwise stated, the figures shown are in thousands of Euros.

The Group updates the document on its website at www.mediobanca.com.



Section 1 – General disclosure requirement

Qualitative information

Introduction

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

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), business and financial plans, budgets, and risk management and internal control policies, and the Recovery Plan prepared in accordance with the provisions contained in EU Directive 2014/59 (the Bank Recovery and Resolution Directive, or “BRRD”).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction.

The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems.

The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: (i) the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; (ii) Lending and Underwriting committee (with decision-making responsibilities), for credit, issuer and conduct risk; (iii) Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; (iv) the Investments committee (with decision-making responsibilities) for equity investments owned and banking book equities; (v) the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; and (vi) the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions.

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



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

Establishment of risk propensity and process for managing relevant risks

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits.

The Risk Appetite Framework ("RAF") is the reference framework which correlates risks to the corporate strategy (by translating the mission and strategy into qualitative/quantitative risks' variables) and the risk objectives of the company's operations (by translating the risk objectives into restrictions and incentives for the organization).

As required by the prudential regulations, definition of the RAF serves to formalize risk objectives consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and an internal controls system with the objective of strengthening the Bank's capability to manage its own risks while at the same time guaranteeing sustainable growth over the medium/long term.

In this connection, the Group has developed a governance model for the Risk Appetite Framework which identifies the roles and responsibilities of the governing bodies and the units involved, and makes provision for co-ordination mechanisms to ensure that the risk propensity is integrated into the operating processes.

In the process of defining the risk appetite, the Bank:

- Identifies which risks it is willing to take;
- For each risk, defines the objectives and limits in normal and stressed conditions;
- Identifies the action necessary in operating terms to bring the risk back within the set objectives.

For purposes of defining the RAF, according to the strategic positioning and risk profile which the Group has set itself to achieve, the risk appetite statement is structured into risk metrics and limits, to be identified for each of the four framework pillars, in line with the best international practice, i.e. capital adequacy, liquidity, idiosyncratic factors, and conduct/operational risk.

The Board of Directors plays a proactive role in defining the RAF, ensuring the risk profile expected is consistent with the strategic plan, the budget, the ICAAP and the



recovery plan, and is structured into risk metrics and limits which are adequate and effective.

For each area analysed, the risk taken is related to a system of objectives and limits representing the regulatory restrictions and also the Group's general attitude towards risk, defined in such a way as to be consistent with the strategic planning, ICAAP, and risk management processes.

As well as describing the rationale for the choices made in terms of identifying and setting the risk propensity indicators, the document also governs the mechanisms regulating the determination and implementation processes for the RAF, in terms of update/revision, monitoring and escalation in reporting to the company's committees and governing bodies.

Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

In accordance with the provisions of the Capital Requirements Directive IV ("CRD IV"), the Mediobanca Group has prepared a document describing the Internal Liquidity Adequacy Assessment Process (ILAAP), providing the set of policies, processes and instruments for governing liquidity and funding risks.

The Group's objective is to maintain a liquidity level which allows it to meet the payment commitments it has entered into, ordinary and extraordinary, while at the same time minimizing costs. The Group's liquidity management strategy is based on the desire to maintain an appropriate correlation between potential inflows and outflows, in the short term and the medium/long term, by monitoring regulatory and operating metrics, in accordance with the risk profile defined in connection with the RAF.

Credit risk

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

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

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks, Insurances ((customers mostly targeted by Mediobanca S.p.A.), Mid-



corporate and Small businesses (customers targeted mostly by the leasing companies), and Private individuals (targeted by Compass for consumer credit, CheBanca! for mortgage lending, and MBFacta for instalment factoring).

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

In particular, forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties").

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of the accumulation, actual or potential (in the latter case if the concessions are not granted) of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Corporate lending (Mediobanca)

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

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

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

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If



successful, the applications are submitted for approval to the Lending & Underwriting Committee or to the Executive Committee, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

The Credit Risk Management unit carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

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

In terms of monitoring the performance of individual credit exposures, Mediobanca adopts an early warning methodology to identify a list of counterparties (known as the "watchlist") requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (green, amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watchlist also includes all forbore positions, which are therefore subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Leasing

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

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

Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

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



property). Accounts which are classified as forbore (performing and non-performing) and entered in the watchlist are subject to regular monitoring by the relevant company units.

Consumer credit (Compass)

Applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit bureaux. Points of sale are linked electronically to the company's headquarters, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Applications for finance above a certain limit are approved by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards of Directors.

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

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

Factoring (MBFacta)

Factoring includes both traditional factoring (loans with very short-term disbursements, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by the original borrower, who in virtually all cases is a retail customer).

For traditional factoring, the internal units appraise the solvency of the sellers and the original borrowers via individual analysis using methodologies similar to those adopted for corporate lending, whereas for non-recourse factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, changes and margins.

Provisioning for instalment-based factoring is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last fifteen months, beyond



which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

NPL business (MB Credit Solutions)

MB Credit Solutions operates on the NPLs market, acquiring nonperforming loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies. The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

The purchase price for the non-performing loans is arrived at by following well-established procedures which include appropriate samplebased or statistical analysis of the positions being sold, and take due account of projections in terms of the amounts recovered, expenses and margins anticipated. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value due to the future cash flows being overestimated, the flows are recalculated and adjustments charged based on the difference between the scheduled value at the valuation date (amortized cost) and the discounted value of the cash flows expected, which are calculated by applying the original effective interest rate. The estimated cash flows take account of the expected collection times, the assumed realizable value of any guarantees, and the costs which it is considered will have to be incurred in order to recover the credit exposure.

Private banking (Banca Esperia and CMB)

Private banking operations include granting loans as a complementary activity in serving private and institutional clients, with the aim of providing them with wealth management and asset management services. Lending to clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, mortgages and credit limits on credit cards and endorsements.

Loans themselves are normally guaranteed, as they are backed by endorsements or real guarantees (pledges over financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the type, size and guarantees of the loans themselves.

Provisioning for non-performing items is made on an individual basis, and takes into account the value of the guarantees provided. For Banca Esperia, any provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.



Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert.

Accounts, both regular and irregular, are monitored through a reporting system which allows system operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter risk positions, to ensure that the necessary corrective action can be taken versus the credit policies.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyer. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) or cases with persistent irregularities or interest suspended at the legal rate are designated as probable default accounts, and generally after the tenth unpaid instalment become nonperforming.

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

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

* * *

The Group uses credit risk mitigation techniques, in accordance with the provisions of the CRR (Part 3 Title II Section IV) for banks which use the standardized calculation methodology.

In particular, for real guarantees the so-called "integral" method has been adopted, with the standard regulatory adjustments for volatility being applied, while for personal guarantees the replacement principle has been adopted.

Further information on the credit risk mitigation techniques used is provided in Section 8.

Credit Value Adjustment risk ("CVA")

With reference to the capital requirement for CVA, defined as adjustment to the mid-market valuation of the portfolio of transactions with a counterparty, the Group has



applied the standardized methodology provided for by Article 384 of the CRR, considering all counterparties with and without CSA.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

Market risks

Market risk is defined as the risk generated by operations on markets involving financial instruments which are held as part of the regulatory trading book and involving foreign currencies and/or commodities.

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

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

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out once a month on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme but historically accurate changes in market variables.

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



Operational risk

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at the reporting date was €284.1m (30/6/16: €264.7m).

Operational risks are managed, in Mediobanca and the main Group companies, by a specific Operational risk management team within the Risk Management unit.

Interest rate risk on the banking book

It is defined as the risk arising from potential changes in interest rates on banking book securities.

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of a parallel and simultaneous 100 bps shock in the interest rate curve on current earnings. The latter is calculated by comparing the discounted value of expected cash flows using the yield curve at the current date with the value obtained using a yield curve which is 100 bps higher or lower (parallel shock).

With reference to the positions held as part of the banking book as at 30 June 2016, if interest rates were to rise, net interest income would fall by €12.2m, on a lower contribution by CheBanca! (down €20m), which would only in part be offset by the increase in net interest income by Compass (up €8m).

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the instantaneous and parallel shifts of 200 basis points generate a loss of €339.6m at Group level, representing the difference between the losses recorded by Mediobanca (€374.3m) and Compass (€87.7m) and the increase for CheBanca! (up €47.6m). In the opposite scenario, i.e. if interest rates reduce, net interest income on the banking book at Group level would rise €150.7m.

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

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Bank seeks to minimize the financial risk on



interest rates by bringing the entire interestbearing exposure in line with Euribor (generally Euribor 3 months)¹.

- **Fair value hedges.** Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign. Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.
- **Cash flow hedges.** These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Bank uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring. Mediobanca also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Financial leverage risk

The Bank's leverage is the ratio between the entity's capital divided by its overall exposure.

The risk of particularly high indebtedness levels relative to equity is monitored by the Group on a regular basis as part of the quarterly requirements stipulated by Circular 285 (COREP reporting).

The leverage ratio is one of the metrics which the Bank has identified in the RAF, with specific alert and limit levels, for the purpose of quantifying its propensity to risk.

Liquidity risk

This is defined as the risk that the Bank will not be able to meet its own payment commitments through being unable to raise the requisite funds ("funding liquidity risk") or through limits on asset disposals ("market liquidity risk").

The Mediobanca Group monitors and manages liquidity risk in accordance with the regulatory provisions in force in this area (Bank of Italy circular nos. 285 and 286 as amended, CRR/CRD IV/Commission Delegated Regulation on liquidity coverage ratio by the European Parliament and the Council of the European Union, and technical

¹ This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.



standards and guidelines issued by the European Banking Authority) as defined in the "Group liquidity risk management policy" (the "Regulations").

The main principles on which the Regulations are based are:

- Identifying the parties, responsibilities and duties for controlling liquidity risk for the Group as a whole and for the individual Group companies;
- Defining and monitoring the short-term risk limits (operating liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of up to twelve months;
- Defining and monitoring medium-/long-term liquidity (structural liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of over twelve months;
- Defining a pricing system of internal fund transfers between the Group's various units and companies.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the present maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. Specifically, monitoring operating liquidity is intended to ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term.

In this connection the metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB) and the cumulative net cash outflows. Through use of maturity ladder reports, the entire Group's ability to withstand a liquidity crisis in the event of a system or specific crisis situation occurring is evaluated. This ability is calculated assuming there are no changes in the Group's business structure or asset profile.

The starting point in the process is quantifying certain and uncertain/estimated cash inflows and outflows, and the resulting mismatches or surpluses, in the various brackets of duration outstanding which make up the operational maturity ladder (time horizon up to three months). Cash flows are determined in two analysis scenarios, namely the ongoing concern and the specific and systemic stress scenarios.

Stress testing assumes extraordinary factors such as a) drawdowns on committed lines granted to customers, b) reductions in the debt security funding or interbank funding channels, c) renewal of only part of the retail funding expiring, d) full disbursement of lending deals in the pipeline. The liquidity risk tolerance threshold is defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the movements in both directions on the interbank market and a table showing the Group's funding balances by individual form. This monitoring instrument forms a point of contact with the other operational metrics used and promotes dialogue with the regulatory bodies regarding the trends influencing the liquidity risk profile over time. Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the



medium and long term checking that inflows cover 100% of outflows for maturities of more than one year, reduced to 90% of outflows for maturities of more than five years.

Throughout the entire twelve months under review, both indicators, short and long-term, were at all times above the limits set in the policy.

The objectives and metrics described above are addressed through the preparation of the Group Funding Plan, involving sustainable analysis of sources and applications, short-term and structural, and through definition of the Group Risk Appetite Framework, which involves defining the Group's appetite for risk.

Throughout the twelve months under review, the regulatory indicators (the liquidity coverage ratio and net stable funding ratio) and the other indicators established in the Group Risk Appetite Framework were well above the set limits at all times; and the LCR as at 30 June 2017 stood at 245%.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Liquidity Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Group Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

Before a contingency situation develops, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to a deterioration in the Group's liquidity position deriving from external factors (market or sector) or from situations which are specific to the Banking Group itself.

As part of the process of assessing the current and future capital required for the company to perform its business (ICAAP) required by the regulations in force, the Group has identified the following types of risk as relevant (in addition to those discussed previously, i.e. credit risk, counterparty risk, market risk, interest rate risk, liquidity risk and operational risk:

- **concentration risk**, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- **expected shortfall** on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;
- **strategic risk**, both in the sense of risk deriving from current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new



strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);

- **basis risk:** in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;
- **compliance risk,** i.e. the risk of incurring legal or administrative penalties, significant financial losses or damages to the Bank's reputation as a result of breaches of external laws and regulations or self-imposed regulations;
- **reputational risk,** i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities;
- **residual risk,** i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
- **country and transfer risk** – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management Committees.



Adequacy of risk management metrics and overall risk profile associated with business strategy

With reference to the provisions contained in Article 435, paragraph 1, letters e) and f) of EU regulation 575/2013 ("CRR"), the paragraphs below summarize the considerations regarding the adequacy of the risk management metrics adopted and consistency of the overall risk profile with the Group's business strategy.

Risk management objectives and policies

1. In accordance with the provisions of Article 435, paragraph 1, letter e) and Article 435, paragraph 1, letter f) of Regulation (EU) no. 575/2013, on 15 September 2017 the Board of Directors of Mediobanca, having reviewed the Risk Committee's report and taken due account of the reports drawn up by the control units, expressed its opinion that the Group's internal controls and risk management system was adequate and in line with the Group's profile and strategy.
2. On 14 June 2017, the BoD approved the Group Policy on Risk Appetite Framework Definition, which defines the general principles, organizational model and process by which it is structured. As part of the Framework, taking into account the strategic plan and the risk capacity defined, the Group indicates the level and types of risk which the Bank intends to assume, defining risk targets, limits or triggers under normal operating and stressed conditions. The Group has identified the following general principles as decisive issues in defining the RAF:
 - a. Maintain a high market standing, guaranteeing conditions of capital solidity, solvency and liquidity;
 - b. Sustainable risk objectives, profitability and growth of business;
 - c. Full awareness of risks taken and those which can be taken;
 - d. Understanding of risk measures adopted, to promote their application and effectiveness of operation through a "culture of risk" to be embedded across the whole Group;
 - e. Compliance with the external regulations.
3. In particular the following guidelines have been formalized:
 - a. Maintain a solid capital base with a strong CET1 component;
 - b. Maintain a strong liquidity profile, guaranteeing an adequate ratio between potential inflows and outflows in the short and medium-long term, including in stress conditions;
 - c. Preserve profitability in the long run consistent with its own business profile, limiting portfolio concentration, maintaining high asset quality, progressively reducing the equity component, and limiting changes in capital due to variations in interest rates in stress situations;
 - d. Safeguard reputational capital, minimizing the risks of inadequate business conduct levels.
4. The RAF constituents are translated into appropriate quantitative parameters and/or qualitative indications which help to specify the Group's target risk profile more clearly. The risk profiles are subject to early warning thresholds set for purposes of reporting to the Board of Directors, and to risk appetite limits which identify levels which exceed the targets set.
5. Quarterly monitoring of the indicators shows that all the risk appetite limits set for FY 2016/17 have been complied with. For FY 2017/18, the definition of these limits was



MEDIOBANCA

approved by the Board of Directors of Mediobanca on 5 July 2017 and reflects a higher degree of integration with the budget, ICAAP and ILAAP processes.

The set of specific parameters subject to monitoring includes:

- a. With reference to capital adequacy, the CET1 ratio (minimum limit of 8%, as against a reading of 13.31% at end-June 2017) and the regulatory Leverage Ratio (minimum limit of 4%, as against a reading of 9.5% at end-June 2017);
- b. In the area of liquidity, the short-term liquidity indicator, or Liquidity Coverage Ratio (LCR, which has a minimum limit of 100%, as against a reading of 245% at end-June 2017);
- c. Bank-specific factors include concentration versus principal groups of clients, and the amount of losses expected on leveraged lending transactions;
- d. For operational risks, the level of annual operating losses relative to total income.



Section 2 – Scope of application

Qualitative information

The disclosure requirements which subtend this document apply to Mediobanca – Banca di Credito Finanziario S.p.A., parent company of the Mediobanca Banking Group, entered in the register of banking groups, to which the data shown in the document refer.

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

For regulatory purposes, the investment in Group company Compass RE (a reinsurance company incorporated under Luxembourg law) and Ricerche e Studi are among those which are deductible from own funds.

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

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.

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

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

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

On 6 October 2016, the court of Milan approved the composition procedure under Article 161, para. 6 of the Italian bankruptcy law for Prominvestment, which had



MEDIOBANCA

become necessary in order to complete the liquidation process for the company which had started in September 2008, without prejudice to its creditors.



Quantitative information
Table 2.1 – Area of consolidation

Name	Registered office	Type of relationship ¹	Shareholding		% voting rights ²
			Investor company	% interest	
A. Companies included in area of consolidation					
A.1 Line-by-line					
1. Mediobanca - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2. Prominvest ment S.p.A. - in liquidation	Milan	1	A.1.1	100.-	100.-
3. Spafid S.p.A.	Milan	1	A.1.1	100.-	100.-
4. Spafid Connect S.p.A.	Milan	1	A.1.3	100.-	70.-
5. Mediobanca Innovation Services - S.c.p.A.	Milan	1	A.1.1	100.-	100.-
6. Compagnie Monegasque de Banque - CMB S.A.M.	Montecarlo	1	A.1.1	100.-	100.-
7. C.M.G. Compagnie Monegasque de Gestion S.A.M.	Montecarlo	1	A.1.6	99.95	99.95
8. SMEF Société Monegasque des Etudes Financiere S.A.M.	Montecarlo	1	A.1.6	99.96	99.96
9. CMB Asset Management S.A.M.	Montecarlo	1	A.1.6	99.3	99.4
10. CMB Wealth Management Limited	London	1	A.1.1	100.-	100.-
11. Mediobanca International (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.-	99.-
			A.1.12	1.-	1.-
12. Compass Banca S.p.A.	Milan	1	A.1.1	100.-	100.-
13. CheBanca! S.p.A.	Milan	1	A.1.1	100.-	100.-
14. MB Credit Solution S.p.A.*	Milan	1	A.1.12	100.-	100.-
15. SelmaBipiemme Leasing S.p.A.	Milan	1	A.1.1	60.-	60.-
16. MB Funding Luxembourg S.A.	Luxembourg	1	A.1.1	100.-	100.-
17. Ricerche e Studi	Milan	1	A.1.1	100.-	100.-
18. Mediobanca Securities USA LLC.	New York	1	A.1.1	100.-	100.-
19. MB Facta S.p.A. ⁴	Milan	1	A.1.1	100.-	100.-
20. Quarzo S.r.l.	Milan	1	A.1.12	90.-	90.-
21. Quarzo Lease S.r.l.	Milan	1	A.1.15	90.-	90.-
22. Futuro S.p.A.	Milan	1	A.1.12	100.-	100.-
23. Quarzo CQS S.r.l.	Milan	1	A.1.22	90.-	90.-
24. Quarzo MB S.r.l.	Milan	1	A.1.1	90.-	90.-
25. Mediobanca Covered Bond S.r.l.	Milan	1	A.1.13	90.-	90.-
26. Compass RE (Luxembourg) S.A.	Luxembourg	1	A.1.12	100.-	100.-
27. Mediobanca International Immobiliere S.A R.L.	Luxembourg	1	A.1.11	100.-	100.-
28. MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	Istanbul	1	A.1.1	100.-	100.-
29. Cain Capital Group Limited	London	1	A.1.1	100.-**	51.-
30. Cain Capital Limited	London	1	A.1.29	100.-	100.-
31. Cain Capital North America Inc.	Stamford (US)	1	A.1.29	100.-	100.-
32. Cain Capital Guarantee Limited (non operating)	London	1	A.1.29	100.-	100.-
33. Cain Capital Investments Limited (non operating)	London	1	A.1.29	100.-	100.-
34. Cain Investment Managers Limited (non operating)	London	1	A.1.29	100.-	100.-
35. Amplus Finance Limited (non operating)	London	1	A.1.29	100.-	100.-
36. Spafid Family Office SIM	Milan	1	A.1.3	100.-	100.-
37. Banca Esperia S.p.A.	Milan	1	A.1.1	100.-	100.-

* Formerly Creditech S.p.A.

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

Legend

- ¹ Type of relationship:
 1 = majority of voting rights in ordinary AGMs.
 2 = dominant influence in ordinary AGMs.
- ² Effective and potential voting rights in ordinary AGMs.



Section 3 – Composition of regulatory capital

Qualitative information

Consolidated capital

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently and significantly higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2016, which set the limit for CET1 at 7% and the total capital level at 10.5%, the lowest levels among Italian banks. These values reflect the new phase-regime for the capital conservation buffer (1.25%, as against 2.5% fully-phased).

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 275, the Group has applied the phase-in regime, and in particular, after receiving the relevant clearances, has weighted the investment Assicurazioni Generali at 370%, as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limit for the insurance group).

As from December 2016, the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets are also included in the definition of regulatory capital, in accordance with the phase-in regulations.

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €825.7m, or 80% of the positive AFS equity reserves, €42.9m of which in government securities and €597.0m deriving from Assicurazioni Generali being equity-consolidated), and the profit for the period (€422.0m) net of the dividend for the year (€320.2m) corresponding to a payout ratio of 43% calculated based on a dividend of €0.37 per share. From this amount the following items are deducted: treasury shares (€198m), intangible assets (€72m), goodwill (€483.6m) other prudential adjustments (€40.4m) in connection with the values of financial instruments (AVAs and DVAs). Interests in banking, financial and insurance companies worth €1,057.2m were deducted, €875.4m of which in respect of the Assicurazioni Generali investment.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes the liabilities issued (€2,036.4m plus 10% of the positive reserves for AFS securities (€97.8m, which does not include the net gain of EU member states' government securities. Deductions of €272.5m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies, and the share of the investments in banking, financial and insurance companies, based on the provisions of the phase-in regime; these include €97.3m in respect of the Assicurazioni Generali investment.

**Quantitative information****Table 3.1 – Bank equity**

	30 giugno 2017	30 giugno 2016
A. Common equity tier 1 (CET1) prior to application of prudential filters	8.843.333	8.666.398
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(4.460)	(788)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	8.838.873	8.665.610
D. Items to be deducted from CET1	(1.779.520)	(2.109.090)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	(42.072)	(51.718)
F. Total common equity tier 1 (CET1) (C-D +/- E)	7.017.281	6.504.802
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H +/- I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	2.036.402	2.103.802
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(149.070)	(315.501)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	(25.599)	(65.938)
P. Total T2 (M-N +/- O)	1.861.733	1.722.363
Q. Total own funds (F+L+P)	8.879.014	8.227.165



Table 3.2 – Phase-in model for publication of information on own funds

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 or prescribed residual amount of regulation (EU) No 575/2013
1 Capital instruments and the related share premium accounts of which: Instrument Type 1	2.628.186 2.628.186	
2 Retained earnings	5.478.888	
3 Accumulated other comprehensive income and other reserves	871.387	
5 Minority Interests	68.906	6.325
6. Common equity tier 1 (CET1) before regulatory adjustments	9.047.367	
Common Equity Tier 1 (CET1) capital: regulatory adjustments	(1.087.329)	
7 Additional value adjustments	(30.236)	
8 Intangible assets (net of related tax liability)	(555.540)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(8.768)	
11 Fair value reserves related to gains or losses on cash flow hedges	35.945	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(10.169)	
16 Direct and indirect holdings by an institution of own CET1 instruments	(197.709)	
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	(8.826)	(487)
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold)	(942.758)	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(206.424)	
of which: unrealized gains on debt securities issued by EU member state central administrations	(10.733)	
of which: unrealized gains on debt securities referring to issuers other than EU member state central administrations	(195.691)	
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution	(105.601)	
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	(2.030.086)	
29 Total Capital Tier 1 (CET1)	7.017.281	



Table 3.2 (cont.)

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU No 575/2013 or prescribed residual amount of regulation (EU No 575/ 2013
Additional Tier 1 (AT1) capital: instruments	—	
30 Capital instruments and the related share premium accounts	—	
Additional Tier 1 (AT1) capital: regulatory adjustments	—	
45 Tier 1 capital (T1 = CET1 + AT1)	7.017.281	
Tier 2 (T2) capital: instruments and provisions	2.036.402	
46 Capital instruments and the related share premium accounts	2.036.402	
Tier 2 (T2) capital: regulatory adjustments	(174.668)	
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	(148.990)	(33.544)
55 Direct and indirect holdings by the institution of the T2 instruments	(145)	
56 Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	(122.853)	
56a Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(481)	
56b Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	(45)	
of which: unrealized gains on debt securities referring to issuers other than EU member state central administrations	97.845	
Of which: ... possible filter for unrealised gains	—	
58 Tier 2 (T2) capital	1.861.733	
59 Total capital (TC = T1 + T2)	8.879.014	
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out	(196.839)	
of which: items not deducted from tier 1 equity (EU regulation 575/13, residual amounts) (items to be detailed line by line, e.g. deferred tax assets based on future earnings net of tax liabilities, own tier 1 equity instruments held directly, etc.).	(196.839)	
60 Total risk weighted assets	52.708.249	



Table 3.2 (cont.)

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 or prescribed residual amount of regulation (EU) No 575/2013
Capital ratios and buffers		
61 Common Equity Tier 1	13.31%	
62 Tier 1	13.31%	
63 Total capital	16.85%	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.693.664	
65 of which: capital conservation buffer requirement	1.317.706	
66 of which: countercyclical buffer requirement	4.086	
67 of which: systemic risk buffer requirement		
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68 Common Equity Tier 1 available to meet buffers	3.693.664	
Applicable caps on the inclusion of provisions in Tier 2		
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	808.691	
73 Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2.193.021	
74 Empty Set in the EU		
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	96.822	



Table 3.3.1 – Reconciliation of accounting and regulatory balance sheet with phase-in own fund constituents

Equity constituents	30/6/17
Share capital	457.155
Share premiums	2.189.428
Reserves	5.132.771
Equity instruments	—
(Treasury shares)	(197.709)
Valuation reserves:	867.768
- AFS securities	319.356
- Property, plant and equipment	—
- Intangible assets	—
- Foreign investment hedges	—
- Cash flow hedges	(47.824)
- Exchange rate differences	(6.147)
- Non-current assets being sold	—
- Actuarial profits (losses) on defined-benefit pension schemes	(5.812)
- Equity-accounted companies' share of valuation reserves	598.563
- Special revaluation laws	9.632
Profit (loss) for the period attributable to the Group and minorities	742.249
Net equity	9.191.662
Dividends	(320.226)
Share attributable to ineligible minorities	(28.103)
CET1 pre-application of prudential filters, phase-in adjustments and deductions	8.843.333
Prudential filters	(568.769)
Phase-in adjustments ¹	(200.099)
Deductions ²	(1.057.184)
CET1	7.017.281
Subordinated loans eligible as Tier 2 instruments	2.036.402
Phase-in adjustments ³	97.845
Deductions ²	(272.513)
Tier 2 equity	1.861.733
Own funds	8.879.014

¹ Includes effects of phase-in on: AFS reserves, IAS 19 reserve and minority interests.

² Includes deductions on equity investments (investments in financial sector).

³ Includes effects of phase-in on AFS reserves.



Table 3.3.2 – Reconciliation of discrepancies between accounting and regulatory balance sheets due to phase-in treatment of own fund constituents

Other asset items	Book values *	of which deducted from:	
		CET1	T2
Heading 20 - Financial assets held for trading	7.833.903	(1.798)	(4.167)
Headings 40/50 - AFS and HTM financial assets	8.678.089	(118.264)	(35.262)
Headings 60/70 - Due to banks and customers	46.627.688	—	(128.815)
Heading 100 - Equity investments	3.136.559	(937.123)	(104.269)
Heading 130 - Intangible assets	552.208	(552.208)	—
Heading 140 - advance tax assets	715.359	(8.768)	—
Other assets	2.776.105	3.333	—
Total	70.319.911	(1.614.828)	(272.513)

* Data refer to FINREP supervisory reporting.

Table 3.4 - Subordinated issues

Name	ISIN	Currency	30/6/16		30/6/17	
			Nominal Value	Calculated value ¹	Nominal Value	Calculated value ¹
MB Subordinato Mar 29	XS1679416741	EUR	—	—	50.000	48.501
MB Secondo Atto 5%/2020 Lower Tier 2	IT0004646542	EUR	745.161	638.274	613.502	404.679
MB OPERA 3,75/2026	IT000588351	EUR	—	—	298.666	291.163
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	EUR	495.289	479.747	395.636	305.168
MB VALORE Tasso Variabile con minimo 3%/2025 Tier 2	IT0005127508	EUR	499.885	491.669	499.701	491.347
MB CARATTERE 5,75%/2023 Lower Tier 2	IT0004917842	EUR	499.863	494.112	495.691	485.554
Total Subordinated Debt Securities			2.240.188	2.103.802	2.353.196	2.036.402

¹ Includes fair value component not considered for regulatory purposes.

Subordinated liabilities included in the calculation fell from €2,103.8m to €2,036.4m due to movements for the period plus the repayment share (€274.3m). During the year under review, partial buyback of the two subordinated issues, MB Secondo Atto and MB Quarto Atto, was completed which entered the repayment stage in amounts totalling €193.8m and €80.5m respectively and now written off by nominal amounts of €131.4m and €100m, the majority of which was offset by the issue of a new subordinated bond, MB Opera, in an amount totalling €300m, plus another, private €50m issue. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.



Table 3.5 – Description of subordinated issues

Capital instruments main features template	Tier2 IT0004720436	Tier2 IT0004917842	Tier2 IT0004645542	Tier2 IT0005127508	Tier2 XS1579416741	Tier2 IT0005188351
1 Issuer	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.
2 Unique identifier	IT0004720436	IT0004917842	IT0004645542	IT0005127508	XS1579416741	IT0005188351
3 Governing law(s) of the instrument	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law
<i>Regulatory treatment</i>	-	-	-	-	-	-
4 Transitional CRR rules	Tier2	Tier2	Tier2	Tier2	Tier2	Tier2
5 Post-transitional CRR rules	Tier2	Tier2	Tier2	Tier2	Tier2	Tier2
6 Eligible at only (sub-)consolidated/ only (sub-) consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated
7 Instrument type	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR
8 Amount recognised in regulatory capital	480	494	638	492	49	291
	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment
9 Nominal amount of instrument	500	500	750	500	50	300
9a Issue price	100	100	100	100	100	99
9b Redemption price	100	100	100	100	100	99
10 Accounting classification	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost
11 Original date of issuance	13/06/2011	18/04/2013	15/11/2010	10/09/2015	22/03/2017	16/06/2016
12 Perpetual or dated	At maturity	At maturity	At maturity	At maturity	At maturity	At maturity
13 Original maturity date	13/06/2021	18/04/2023	15/11/2020	10/09/2025	22/03/2029	16/06/2026
14 Issuer call subject to prior supervisory approval	NO	NO	NO	NO	NO	NO
<i>Coupons / dividends</i>	-	-	-	-	-	-
17 Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Floating and then Fixed	Fixed
18 Coupon rate and any related index	Euribor 3M + 2% p.a., min. rate 4.5% and max rate 7.5%	5.75% p.a.	5% p.a.	3% p.a.	y1, y2, y3: fix rate 3.5%; then: Euribor 6 months + 235 bps floored @ zero	3.75% p.a.
19 Existence of a dividend stopper	NO	NO	NO	NO	NO	NO
20a Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	NO	NO	NO	NO	NO	NO
22 Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30 Write-down features	NO	NO	NO	NO	NO	NO
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior	Senior	Senior	Senior	Senior
36 Non-compliant transitioned features	NO	NO	NO	NO	NO	NO



Section 4 – Capital adequacy

Qualitative information

The Group pays particular attention to monitoring its own capital adequacy ratios, to ensure that its capital is commensurate with its risk propensity as well as with regulatory requirements.

As part of the ICAAP process, the Group assesses its own capital adequacy by considering its capital requirements deriving from exposure to the significant pillar 1 and 2 risks to which the Group is or could be exposed in the conduct of its own current and future business. Sensitivity analyses or stress tests are also carried out to assess the impact of particularly adverse economic conditions on the Group's capital requirements deriving from its exposure to the principal risks (stress testing), in order to appraise its capital resources even in extreme conditions.

This capital adequacy assessment takes the form of the ICAAP report which is produced annually and sent to the European Central Bank, along with the resolutions and reports in which the governing bodies express their opinions on related matters according to their respective roles and responsibilities.

Capital adequacy in respect of pillar 1 risks is also monitored Accounting and financial reporting unit through checking the capital ratios according to the rules established by the Capital Requirements Regulation (CRR)/Circular 285.

* * *

As at 30 June 2017, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 13.31%, higher than last year (12.08%), due to the increase in tier 1 capital (from €6.5bn to €7.0bn) and the reduction in risk-weighted assets (from €53.9bn to €52.7bn) due to lower CIB volumes and the reduction in market risks (from €4bn to €2.2bn) only in part offset by the growth in RWAs held by Che Banca!, Consumer Banking and Specialty Finance. Prudential treatment of the Assicurazioni Generali investment drove a €0.8bn increase in RWAs against a €0.3bn decrease in deductions. There was also an equivalent rise in the total Capital ratio, from 15.27% to 16.85%.



Quantitative information

Table 4.1 - Capital adequacy

Categories/Values	Unweighted amounts		Weighted amounts/requirements	
	30/6/17	30/6/16	30/6/17	30/6/16
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	62.865.854	59.963.345	46.158.581	45.713.920
1. Standardized methodology	62.553.175	59.802.028	45.873.175	45.320.982
2. Methodology based on internal ratings	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitizations	312.679	161.317	285.406	392.938
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3.692.686	3.657.113
B.2 Credit value adjustment risk			60.699	65.925
B.3 Settlement risk			—	—
B.4 Market risks			179.130	321.214
1. Standard methodology			179.130	321.214
2. Internal models			—	—
3. Concentration risk			—	-
B.5 Operational risks			284.144	264.671
1. Basic method			284.144	264.671
2. Standardized method			—	—
3. Advanced method			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			4.216.660	4.308.923
C. RISK-WEIGHTED ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			52.708.249	53.861.538
C.2 CET1/RWAs (CET1 capital ratio)			13,31%	12,08%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			13,31%	12,08%
C.4 Total capital/RWAs (total capital ratio)			16,85%	15,27%



Table 4.2 – Credit risk: exposures by portfolio

Portfolios	Amounts as at 30/6/17			
	Value of exposure gross of CRM	Exposure values net of CRM	Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7.578.412	7.984.164	—	—
Exposures to or guaranteed by regional entities	6.242	6.242	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	80.252	83.925	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	272	—	—
Exposures to or guaranteed by international organizations	521	521	—	—
Exposures to or guaranteed by regulated intermediaries	17.471.014	7.341.159	10.447.689	70.229
Exposures to or guaranteed by companies	24.730.488	22.508.726	2.035.870	331.608
Retail exposures	13.991.552	13.888.638	86.374	16.539
Exposures guaranteed by properties	7.672.707	7.670.798	30	1.880
Overdue exposures	1.107.414	1.102.347	2.048	3.019
High-risk exposures	165.283	165.283	—	—
Exposures in the form of guaranteed bank debt securities	376.949	376.949	—	—
Short-term exposures to companies	—	—	—	—
Exposures to OICRs	404.283	404.283	—	—
Exposures to equity instruments	2.787.424	2.787.424	—	—
Other exposures	2.137.151	2.207.958	—	—
Total cash risk assets	54.950.432	53.970.408	1.059.106	410.653
Total guarantees issued and commitments to disburse funds	8.170.747	7.670.950	508.347	12.621
Total derivatives contracts	2.078.941	1.712.218	366.723	—
Total SFTs and trades with long-term settlement	13.309.572	3.175.113	10.637.836	—
Grand Total	78.509.692	66.528.689	12.572.012	423.274

Table 4.3 – Capital requirement for market risks

Capital requirement for market risk	30/6/17	30/6/16
Position risk	179.130	300.013
<i>of which relating to positions in respect of securitizations</i>	96	1.025
Concentration risk	—	—
Regulatory risk for DVP transactions	—	—
Exchange rate risk	—	21.201
Risk on positions in commodities	—	—
Total Market Risk	321.214	321.214



Table 4.4 – Risk-weighted assets and requirements by strategic business area *

Business Line	30/6/17										
	Group Capital Requirements	CIB Requirements	%	WM Requirements	%	Consumer Requirements	%	PI Requirements	%	HF Requirements	%
Total requirement	4.216.660	1.848.340		463.248		942.615		617.191		345.266	
of which: Credit and Counterparty Risk	3.753.386	1.590.653	42,38%	405.180	10,80%	803.031	21,39%	617.191	16,44%	337.331	8,99%
of which: Market Risk	179.130	171.126	95,53%	8.004	4,47%	—	0,00%	—	0,00%	—	0,00%
of which: Operational Risk	284.144	86.561	30,46%	50.064	17,62%	139.584	49,12%	—	0,00%	7.935	2,79%
Regulatory Capital	52.708.249	23.104.250	43,83%	5.790.600	10,99%	11.782.688	22,35%	7.714.888	14,64%	4.315.825	8,19%

Business Line	30/6/16										
	Group Capital Requirements	CIB Requirements	%	WM Requirements	%	Consumer Requirements	%	PI Requirements	%	HF Requirements	%
Total requirement	4.308.923	2.178.379		348.489		899.872		540.508		341.703	
of which: Credit and Counterparty Risk	3.723.038	1.762.557	47,34%	324.763	8,72%	765.197	20,55%	540.508	14,52%	330.041	8,86%
of which: Market Risk	321.214	311.749	97,05%	9.465	2,95%	—	0,00%	—	0,00%	—	0,00%
of which: Operational Risk	264.671	104.073	39,32%	14.261	5,39%	134.675	50,88%	—	0,00%	11.662	4,41%
Regulatory Capital	53.861.538	27.229.738	50,56%	4.356.113	8,09%	11.248.400	20,88%	6.756.350	12,54%	4.271.288	7,93%

* Divisions comprise:

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



Table 4.5 – Amount of the specific countercyclical capital buffer of the institution

The table below shows the “Countercyclical capital buffer” disclosure prepared on the basis of the rates applicable as at 30 June 2017.

Row	Description	
010	Total risk exposure amount	52.708.249
020	Specific countercyclical ratio of the institution	0,008%
030	Specific countercyclical capital buffer requirement of the institution	4.086



Table 4.6 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

The following table sets out credit exposures as at 30 June 2017, split by geographical distribution, relevant for the calculation of the countercyclical capital buffer according to the EU Regulation n° 1152/2014.

												(€m)	
30/6/17	Generic credit exposures		Exposure in the trading book		Exposure to securitisation		Own fund requirements				Weighting factors of own funds requirements	Countercyclical ratio	
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	Of which: Generic credit exposures	Of which: Exposures in the trading book	Of which: Exposures to securitisations	Total			
010 Geographical breakdown													
Italy	33,769	—	1	—	3,035	—	2,229	—	129	2,359	—	—	
United Arab Emirates	4	—	—	—	—	—	—	—	—	—	—	—	
Australia	1	—	—	—	—	—	—	—	—	—	—	—	
Austria	75	—	—	—	—	—	6	—	—	6	—	—	
Belgium	40	—	—	—	—	—	3	—	—	3	—	—	
Canada	42	—	—	—	—	—	5	—	—	5	—	—	
Cayman Islands	3	—	—	—	—	—	—	—	—	—	—	—	
Czech Republic	4	—	—	—	—	—	—	—	—	—	—	—	
Denmark	10	—	—	—	—	—	1	—	—	1	—	—	
Ethiopia	2	—	—	—	—	—	—	—	—	—	—	—	
Finland	1	—	—	—	—	—	—	—	—	—	—	—	
France	1,737	—	—	—	—	—	125	—	—	125	—	—	
Germany	911	—	—	—	—	—	75	—	—	75	—	—	
Greece	2	—	—	—	—	—	—	—	—	—	—	—	
Hong Kong	1	—	—	—	—	—	—	—	—	—	—	—	
Ireland	140	—	—	—	—	—	11	—	—	11	—	—	
Israel	1	—	—	—	—	—	—	—	—	—	—	—	
Jersey	2	—	—	—	—	—	—	—	—	—	—	—	
Luxembourg	680	—	—	—	—	—	54	—	—	54	—	—	



Table 4.6 (cont.)

											(€m)	
30/6/17	Generic credit exposures		Exposure in the trading book		Exposure to securitisation		Own fund requirements				Weighting factors of own funds requirements	Countercyclical ratio
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	Of which: Generic credit exposures	Of which: Exposures in the trading book	Of which: Exposures to securitisations	Total		
Man, Isle of	12	—	—	—	—	—	1	—	—	1	—	—
Norway	37	—	—	—	—	—	3	—	—	3	—	—
Netherlands	1.530	—	—	—	—	—	122	—	—	122	—	—
Portugal	95	—	—	—	—	—	8	—	—	8	—	—
Monaco	20	—	—	—	—	—	1	—	—	1	—	—
United Kingdom	1.108	—	—	—	—	—	86	—	—	86	—	—
Romania	3	—	—	—	—	—	—	—	—	—	—	—
Russian Federation	2	—	—	—	—	—	—	—	—	—	—	—
Singapore	7	—	—	—	—	—	—	—	—	—	—	—
Spain	1.165	—	—	—	—	—	90	—	—	90	—	—
United States	800	—	—	—	—	—	53	—	—	53	—	—
South Africa	1	—	—	—	—	—	—	—	—	—	—	—
Sweden	193	—	—	—	—	—	15	—	—	15	—	—
Switzerland	230	—	—	—	—	—	13	—	—	13	—	—
Turkey	591	—	—	—	—	—	47	—	—	47	—	—
Virgin Islands, British	40	—	—	—	—	—	3	—	—	3	—	—
Other countries	1	—	—	—	—	—	—	—	—	—	—	—
020 Total	43.264	—	1	—	3.035	—	2.954	—	129	3.084	—	—



Section 5 – Financial leverage

Qualitative information

The leverage ratio is the ratio between the Bank's tier 1 capital and the Group's total exposure (i.e. the sum of assets and off-balance-sheet exposures). This ratio has been introduced by the Basel Committee to contain debt and prevent excess recourse to leverage in the banking sector. The minimum regulatory level set by the Committee is 3%, but the definitive figure will be set by end-2017, and from 1 January 2018 it will become a minimum pillar I requirement.

The ratio, which is calculated quarterly based on point-in-time readings – as required by Bank of Italy circular 285, was introduced from 1 January 2014, with the obligation to disclose starting from 1 January 2015.

The CRR defines the methods used in calculating the ratio, and in particular stipulates that:

- Derivative contracts should be valued using the current exposure method, i.e. the sum of the net market value, if positive, and the potential future exposure;
- secured financing transactions should be valued based on the value recognized for the collateral under the regulations on credit risk mitigation;
- the other off-balance-sheet exposures should reflect credit conversion factors; and
- the other exposures should be recognized at the book value remaining after application of specific credit value adjustments, supplementary value adjustments and other reductions to own funds in relation to the asset items.

On 17 January 2015 the Commission Delegated Regulation was published in the EU Official Journal which subsequently became EU regulation 62/2015, amending the CRR (EU regulation 575/2013), with the objective of standardizing the leverage ratio calculation methodology.

In particular the Commission Delegated Regulation makes certain changes to calculating the value of the exposure:

- For derivatives, the possibility of deducting the cash variation margin from the value of the exposure, if certain conditions are met;
- Credit derivatives written, the measurement may happen at the gross notional amount rather than at fair value, with the possibility of deducting changes to the fair value recorded through the profit and loss account (as negative items) from the notional amount; the purchased protection may also offset the sold protection when given conditions are met;
- For securities financing transactions, the exclusion of collateral received for reducing the value of the exposure of such transactions, whereas the cash receivables and payables deriving from such transactions can be netted if specific criteria specified in the Commission Delegated Regulation are met.

The Commission Delegated Regulation also provides that the leverage ratio should be calculated at the end of the quarterly reporting period, thus doing away with the discretionary element previously provided for in the CRR, whereby calculation



could either be made on the basis of the arithmetical average ratios for the three months under review, or alternatively as a point-in-time figure at the end of the period.

Following the publication of Commission Implementing Regulation (EU) 2016/200 in the Official Journal on 15 February 2016, which lays down implementing technical standards with regard to disclosure of the leverage ratio for institutions, starting 30 June 2016 the Mediobanca Group has disclosed its leverage ratio based on the provisions contained in the Commission Delegated Regulation, and as from the same date (i.e. the first reference date, six months after publication in the EU Official Journal) the reporting flows have also been produced based on the provisions of this Regulation.

Quantitative information

The following table shows the Mediobanca Group's leverage ratio levels as at 30 June 2017, presented in accordance with the provisions of Commission Implementing Regulations (EU) 200/2016.



Table 5.1 – LRCom – Harmonized information over leverage ratio

On-balance-sheet exposures (excluding derivatives and SFTs)		30/6/17	30/6/16
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	62.298.919	59.018.420
2	Asset amounts deducted in determining Basel III Tier 1 capital - phase-in regime	(1.057.185)	(1.413.466)
3	Total on-balance-sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	61.241.734	57.604.954
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.382.391	1.642.920
5	Add-on amount for PFE associated with all derivatives transactions (mark-to-market method)	999.720	960.438
EU-5a	Exposure determined under Original Exposure Method	—	—
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	—	—
7	(Deduction of receivables assets for cash variation margin provided in derivatives transactions)	(366.723)	(428.221)
8	(Exempted CCP leg of client-cleared trade exposures)	(3.514)	(123)
9	Adjusted effective notional amount of written credit derivatives	—	—
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
11	Total derivative exposures (sum of lines 4 to 10)	2.011.874	2.175.014
Securities financing transaction exposures (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6.889.904	6.135.652
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(2.148.508)	(5.160.845)
14	CCR exposure for SFT assets	2.072.813	—
EU-14a	Exemption for SFTs: CCR exposure pursuant to Article 429-ter, para. 4, and Article 222 of regulation EU 575/2013	—	—
15	Agent transaction exposures	—	—
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	—	—
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	6.814.209	974.807
Other off-balance-sheet exposures			
17	Off-balance-sheet exposure at gross notional amount	7.973.328	9.888.781
18	(Adjustments for conversion to credit equivalent amounts)	(3.999.329)	(3.206.578)
19	Off-balance-sheet items (sum of lines 17 and 18)	3.973.999	6.682.203
(Exposures exempt pursuant to Article 429, paras. 7 and 14 of EU regulation 575/2013 (on- and off-balance-sheet))			
EU-19a	Intra-group exposures (solo basis) exempted pursuant to Article 429, para. 7 of EU regulation 575/2013 (on- and off-balance-sheet)	—	—
EU-19b	Exposures exempted pursuant to Article 429, para. 14 of EU regulation 575/2013 (on- and off-balance-sheet)	—	—
Capital and total exposures			
20	Tier 1 capital	7.017.281	5.458.267
21	Total exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	74.041.816	67.436.978
Leverage ratio			
22	Basel III leverage ratio	9,48%	8,09%
Choice of transitional arrangements and amount of derecognized fiduciary items			
EU-23	Choice of transitional arrangements for definition of capital measure	Phase-in regime	Phase-in regime
EU-24	Amount of derecognized fiduciary items pursuant to Article 429, para. 11 of EU regulation 575/2013	—	—

The leverage ratio as at 30 June 2017, calculated in accordance with the new provisions of Regulation (EU) no. 62/2015 and the temporary provisions for defining capital measurements was 9.48%; the ratio as at 30 June 2016 calculated based on the fully-adopted definition of tier 1 capital was 9.68%, as against 8.09% one year previously.



Table 5.2 – LRSum – Summary of reconciliation between accounting assets and leverage-ratio explanation

Summary comparison of accounting assets vs leverage ratio exposure		30/6/11	30/6/16
1	Total consolidated assets as per published financial statements *	70.445.564	69.818.605
2	Adjustment for investments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	125.650	793.435
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure pursuant to Article 429 (13) of EU regulation 575/2013 (CRR)	—	—
4	Adjustment for derivative financial instruments	629.483	(3.902.985)
5	Adjustment for securities financing transactions (SFTs)	(75.695)	(5.160.845)
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	3.973.999	6.685.994
EU-6a	(Adjustment for intra-group exposures excluded from calculation of financial leverage pursuant to Article 429 (7) of EU regulation no. 575/2013)	—	—
EU-6b	(Adjustment for exposures excluded from calculation of financial leverage pursuant to Article 429 (14) of EU regulation no. 575/2013)	—	—
7	Other exposures **	(1.057.185)	(797.226)
8	Leverage ratio exposure	74.041.816	67.436.978

* The difference in scope is chiefly due to Compass RE, not being included in the Banking Group definition.

** The heading entitled "Other adjustments" chiefly includes the amounts in respect of assets deducted from the calculation of core tier 1 equity under the phase-in regime.

Table 5.3 – LRSpI – Breakdown of on-balance-sheet exposures (without derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures 30/6/17	CRR leverage ratio exposures 30/6/16
EU-1 Total on-balance-sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	62.298.919	59.018.420
EU-2 Trading book exposures	5.438.022	4.550.238
EU-3 Banking book exposures, of which:	56.860.897	54.468.182
EU-4 Covered bonds	376.949	247.585
EU-5 Exposures treated as sovereigns	7.578.079	7.949.288
EU-6 Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	27.015	10.859
EU-7 Institutions	3.384.551	3.784.101
EU-8 Secured by mortgages of immovable properties	7.672.707	5.206.540
EU-9 Retail exposures	12.730.075	11.869.893
EU-10 Corporate	16.656.340	16.440.235
EU-11 Exposures in default	1.075.360	1.022.372
EU-12 Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	7.359.819	7.937.309



Section 6 – Credit risk

6.1 Credit risk: general information for all banks

Qualitative information

The definition of exposures in default (i.e. non-performing, sub-standard, restructured and overdue/overdrawn) adopted by the Mediobanca Group is based on the one used by the Bank of Italy (circular 272/08, seventh update), along with the internal criteria employed to define the transitions between the various categories of impaired loans.

The classification of impaired exposures may be summarized as follows:

- non-performing – cash exposures to individuals or entities in a state of insolvency (even if not certified by law) or in substantially equivalent situations. This category does not include exposures for which the irregularity relates to country risk issues;
- unlikely to pay – credit exposures not categorized as non-performing, for which the Bank considers it unlikely that without recourse to actions such as enforcement of guarantees, the borrower will be able to meet all its credit obligations fully (i.e. by way of principal and interest);
- overdue/overdrawn non-performing exposures – cash exposures not categorized as non-performing or unlikely to pay, which are overdue or overdrawn at the reference date.

Mediobanca has adopted the new definitions of exposures subject to various kinds of tolerance measures, known as “forborne” exposures, applied to any asset (i.e. performing or non-performing).

Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as “financial difficulties”).

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of the accumulation, actual or potential (in the latter case if the concessions are not granted) of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Description of methodologies adopted to determine loan loss provisions

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



amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

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

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

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

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

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

IAS 17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment. In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period.

Exposure to sovereign debt risk

The securities portfolio chiefly consists of financial instruments with Italy country risk worth €3.5bn (62% of the total, with an average maturity of approx. 2.8 years. The exposure to German bonds remains substantial (at 16% of the total – the total book value is equal to €940m corresponding to a notional value of €885m). Trading operations include short selling (that is to say, the sale of a security without owing the asset), conventionally indicated with the minus sign (see the table below)



Quantitative information

Exposure to sovereign debt

Table 6.1.1 - Exposures to sovereign debt securities by state, counterparty and portfolio

*

Asset portfolio/quality	In bonis			Total (Net exposure) ¹
	Gross exposure	Specific adjustments	Net exposure	
1. Financial assets held for trading	X	X	(162.197)	(162.197)
Italy	X	X	138.081	138.081
Germany	X	X	(40.561)	(40.561)
France	X	X	(232.142)	(232.142)
Others	X	X	(27.575)	(27.575)
2. AFS securities	3.855.148	—	3.855.148	3.855.148
Italy	2.179.884	—	2.179.884	2.179.884
Germany	930.151	—	930.151	930.151
France	319.891	—	319.891	319.891
United States	274.528	—	274.528	274.528
Spain	150.694	—	150.694	150.694
3. Financial assets held to maturity	1.747.750	—	1.747.750	1.747.750
Italy	1.139.076	—	1.139.076	1.139.076
France	354.080	—	354.080	354.080
Spain	203.356	—	203.356	203.356
Germany	50.539	—	50.539	50.539
Others	699	—	699	699
Total	5.602.898	—	5.440.701	5.440.701

* Does not include financial and credit derivatives.

¹ The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €27.7m.

Table 6.1.2 - Exposures to sovereign debt securities by portfolio

Asset Portfolio / quality	Trading book ¹			Banking book ²			
	Nominal Value	Book value	Duration	Nominal Value	Book value	Fair value	Duration
Italy	143.935	138.081	4,04	3.210.252	3.318.960	3.331.825	2,54
Germany	(39.848)	(40.561)	3,83	925.000	980.690	980.867	5,02
France	(200.000)	(232.142)	3,82	667.925	673.971	675.156	3,78
Spain	—	—	—	350.000	354.050	356.121	4,34
United States	—	—	—	280.407	274.528	274.528	5,37
Others	(412.343)	(27.575)	—	8.843	699	12.076	—
Total	(508.256)	(162.197)		5.442.427	5.602.898	5.630.573	

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

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



Quantitative information

Table 6.1.3 - Counterparty credit risk

Counterparty credit risk	30/6/17				30/6/16				Quarterly average data			
	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements
A. CREDIT RISK AND COUNTERPARTY RISK												
A.1 Standardized methodology - RISK ASSETS												
A.1.1. Exposures to or guaranteed by central administrations and central banks	7.578.412	7.978.458	866	69	7.953.111	8.134.469	1.112	89	7.970.730	8.280.636	4.454	356
A.1.2. Exposures to or guaranteed by regional entities	6.242	6.242	1.248	100	9.299	9.299	1.860	149	8.242	8.242	2.552	204
A.1.3. Exposures to or guaranteed by non-profit-making and public sector entities	80.252	53.334	34.951	2.796	502.450	16.815	3.871	310	147.255	20.422	10.815	865
A.1.4. Exposures to or guaranteed by multilateral development banks	—	272	54	4	—	142	28	2	—	182	36	3
A.1.5. Exposures to or guaranteed by international organizations	521	521	—	—	—	—	—	—	521	521	130	10
A.1.6. Exposures to or guaranteed by regulated intermediaries	17.471.014	7.303.421	2.100.899	168.072	17.813.202	6.408.122	2.682.017	214.561	17.087.165	7.070.825	2.992.886	239.431
A.1.7. Exposures to or guaranteed by companies	24.730.488	19.673.293	19.509.321	1.560.746	25.698.499	20.138.136	19.947.735	1.595.819	25.082.180	19.505.745	19.338.456	1.547.078
A.1.8. Retail exposures	13.991.552	12.835.849	9.541.588	763.327	13.053.090	11.985.210	8.908.036	712.643	13.487.160	12.352.119	9.185.864	734.869
A.1.9. Exposures guaranteed by properties	7.672.707	7.670.798	2.755.342	220.427	5.206.540	5.205.260	1.866.039	149.263	7.643.723	7.639.581	2.738.589	219.087
A.1.10. Overdue exposures	1.107.414	1.091.025	1.206.996	96.560	1.040.632	1.026.499	1.155.763	92.461	1.060.738	1.045.757	1.166.482	93.319
A.1.11. High-risk exposures	165.283	165.283	577.924	46.234	58.872	58.872	88.309	7.065	80.994	80.994	203.991	16.319
A.1.12. Exposures in the form of guaranteed bank obligations	376.949	376.949	50.368	4.029	247.585	247.585	33.884	2.711	287.478	275.015	35.452	2.836
A.1.14. Exposures to collective investment and savings organizations (OICRs)	404.283	404.283	520.621	41.650	364.500	356.133	356.133	28.491	434.002	430.295	459.380	36.750
A.1.15. Exposures to equity instruments	2.787.424	2.787.424	7.707.819	616.626	3.814.116	3.814.116	8.256.603	660.528	3.247.366	3.247.318	7.885.922	630.874
A.1.16. Other exposures	2.137.151	2.206.023	1.865.176	149.214	2.292.599	2.401.371	2.019.592	161.567	2.269.012	2.322.293	2.001.443	160.115
Total	78.509.692	62.553.175	45.873.173	3.669.854	78.054.495	59.802.029	45.320.982	3.625.659	78.806.566	62.279.945	46.026.452	3.682.116



Table 6.1.4 - Credit risk: cash and off-balance-sheet exposures to banks

Type of exposure/counterparty area	30/6/17						
	Gross cash exposures						Off-balance-sheet exposures
	Financial assets held for trading	Financial assets recognised at fair value	AFS securities	Financial assets held to maturity	Due from banks	Non-current assets and groups of assets being sold	
A. Cash exposures							
a) Bad loans	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—
d) Other exposures	389.880	—	927.637	257.928	7.882.998	—	—
Total A	389.880	—	927.637	257.928	7.882.998	—	—
B. Off-balance-sheet exposures							
a) Impaired	—	—	—	—	—	—	—
b) Other	—	—	—	—	—	—	30.042.672
Total B	—	—	—	—	—	—	30.042.672
Total A+B	389.880	—	927.637	257.928	7.882.998	—	30.042.672



Table 6.1.5 - Credit risk: cash and off-balance-sheet exposures to customers

Type of exposure/counterparty area	30/6/17						
	Gross cash exposures						Off-balance-sheet exposures
	Financial assets held for trading	Financial assets recognised at fair value	AFS securities	Financial assets held to maturity	Due from banks	Non-current assets and group of assets being sold	
A. Cash exposures							
a) Bad loans	—	—	—	—	661.673	—	—
b) Unlikely to pay	—	—	—	—	1.394.038	—	—
c) Overdue exposures (NPLs)	—	—	—	—	151.305	—	—
d) Other exposures	2.414.609	—	4.564.122	2.152.095	37.635.640	—	—
Total A	2.414.609	—	4.564.122	2.152.095	39.842.656	—	—
B. Off-balance-sheet exposures							
a) Impaired	—	—	—	—	—	—	22.254
b) Other	—	—	—	—	—	—	21.317.245
Total B	—	—	—	—	—	—	21.339.499
Total A+B	2.414.609	—	4.564.122	2.152.095	39.842.656	—	21.339.499

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



Table 6.1.6 - Cash and off-balance-sheet exposures to customers by geographical region

Type of exposure/Counterparty area	30/6/17									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
a) Bad loans	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
d) Other exposures	4.367.677	4.364.779	4.976.762	4.975.713	109.091	109.078	1.755	1.755	3.145	3.143
Total A	4.367.677	4.364.779	4.976.762	4.975.713	109.091	109.078	1.755	1.755	3.145	3.143
B. Off-balance-sheet exposures										
a) Bad loans	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
d) Other exposures	6.729.793	6.729.656	23.312.666	23.312.666	213	213	—	—	—	—
Total B	6.729.793	6.729.656	23.312.666	23.312.666	213	213	—	—	—	—
Total A + B	11.097.470	11.094.435	28.289.428	28.288.379	109.304	109.291	1.755	1.755	3.145	3.143



Table 6.1.7 -Cash and off-balance-sheet exposures to customers by geographical region

Type of exposure/Counterparty area	30/6/17									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
a) Bad loans	642.435	284.229	18.015	7.218	248	150	—	—	975	—
b) Unlikely to pay	1.331.696	718.738	61.380	8.272	640	450	321	225	—	—
c) Overdue exposures (NPLs)	148.438	53.201	2.493	2.472	45	35	15	11	313	313
d) Other exposures	35.486.244	35.099.374	9.995.955	9.967.922	1.477.512	1.474.066	33.469	33.380	219.626	219.603
Total A	37.608.813	36.155.542	10.077.843	9.985.884	1.478.445	1.474.701	33.805	33.616	220.914	219.916
B. Off-balance-sheet exposures										
a) Bad loans	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	9.217	7.008	11.442	9.908	—	—	—	—	—	—
c) Overdue exposures (NPLs)	1.595	1.595	—	—	—	—	—	—	—	—
d) Other exposures	8.700.322	8.695.808	12.447.238	12.443.372	115.115	114.948	3.351	3.351	51.219	51.219
Total B	8.711.134	8.704.411	12.458.680	12.453.280	115.115	114.948	3.351	3.351	51.219	51.219
Total A + B	46.319.947	44.859.953	22.536.523	22.439.164	1.593.560	1.589.649	37.156	36.967	272.133	271.135



Table 6.1.8 - Cash and off-balance-sheet exposures to customers by sector

Type of exposure/counterparty area	30/6/17																	
	Governments			Other public entities			Financial companies			Insurances			Non-financial undertakings			Other entities		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. Cash exposures																		
a) Bad loans	—	—	—	—	—	—	2,239	(1,661)	638	—	—	—	10,672	(48,678)	57,994	552,702	(38,737)	222,965
b) Unlikely to pay	—	—	—	4,355	(2,234)	2,121	43,753	(17,992)	25,761	—	—	—	877,746	(365,514)	482,232	458,183	(250,616)	207,571
c) Overdue exposures (NPLs)	—	—	—	1,330	(30)	1,300	232	(73)	159	2	(1)	1	13,283	(2,939)	10,337	106,477	(92,242)	44,235
d) Other exposures	7,449,239	(3,179)	7,446,060	341,153	(38)	341,115	3,819,515	(1,614)	3,817,901	1,294,777	(2,163)	1,292,614	13,341,467	(54,908)	13,286,559	20,966,055	(341,442)	20,624,613
Total A	7,449,239	(3,179)	7,446,060	356,838	(2,302)	354,536	3,865,799	(36,372)	3,829,427	1,294,779	(2,169)	1,292,610	14,339,148	(502,106)	13,837,042	22,114,017	(1,004,033)	21,109,984
B. Off-balance-sheet exposures																		
a) Bad loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	2,499	(314)	2,185	—	—	—	17,883	(3,11)	14,772	277	—	277
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—	—	—	540	(308)	232	1,055	—	1,055
d) Other exposures	738,263	—	738,263	63,284	—	63,284	8,342,519	(1,332)	8,341,187	759,027	(278)	758,749	11,028,663	(5,363)	11,023,300	385,489	(1,574)	383,915
Total B	738,263	—	738,263	63,284	—	63,284	8,345,018	(1,646)	8,343,372	759,027	(278)	758,749	11,047,066	(8,792)	11,038,294	386,621	(1,574)	385,247
Total A + B	8,187,502	(3,179)	8,184,323	420,122	(2,302)	417,820	12,210,817	(38,018)	12,172,799	2,053,806	(2,447)	2,051,369	25,386,214	(510,898)	24,875,316	22,500,638	(1,005,607)	21,495,231



Table 6.1.9 - Financial assets by outstanding Maturity

Type	30/6/17										Total
	On demand	From 1 day 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	More than 5 years	Unspecified duration	
Cash assets	4.447.798	1.239.501	697.169	1.057.615	4.121.724	3.308.224	5.366.022	26.498.081	12.192.158	189.622	59.117.914
A.1 Government securities	—	850	874	225.129	192.129	376.425	405.494	5.006.700	1.125.415	—	7.333.016
A.2 Other debt securities	1.170	24.844	51.399	10.297	171.761	138.997	278.203	1.824.434	1.109.982	—	3.611.087
A.3 OICR units	119.492	—	—	—	—	—	—	19	—	—	119.511
A.4 Loans and advances	4.327.136	1.213.807	644.896	822.189	3.757.834	2.792.802	4.682.325	19.666.928	9.956.761	189.622	48.054.300
- to banks	2.619.853	794.206	153.096	209.397	1.433.824	236.666	576.372	1.473.501	276.380	177.783	7.951.078
- to customers	1.707.283	419.601	491.800	612.792	2.324.010	2.556.136	4.105.953	18.193.427	9.680.381	11.839	40.103.222
Cash liabilities	12.674.679	3.808.101	571.241	854.744	2.226.302	3.590.662	4.601.668	22.351.562	4.487.110	1.659	55.167.728
B.1 Financial derivatives with exchange of principal	11.935.280	2.792.649	218.971	445.718	900.519	1.018.065	1.815.432	758.498	68.503	—	19.953.635
- to banks	483.557	100	1.368	2.859	6.287	10.584	17.209	—	—	—	521.964
- to customers	11.451.723	2.792.549	217.603	442.859	894.232	1.007.481	1.798.223	758.498	68.503	—	19.431.671
B.2 Deposits and loans	1.261	216	995	5.825	616.731	2.297.333	2.266.247	10.888.542	4.260.740	—	20.337.890
B.3 Other liabilities	738.138	1.015.236	351.275	403.201	709.052	275.264	519.989	10.704.522	157.867	1.659	14.876.203
Off-balance-sheet transactions	6.572.396	5.570.920	634.077	1.344.486	2.886.996	2.102.944	2.219.665	16.738.715	4.983.028	70.000	43.123.227
C.1 Financial derivatives with exchange of principal	6.994	1.667.720	406.372	1.006.770	1.621.907	1.205.378	624.807	4.149.665	1.227.168	—	11.916.781
- long positions	3.497	905.571	323.491	521.719	779.905	787.116	181.411	1.003.647	64.693	—	4.571.050
- short positions	3.497	762.149	82.881	485.051	842.002	418.262	443.396	3.146.018	1.162.475	—	7.345.731
C.2 Financial derivatives without exchange of principal	4.857.097	10.720	4.299	12.698	113.447	106.580	145.056	40.104	—	—	5.290.001
- long positions	2.506.632	4.565	2.741	4.408	49.816	37.098	72.286	40.104	—	—	2.717.650
- short positions	2.350.465	6.155	1.558	8.290	63.631	69.482	72.770	—	—	—	2.572.351
C.3 Deposits and financing receivables	—	1.754.969	116.111	156.415	767.688	12.187	792.586	4.373.852	924.463	—	8.898.271
- long positions	—	1.753.405	116.111	156.415	767.688	—	713.985	941.531	—	—	4.449.135
- short positions	—	1.564	—	—	—	12.187	78.601	3.432.321	924.463	—	4.449.136
C.4 Irrevocable commitment to disburse funds *	1.468.849	2.137.451	107.295	168.503	382.714	571.871	353.953	4.878.756	815.479	—	10.884.871
- long positions	181.899	116.825	864	60.583	157.424	13.920	91.710	4.022.169	797.041	—	5.442.435
- short positions	1.286.950	2.020.626	106.431	107.920	225.290	557.951	262.243	856.587	18.438	—	5.442.436
C.5 Financial guarantees issued	5.622	60	—	100	340	1.228	76.463	998	70	70.000	154.881
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	900	205.700	226.800	3.295.340	2.015.848	—	5.744.588
- long positions	—	—	—	—	450	90.700	93.400	1.647.896	1.039.848	—	2.872.294
- short positions	—	—	—	—	450	115.000	133.400	1.647.444	976.000	—	2.872.294
C.8 Credit derivatives without exchange of principal	233.834	—	—	—	—	—	—	—	—	—	233.834
- long positions	114.508	—	—	—	—	—	—	—	—	—	114.508
- short positions	119.326	—	—	—	—	—	—	—	—	—	119.326

* Includes hedge sales perfectly matched by purchases for the same amount.



Table 6.1.10 - Cash exposures: trends in overall value adjustments

Description/category	30/6/17							
	Exposures to banks				Exposures to customers			
	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Total	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Total
A. Overall adjustments at start of period	—	—	—	—	368.614	663.294	91.456	1.123.364
<i>of which: exposures sold but not derecognised</i>	—	—	—	—	1.966	21.826	22.535	46.327
B. Additions	—	—	—	—	291.011	376.419	184.570	852.000
B.1 value adjustments	—	—	—	—	65.588	151.273	75.190	292.051
B.2 losses incurred on disposals	—	—	—	—	111.091	62.548	4.251	177.890
B.3 transferred from other categories of non-performing exposures	—	—	—	—	95.097	51.605	7.010	153.712
B.4 other additions	—	—	—	—	19.235	110.993	98.119	228.347
C. Reductions	—	—	—	—	289.549	373.361	180.754	843.664
C.1 amounts reversed following changes in valuation	—	—	—	—	11.243	38.892	4.618	54.753
C.2 amounts reversed following collection	—	—	—	—	10.511	11.644	1.451	23.606
C.3 gains realised on disposals	—	—	—	—	3.035	1.333	15	4.383
C.4 writeoffs	—	—	—	—	134.255	69.606	2.328	206.189
C.5 transferred to other categories of non-performing exposures	—	—	—	—	11.023	98.036	44.653	153.712
C.6 other reductions	—	—	—	—	119.482	153.850	127.689	401.021
D. Overall adjustments at end of period	—	—	—	—	370.076	666.352	95.272	1.131.700
<i>of which: exposures sold but not derecognised</i>	—	—	—	—	22.447	65.996	37.559	126.002



6.2 ECAIs

Qualitative information

Mediobanca uses the following external ratings agencies (or "ECAIs") in order to determine risk weightings in connection with the standardized method:

- Moody's Investors Service
- Standard & Poor's Rating Services
- Fitch Ratings

The books for which Mediobanca uses official ratings are listed below, along with the agencies which issue the ratings and the rating's characteristics:

Book	ECAI	Rating characteristics *
Exposures to central administrations and central banks	Moody's Investors Service	Solicited/Unsolicited
	Standard & Poor's Rating Services	
	Fitch Ratings	
Exposures to international organizations	Moody's Investors Service	Solicited/Unsolicited
	Standard & Poor's Rating Services	
	Fitch Ratings	
Exposures to multilateral development banks	Moody's Investors Service	Solicited/Unsolicited
	Standard & Poor's Rating Services	
	Fitch Ratings	
Exposures to companies and other entities	Moody's Investors Service	Solicited/Unsolicited
	Standard & Poor's Rating Services	
	Fitch Ratings	
Exposures to undertakings for collective investments in transferable securities (UCITS)	Moody's Investors Service	Solicited/Unsolicited
	Standard & Poor's Rating Services	
	Fitch Ratings	
Positions in securitizations with short-term ratings	Moody's Investors Service	
	Standard & Poor's Rating Services	
	Fitch Ratings	
Positions in securitizations other than those with short-term ratings	Moody's Investors Service	
	Standard & Poor's Rating Services	
	Fitch Ratings	

* "Solicited ratings" are ratings issued following a request by the entity being rated and in return for a fee.



Quantitative information

Table 6.2.1 - Standardized methodology: risk assets

Portfolios	30/6/17		
	Value of exposure	Exposures guaranteed	
		Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7.578.412	—	—
credit rating class 1	7.577.379	—	—
credit rating class 2	—	—	—
credit rating class 3	333	—	—
credit rating classes 4 and 5	700	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by regional entities	6.242	—	—
credit rating class 1	—	—	—
credit rating class 2	6.242	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	—	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	80.252	—	—
credit rating class 1	—	—	—
credit rating class 2	19.844	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	60.408	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	—	—
credit rating class 1	—	—	—
credit rating class 2	—	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	—	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by international organizations	521	—	—
Exposures to or guaranteed by regulated intermediaries	17.471.014	—	10.447.689
credit rating class 1	—	—	—
credit rating class 2	12.723.671	—	—
credit rating class 3	4.179.804	—	—
credit rating classes 4 and 5	565.444	—	—
credit rating class 6	2.095	—	—
Exposures to or guaranteed by companies	24.730.488	82.029	1.952.984
credit rating class 1	68.488	—	—
credit rating class 2	484.490	—	—
credit rating classes 3 and 4	23.868.590	—	—
credit rating classes 5 and 6	308.919	—	—
Retail exposures	13.991.552	4.746	81.629
Exposures guaranteed by properties	7.672.707	—	30
Overdue exposures	1.107.414	—	2.048
High-risk exposures	165.283	—	—
Exposures in the form of guaranteed bank debt securities	376.949	—	—
Short-term exposures to companies	—	—	—
Exposures to UCITs	404.283	—	—
credit rating class 1	—	—	—
credit rating class 2	—	—	—
credit rating classes 3 to 4	371.363	—	—
credit rating classes 5 to 6	32.920	—	—
Exposures to equity instruments	2.787.424	—	—
Other exposures	2.137.151	—	—
Total cash risk assets	54.950.432	78.225	980.024
Total guarantees issued and commitments to disburse funds	8.170.747	8.550	499.797
Total derivatives contracts	13.309.572	—	10.637.836
Total SFIs and trades with long-term settlement	2.078.941	—	366.723
Grand total	78.509.692	86.775	12.484.380



6.3 Unencumbered assets

Table 6.3.1 - Information on committed assets recognized in the balance sheet

Form	Committed		Uncommitted		Total as at 30/6/17
	Book value	Fair value	Book value	Fair value	
1. Cash and cash equivalents	—	—	1.330.221	—	1.330.221
2. Debt securities *	5.776.375	5.831.271	5.201.419	4.666.201	10.977.794
3. Equities	794.339	794.339	1.771.844	1.555.968	2.566.183
4. Loans and advances *	13.239.679	—	33.106.657	—	46.346.336
5. Other financial assets	—	—	6.848.228	—	6.848.228
6. Non-financial assets	—	—	2.251.152	—	2.251.152
Total	19.810.393	6.625.610	50.509.521	6.222.169	70.319.914

* €9.5m of which in securities and €8,017m in loans established as collateral with the ECB.

Table 6.3.2 - Information on proprietary committed assets derecognized from the balance sheet

Form	Committed	Uncommitted	Total as at 30/6/17
1. Financial assets	4.679.795	2.869.660	7.549.455
- Securities	4.679.795	2.869.660	7.549.455
- Others	—	—	—
2. Non-financial assets	—	—	—
Total	4.679.795	2.869.660	7.549.455

The asset encumbrance ratio is the ratio between the share of assets committed and/or used and those available, with the definition of assets including not only those on the balance sheet but also financial instruments received as collateral and eligible for reuse.

The objective of the asset encumbrance ratio is to provide disclosure to the public and to creditors on the ranking of the assets committed by the Bank and therefore unavailable, and also to provide an indication of the Bank's future funding capacities in easy and convenient fashion through secured funding.

The ratio was 29.57% as at 30 June 2017, almost equal to former year value of 28.44%.



Section 7 – Counterparty risk

Qualitative information

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

The amount of collateral which Mediobanca would have to provide if its credit rating is downgraded is analysed on the basis of a scenario in which the rating is downgraded by more than two notches. A single ISDA contract makes provision the value of the collateral to be reduced in the event of a downgrade, with a potential impact in the region of €60m. Another four ISDA contracts (two of which with no exposures) provide for the contracts to be closed following events in which Mediobanca's rating is downgraded, the impact of which is confined to the costs of replacing the contract.

Fair Value Adjustment (FVA)

Fair Value Adjustment is the correction made to the price observed on the market or to the theoretical price generated by the model in order to obtain the sale price of an actually possible market transaction. Such adjustments reflect the difficulty of valuing or selling particular instruments by quantifying counterparty risk, internal funding spread risk and other uncertainty factors on estimates generated by marking-to-model (changes in financing rates, illiquid products being held, uncertain market parameters or models chosen).

In particular the adjustments involve:

- bilateral Credit Value Adjustment (CVA or DVA), i.e. the risk of default by the counterparty (Credit Value Adjustment - CVA) and by the Bank itself (Debit Value Adjustment - DVA), as well as a Funding Value Adjustment (FVA) component linked to cash borrowed or lent;
- uncertainty over the liquidity of the market parameters;
- possible model risks;
- implicit costs for the investment and/or financing;
- risks associated with the liquidity of the product and with the possibility of early closure.

The Bank has implemented quantitative calculation methods to cover all these risks, which are illustrated in more detail in Part A.4, "Information on fair value" of the Notes to the financial statements.



* * *

For regulatory purposes, counterparty and CVA risk (see Part 3 Title VI) is calculated by applying the methodologies stipulated in Section 6. The following methodologies in particular have been used to calculate the exposure:

- the “current value” method for financial and credit derivative instruments traded OTC and for trades with long-term settlements;
- the “integral” method for SFT trades with regulatory adjustments for volatility; such trades consist of repos, securities and/or commodities lending transactions and loans linked with securities;
- the standardized methodology for calculating the capital requirement in respect of credit value adjustment, considering all counterparties, with or without CSA.

Quantitative information

Counterparty risk

Table 7.1 - Counterparty risk – real guarantees held

Counterparty risk - Real guarantees held	Amounts as at 30/6/17	Amounts as at 30/6/16
Standardized approach		
- derivatives contracts	366.723	420.566
- SFTs and trades with long-term settlement	10.637.836	10.689.149
IRB approaches		
- derivatives contracts	—	—
- SFTs and trades with long-term settlement	—	—

Table 7.2 - Counterparty risk – risk assets

Counterparty risk	Amounts as at 30/6/17	Amounts as at 30/6/16
Standardized approach		
- derivatives contracts	1.712.218	1.803.321
- SFTs and trades with long-term settlement	3.175.113	2.054.524
IRB approaches		
- derivatives contracts	—	—
- SFTs and trades with long-term settlement	—	—



Table 7.3 – Regulatory trading book: average and reporting-date notional values

Type of transaction	30/6/17		30/6/16	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	89.599.408	31.570.511	102.502.160	88.455.146
a) Options	—	30.721.864	—	87.729.988
b) Swaps	86.903.408	—	97.586.160	—
c) Forwards	—	—	—	—
d) Futures	—	848.647	—	725.158
e) Others	2.696.000	—	4.916.000	—
2. Equities and share indexes	14.537.682	11.250.774	14.948.134	11.742.610
a) Options	13.586.813	11.011.994	13.978.569	11.508.167
b) Swaps	833.720	—	969.565	—
c) Forwards	117.149	—	—	—
d) Futures	—	238.780	—	234.443
e) Others	—	—	—	—
3. Exchange rates and gold	8.843.295	—	10.156.104	—
a) Options	277.521	—	1.735.370	—
b) Swaps	3.578.982	—	3.915.853	—
c) Forwards	4.986.792	—	4.504.881	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	112.980.385	42.821.285	127.606.398	100.197.756

Table 7.4 – Banking book: average and reporting-date notional values- Hedge derivatives

Type of transaction	30/6/17		30/6/16	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	17.147.090	—	16.618.937	—
a) Options	—	—	—	—
b) Swaps	17.007.090	—	16.389.738	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	140.000	—	229.199	—
2. Equities and share indexes	240.048	—	85.708	—
a) Options	29	—	29	—
b) Swaps	—	—	—	—
c) Forwards	240.019	—	85.679	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	—	—	—	—
a) Options	—	—	—	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	17.387.138	—	16.704.645	—



Table 7.5 – Banking book: average and reporting-date notional values – Other derivatives

Type of transaction	30/6/17		30/6/16	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	1.172.835	—	536.449	—
a) Options	—	—	—	—
b) Swaps	1.132.835	—	407.251	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	40.000	—	29.198	—
2. Equities and share indexes	1.825.557	—	2.178.229	—
a) Options	1.825.557	—	2.178.229	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	—	—	—	—
a) Options	—	—	—	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	2.998.392	—	2.714.678	—



Table 7.6 – Financial derivatives: gross positive fair value, by product

Type of transaction	Positive Fair Value			
	30/6/17		30/6/16	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	2.291.303	462.562	3.847.443	632.131
a) Options	311.962	455.566	419.192	629.729
b) Interest rate swaps	1.645.465	—	2.910.959	—
c) Cross currency swaps	197.256	—	243.239	—
d) Equity swaps	30.542	—	75.174	—
e) Forwards	106.078	—	198.879	—
f) Futures	—	6.996	—	2.402
g) Others	—	—	—	—
B. Banking book: hedge derivatives	461.972	—	933.004	—
a) Options	—	—	—	—
b) Interest rate swaps	461.972	—	926.381	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	6.623	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	319.041	—	472.760	—
a) Options	122.862	—	64.877	—
b) Interest rate swaps	8.286	—	—	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	187.893	—	407.883	—
Total	3.072.316	462.562	5.253.207	632.131



Table 7.7 – Financial derivatives: gross negative fair value, by product

Type of transaction	Negative Fair Value			
	30/6/17		30/6/16	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	(2.332.027)	(496.834)	(3.857.285)	(660.552)
a) Options	(313.647)	(492.721)	(454.531)	(649.353)
b) Interest rate swaps	(1.563.214)	—	(2.918.000)	—
c) Cross currency swaps	(209.128)	—	(267.668)	—
d) Equity swaps	(21.032)	—	(17.044)	—
e) Forwards	(225.006)	—	(200.042)	—
f) Futures	—	(4.113)	—	(11.199)
g) Others	—	—	—	—
B. Banking book: hedge derivatives	(313.183)	—	(313.519)	—
a) Options	(2.452)	—	(4.525)	—
b) Interest rate swaps	(275.160)	—	(308.994)	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	(35.571)	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	(325.650)	—	(490.064)	—
a) Options	(325.650)	—	(489.008)	—
b) Interest rate swaps	—	—	(1.056)	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2.970.860)	(496.834)	(4.660.868)	(660.552)



Table 7.8 – OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts not forming part of netting arrangements	30/6/17						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	33.460.692	49.338.037	716.039	5.495.295	—
- positive fair value	—	—	1.035.863	342.537	66.909	286.851	—
- negative fair value	—	—	(1.113.384)	(493.323)	(1.990)	(26.187)	—
2. Equities and share indexes							
- notional value	—	—	6.186.944	6.010.003	334.648	1.516.123	—
- positive fair value	—	—	113.394	43.153	1.752	82.001	—
- negative fair value	—	—	(253.938)	(52.556)	(22.568)	(25.495)	—
3. Exchange rates and gold							
- notional value	83.246	—	4.500.034	1.698.510	345.814	2.089.508	—
- positive fair value	—	—	136.634	110.738	130	57.436	—
- negative fair value	(4.921)	—	(148.215)	(12.928)	(10.913)	(159.659)	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

Table 7.9 – OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts forming part of netting arrangements	30/6/17						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	400.000	44.426	—	144.918	—
- positive fair value	—	—	10.758	19	—	318	—
- negative fair value	—	—	(330)	(4.009)	—	(95)	—
- future exposure	—	—	2.000	344	—	1.125	—
2. Equities and share indexes							
- notional value	—	—	—	—	489.965	—	—
- positive fair value	—	—	—	—	708	—	—
- negative fair value	—	—	—	—	(160)	—	—
- future exposure	—	—	—	—	29.441	—	—
3. Exchange rates and gold							
- notional value	—	—	—	56.968	—	65.485	3.729
- positive fair value	—	—	—	4	—	2.098	—
- negative fair value	—	—	—	(765)	—	(529)	(63)
- future exposure	—	—	—	535	—	625	37
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—



Table 7.10 – 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	1.718.403	6.407.880	350.980	12.906
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total A at 30/6/17	1.718.403	6.407.880	350.980	12.906
Total A at 30/6/16	1.619.250	6.414.250	240.120	13.000
2. Hedge sales				
a) Credit default	1.402.802	5.816.219	28.849	4.529.278
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total B at 30/6/17	1.402.802	5.816.219	28.849	4.529.278
Total B at 30/6/16	1.287.762	6.382.010	36.200	2.701.937

Table 7.11 – OTC credit derivatives: gross positive fair value, by product

Portfolio/derivative instrument type	Positive fair value	
	30/6/17	30/6/16
A. Regulatory trading book	161.621	166.863
a) Credit default products	161.621	166.863
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	14.840	27.334
a) Credit default products	14.840	27.334
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	176.461	194.197



Table 7.12 – OTC credit derivatives: gross negative fair value, by product

Portfolio/derivative instrument type	Negative fair value	
	30/6/17	30/6/16
A. Regulatory trading book	(543.791)	(521.123)
a) Credit default products	(543.791)	(521.123)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	(16.805)	(15.863)
a) Credit default products	(16.805)	(15.863)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	(560.596)	(536.986)

Table 7.13 – 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	30/6/17						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	628.831	—	—	—	—
- positive fair value	—	—	14.856	—	—	—	—
- negative fair value	—	—	(352.793)	—	—	—	—
- future exposure	—	—	25.000	—	—	—	—
2. Equities and share indexes							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
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	—	—	—	—	—	—	—



Table 7.14 – 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. Bilateral agreements - Financial derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2. Bilateral agreements - Credit derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3. "Cross products" agreements							
- positive fair value	—	—	222.198	137.187	53.732	338.037	—
- negative fair value	(4.921)	—	(701.818)	(262.675)	(17.243)	(218.654)	—
- future exposure	333	—	421.595	326.069	22.806	168.161	—
- net counterparty risk	333	—	428.159	367.316	49.283	464.348	—



Section 8 – Risk mitigation techniques

Qualitative information

The Group has implemented specific activities aimed at defining and meeting the necessary requirements for correctly applying credit risk mitigation (CRM) techniques, to maximize the effect of mitigation on the real and personal guarantees for loans, and to obtain a positive impact on the Group's capital requirements.

Netting policies and processes for on- and off-balance-sheet transactions

The Group does not net credit risk exposures for on- or off-balance-sheet transactions. Instead, risk reduction policies are adopted by entering into netting agreements and collateral agreements, both for derivatives and for positions held in securities lending transactions.

With respect to derivatives, the Group has also drawn up counterparty risk reduction policies, by entering into ISDA and Credit Support Annex agreements with institutional counterparties, in accordance with regulations in force. As for securities lending transactions, repos and repurchasing repos, the Group has implemented counterparty risk reduction policies by executing GMSLA and GMRA (for repos and repurchasing reports) netting agreements which provide for collateralization agreements, in some cases in the form of triparty repos.

Policies and processes for valuing and managing real guarantees

In performing lending operations, the Group widely acquires guarantees which are typical of banking activity, principally as real guarantees over financial instruments and properties as described below:

- mortgage guarantees – the initial value of the property at the disbursement stage is based on a valuation made by independent experts. In order to ensure that the value of the collateral thus acquired is in line with the value of the underlying asset, a specific procedure has been drawn up which involves the fair value of the property being calculated and monitored on a regular basis based on market data supplied by an external information provider;
- pledge guarantees – pledge guarantees are valued on the basis of their real value, in the sense of market value for financial instruments listed on a regulated market, or presumed realization value in other cases. This value is then revised to reflect prudential margins, which vary according to the financial instrument used as the collateral in accordance with the provisions of regulatory requirements.

Main types of guarantors and counterparties in credit derivative transactions and their credit rating

The Group uses leading market counterparties to hedge credit derivative exposures.



Information on market or credit risk concentrations in connection with credit risk mitigation techniques adopted

As at 30 June 2017, 85% of the guarantees received (€10.1bn) involve securities and cash in connection with securities financing transactions which are recorded among real financial guarantees; there is also €367m (approx. 3% of the total) in cash collateral, chiefly in respect of derivatives trading and the remainder for structured finance transactions.



Quantitative information

Table 8.1 - Risk mitigation techniques

Exposures to	Amounts as at 30/6/17			Amounts as at 30/6/16		
	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives
Central administrations and central banks	—	—	—	—	—	186.582
Regulatory intermediaries	—	—	—	—	—	—
Regional entities	—	—	—	425.640	—	—
Non-profit-making and public sector entities	—	—	—	—	—	142
Multilateral development banks	—	—	—	—	—	—
International bodies	10.447.689	—	70.229	11.631.833	—	98.322
Companies	2.035.014	856	331.608	2.601.901	—	167.162
Retail exposures	86.374	—	16.539	40.633	—	—
Short-term exposures to companies	30	—	1.880	30	—	—
OICRs	2.048	—	3.019	659	—	—
Exposures guaranteed by properties	—	—	—	—	—	—
Exposures in the form of guaranteed bank debt securities	—	—	—	—	—	—
Overdue exposures	—	—	—	—	—	—
High-risk exposures	—	—	—	—	—	—
Exposures to equity instruments	—	—	—	—	—	—
Other exposures	—	—	—	—	—	109.066
Total	12.571.156	856	423.274	14.700.696	—	561.274



Section 9 – Securitizations

Qualitative information

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

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

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

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

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

Mediobanca invested €12.2m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Atlante II² so far drawn as to €10.8m in respect of deals involving NPLs of the Etruria, Chieti, Marche and Ferrara savings banks (also known as the four "good" banks).

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

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

² Closed, alternative investment fund (FIA) incorporated under Italian law and managed by Quaestio Capital.



the junior tranche (€3.69m). The other 95% of the junior tranche has been placed with specialist funds.

Quarzo MB S.r.l. (Mediobanca)

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

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

This SPV currently has no securitizations outstanding.

Quarzo S.r.l. (Compass)

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

- The first securitization, completed on 22 July 2015 with the issue of €1,694m in senior notes and €506m in junior notes against performing receivables in a total amount of €2,200m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €1,104m were ceded.
- The second, completed on 25 February 2016 with the issue of €2,640m in senior notes and €660m in junior notes against performing receivables in a total amount of €3,300m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €1,782m were ceded.
- The third, completed on 15 February 2017 with the issue of €1,215m in senior notes and €285m in junior notes against performing receivables in a total amount of €1,500m; under the terms of the deal, Compass Banca is authorized to cede further portfolios of receivables monthly on a revolving basis for a period of up to 42 months, after which the redemption phase of the securitization begins. In the twelve months ended 30 June 2017 receivables worth a further €173m were ceded.

Quarzo CQS S.r.l. (Futuro)

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

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

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



Quantitative information

Standardized methodology: positions in securitizations

Table 9.1 - Banking book securitizations (AFS, HTM and LR portfolios)

Risk weighting classes	Amounts as at 30/6/17									
	Cash risk assets				Off-balance-sheet risk assets				Early repayment clauses	
	Own securitizations		Third-party securitizations ¹		Own securitizations		Third-party securitizations ¹		Own securitizations	
	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	—	—	27.671	—	—	—	—	—	—	—
Weighting 50%	—	—	21.573	—	—	—	—	—	—	—
Weighting 100%	—	—	67.759	—	—	—	—	—	—	—
Weighting 350%	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - with rating	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - without rating	—	—	—	—	—	—	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—	—	—	—	—	—	—
Look-through - other	—	—	194.976	—	—	—	—	—	—	—
Total	—	—	311.978	—	—	—	—	—	—	—

¹ No off-balance-sheet risk assets and trading book securitizations included.

Table 9.2 - Trading book securitizations

Risk weighting classes	Amounts as at 30/6/17			
	Cash risk assets *			
	Own securitizations		Third-party securitizations	
	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	—	—	1.400	—
Weighting 50%	—	—	—	—
Weighting 100%	—	—	920	—
Weighting 350%	—	—	—	—
Weighting 1250% - with rating	—	—	—	—
Weighting 1250% - without rating	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—
Look-through - other	—	—	—	—
Weighting 650%	—	—	—	—
Total	—	—	2.320	—

* No off-balance-sheet risk assets included.



Section 10 – Operational risk

Qualitative information

Operational risks are presented at the parent company level.

The processes of identifying, assessing, collecting and analysing loss data and mitigating operational risks are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

In general, the operating losses recorded have been very low, accounting for less than 1% of the Group's total revenues.

With reference to IT risk in particular, the Group has instituted an IT Governance unit which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans).

Quantitative information

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at the reporting date was €284.1m (30/6/16: €264.7m).



Section 11 – Exposures to equities: information on banking book positions

Qualitative information

Equity instruments refer to those assets recognized in the accounts as “Equity investments and other AFS shares”. The accounting policies adopted in respect of these asset classes are described below.

Equity investments

This heading consists of investments in:

- associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;
- jointly-controlled companies, which are also equity-accounted;
- other investments of negligible value, which are recognized at cost.

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

Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

AFS securities

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

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



Quantitative information

Table 11.1 - Banking book: cash exposures in equities and UCITS

Items	Amounts as at 30/6/17											
	Book value		Fair value		Impairment	Gains/losses realized *		Gain/loss not realized		Gain/loss not realized included in Tier 1/Tier 2 capital		
	Listed	Unlisted	Listed	Unlisted		Gains	Losses	Gains	Losses	Gains	Losses	
A. Equities												
A.1 Shares	3.398.035	68.385	2.921.102	68.385	(3.025)	428.761	(9)	73.893	(76.364)	76.649	(17)	
A.2 Innovative equity instruments	—	—	—	—	—	—	—	—	—	—	—	
A.3 Other equity instruments	—	—	—	—	—	—	—	—	—	—	—	
B. OICR units												
B.1 Incorporated under Italian law	—	—	—	—	—	—	—	—	—	—	—	
harmonized, open	—	61.959	—	61.959	—	—	(70)	—	(817)	—	(219)	
not harmonized, open	—	—	—	—	—	—	—	—	—	—	—	
closed	—	50.268	—	50.268	(51)	—	—	200	(157)	1.595	—	
reserved	—	65.280	—	65.280	(2)	—	—	12.160	(470)	6.150	(162)	
speculative	—	9.237	—	9.237	—	—	—	720	—	638	—	
B.2 Other EU states	—	—	—	—	—	—	—	—	—	—	—	
harmonized	—	29.458	—	29.458	—	403	(89)	1.614	(32)	71	(111)	
not harmonized, open	—	—	—	—	—	—	—	—	—	—	—	
not harmonized, closed	—	128.532	—	128.532	(3)	—	—	8.975	(985)	3.246	(68)	
B.3 Non-EU states	—	—	—	—	—	—	—	—	—	—	—	
open	—	11.583	—	11.583	—	3.509	—	1.151	(11)	441	(3)	
closed	—	—	—	—	—	—	—	—	—	—	—	
Total	3.398.035	424.702	2.921.102	424.702	(3.081)	432.673	(168)	98.713	(78.836)	88.790	(580)	

* The figure includes gains deriving from the pro rata investement in Assicurazioni Generali.



Table 11.2 - Banking book: equity instruments

Category	Book value as at 30/6/17
Private equity instruments held in a sufficiently diversified form	294.358
Equity instruments listed on regulated markets	3.398.035
Other equity instruments	68.385
Total equity instruments	3.760.778
Balance-sheet values, listed and unlisted	3.822.737
Difference	—



Section 12 – Interest rate risk on banking book positions

Qualitative information

See the comments shown above in Section 1 “General disclosure requirement”, in particular the heading entitled “Interest rate risk on the banking book”.

Quantitative information

For exposure to interest rate risk on the banking book at the consolidated level, a methodology developed internally has been adopted. This approach is based on quantifying the changes in the economic value of the banking book following a change in interest rates.

In determining internal capital under ordinary conditions, reference has been made to the annual changes in interest rates over an observation period of six years, considering alternatively the 1st percentile (falling) and the 99th percentile (rising).³

The interest rate risk on the banking book is shown below, calculated following a shift in the interest rates considering the 1st percentile (falling), with the floor at zero, of the annual changes in interest rates recorded in the past six years:

Table 12.1 – Interest rate risk on the banking book

(€ mln)	Amounts at 30/6/17
Interest rate risk on the banking book	(59)
◆ Euro	(66)
◆ Other currencies	7

In addition, stress tests have been carried out on the interest rate on the banking book at the consolidated level, with the aim of quantifying the effect of shifts in the interest rate curve according to the standards set by the Basel Committee, in order to calculate the risk indicator.

Details of the risk indicator calculation in the event of a parallel shock in the interest rate curve of ± 200 basis points are shown below:

Table 12.2 – Interest rate risk on the banking book following a parallel shift in interest rates of ± 200 bps

(€ mln)	Amounts at 30/6/17	
	Negative shifts	Positive shifts
Interest rate risk on the banking book	(257)	237
◆ Euro	(278)	268
◆ Other currencies	21	(31)
Own Funds	8.879	8.879
Risk Index	-2,90%	

³ In the event of a rise in interest rates, the overall value of the banking book would increase and therefore would not constitute a source of risk.



MEDIOBANCA

In the event of parallel, -200 bps reductions in the interest rate, the banking book's value would reduce by €257m, with a risk indicator of 2.90%.



Section 13 – Market risk

Table 13.1 – Balance-sheet requirements divided by calculation method

Description	Balance-sheet requirement	
	30/6/17	30/6/16
Risk-weighted exposures: concentration risk	2.239.129	4.015.188
Standardized methodology	179.130	321.215
Debt-securities-exposure risk	123.970	223.684
Equity-securities-exposure risk	55.160	76.330
Exchange risk	—	21.201
Commodities-exposure risk	—	—
Internal models	—	—
Risk-weighted exposures: concentration risk	—	—

The Mediobanca Group uses the standardized methodology in managing market risks.

As already started in June 2016, market risks have continued decreasing because of optimization activities (€2.2bn against €4bn) which derive (for what regards positions in equity instruments) from decrease in overall risk of positions in debt securities, from decrease in specific risk for positions in funds and for positions in funds, and the cancellation of foreign exchange risk, because the risk position is below the threshold required for the calculation of capital ratios.

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

- Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;

- Value-at-risk calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out once a month on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme but historically accurate changes in market variables.

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

With reference to market risks, the value-at-risk on the trading ranged from a low of €1.3m (May 2017) and a high of approx. €5.7m (September 2016). The average reading for the twelve months was €3m, down sharply on the average figure for last year (€6.2m). The high volatility levels which affected markets following the Brexit vote began to be mitigated as from autumn 2016, in part due to a policy of gradually



reducing or hedging the directional risks on the trading portfolio, bringing VaR into a range between €2m and €4m before falling to the lows recorded in March 2017. The point-in-time figure observed at the reporting date was up again to approx. €4.5m, solely as a result of the addition of one major directional equity position.

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

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

Table 13.2 - Value-at-risk and expected shortfall: trading book

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

* Due to mismatch between risk factors.

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

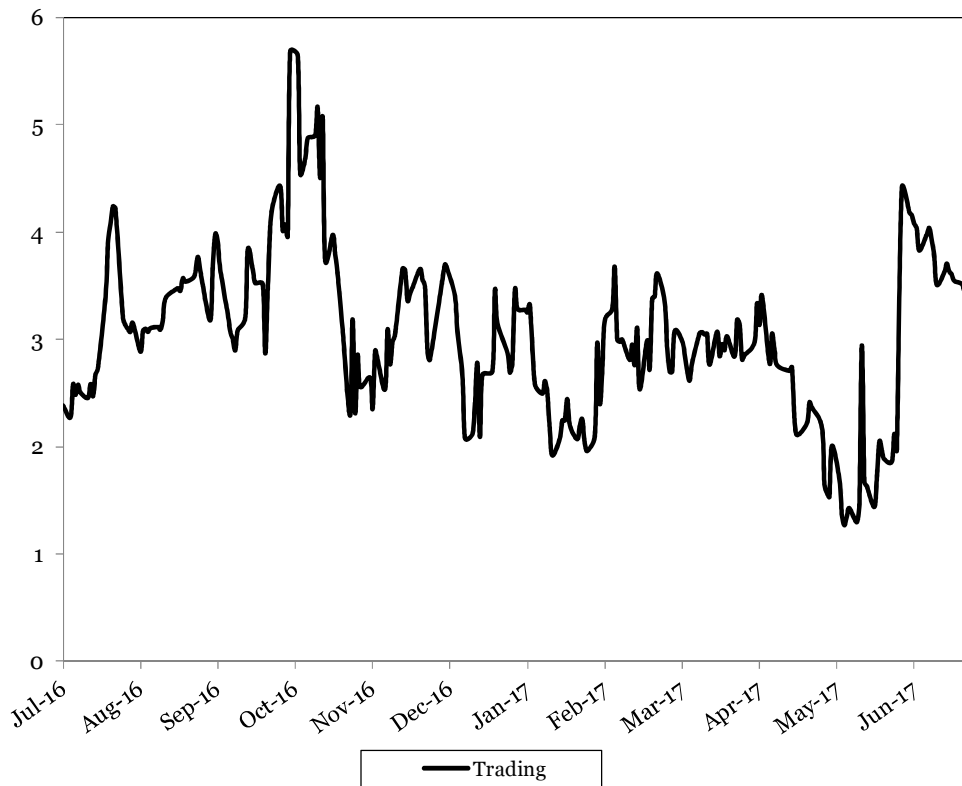
Apart from the overall VaR limit for the trading book and general HFT portfolio, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks structurally show long delta and short vega positions. The exposure to interest rates ranged from minus €206,000 to €171,000, with a low average reading of approx. €36,000, reflecting the trading book's negligible exposure to swap and Euribor interest rates. The exchange rate showed just a few spikes for brief periods of time, while the average readings were very low.



Table 13.3 - Overview of trends in main sensitivities for trading book

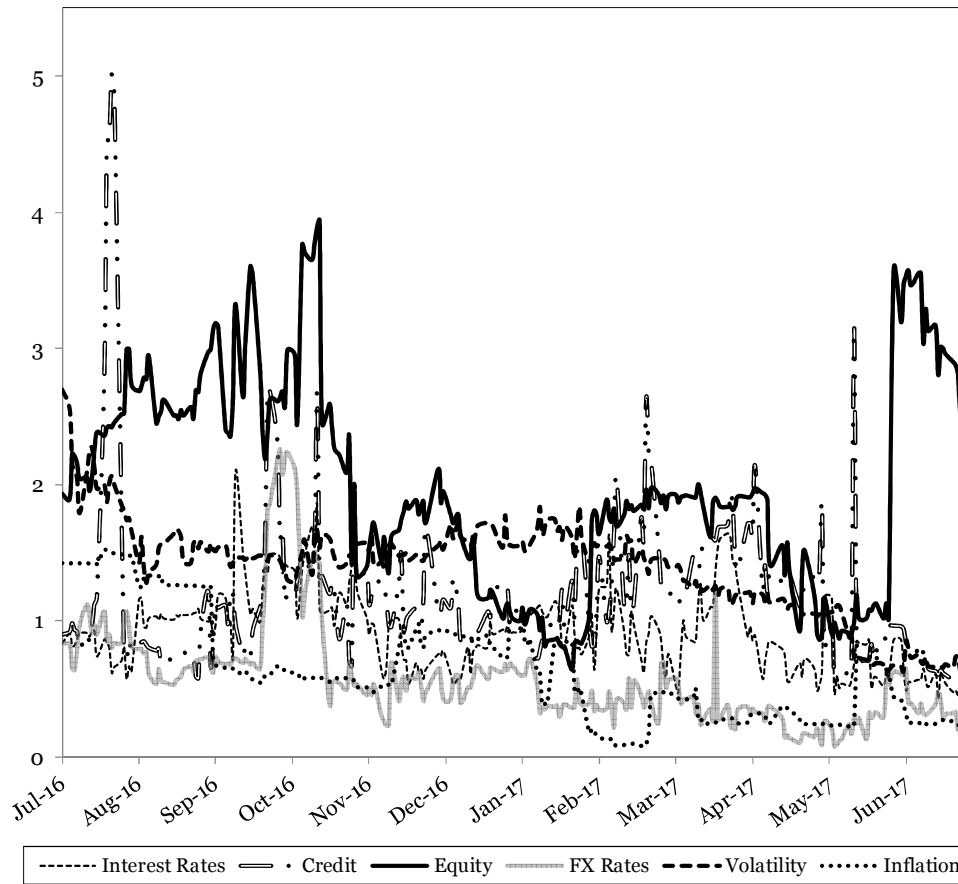
Risk factors (€'000)	12 mths to 30/6/17			
	30/6/17	Min	Max	Avg.
Equity delta (+1%)	1.009	276	1.662	758
Equity vega (+1%)	(27)	(710)	269	(221)
Interest rate delta (+1bp)	35	(206)	171	(36)
Inflation delta (+1 bp)	19	(8)	111	27
Exchange rate delta (+1%)	(391)	(1.030)	463	(175)
Credit delta (+1bp)	112	36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

Trends in VaR





Trends in VaR constituents (trading book)





Section 14 – Remuneration and incentivization systems and practices

Section 1

A) Staff remuneration policies for FY 2016/17

Introduction

The Mediobanca Group's results for the twelve months ended 30 June 2017 reflect strong growth in profits and an enhanced business profile in terms of exposure to fee-based, capital-light, highly specialized and profitable businesses. The main highlights were as follows:

- Total revenues up 7%, to €2,196m
- Net profit up 24%, to €750m
- ROTE up from 7% to 9%, the highest among Italian banks supervised by the ECB
- Dividend per share: up 37%, to €0.37.

All the divisions delivered higher profits: Wealth Management posted 43% increases in Total Financial Assets (to €60bn), revenues (to €460m), and profit (to €55m), and accounts for 40% of the fee income and 20% of the revenues at Group level. CIB and Consumer each contributed profits of approx. €250m.

Asset quality improved further, with the Texas ratio down from 15% to 13%, and the cost of risk down 37 bps to 87 bps. The capital ratios were also stronger despite the acquisitions, deductions and higher payout (the latter up from 38% to 43%), due to careful management of RWAs and robust earnings generation. The CET1 ratio stood at 13.3% (12.1%) and the total capital ratio at 16.9% (15.3%).

The decisions regarding staff remuneration have been taken in view of the above business, which increasingly requires the contribution of high-quality professional skills.

Governance

The governing bodies and company units have governed the entire process of applying the remunerations policies.

In particular, as described in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions in the course of the year, and the meetings on average lasted around 2 hours and 15 minutes. The Committee is made up of five non-executive members, a majority of whom qualify as independent under the Code of conduct for listed companies operated by Borsa Italiana. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in the case of two meetings) the Chief



Executive Officer and the General Manager as guests. The Chief Risk Officer, the head of Human Resources and the Head of Company Financial Reporting also took part as guests, along with other members of the Group's staff.

The main items on the agenda in Committee meetings, in addition to this report, are as follows: formulation of proposals to the Board of Directors regarding the variable remuneration of directors who are members of the Group's management (defining and marking their scorecards); assessment of the proposals made by the Chief Executive Officer regarding the variable remuneration of the other staff; review of the internal processes and procedures adopted in connection with the remuneration system; review of developments in the regulatory framework, with a particular focus on the remuneration of financial advisors and of staff working in the Asset Management area; analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; application of the severance policy; and drafting the new remuneration policies to be submitted to the approval of the Board of Directors and shareholders in general meeting.

The Group Human Resources department – Group HR – has provided support on the above governance activities in co-ordinating the process of formulating the proposals and resolutions, and executing them. The services of leading external consultants have also been used in the course of various activities, in particular market benchmark analysis and finalizing the remunerations new policies.

The Compliance unit has issued its report stating that the remunerations policies conform to the Bank of Italy and internal regulations, and the Group Audit Unit checked that they were implemented correctly. The Risk Management unit, too, has been involved in the activity of ascertaining that the gateways have been met. The Accounting and Financial Reporting and Planning and Control units also provided the data for checking the gateways and for determining the business areas' performances.

Calculation of bonus pool and allocation using risk-adjusted metrics based on sustainable results over time

The variable component remuneration component to be assigned to “identified staff”⁴ constitutes the so-called “bonus pool”. Payment is conditional upon certain conditions, or “gateways”, which consist of the following indicators approved by shareholders at the last general meeting, being met:

- a) Capital adequacy and liquidity requirements ⁵ adopted in the Risk Appetite Framework⁶ approved by the Board of Directors;
- b) Positive operating profit delivered at Group level.⁷

4) The Mediobanca Group's most relevant staff as at 30 June 2017 comprised 79 employees, representing 1.65% of the total headcount of the Group and 10.4% of that of Mediobanca S.p.A., compared with 1.94 % and 10.5% at 30 June 2016.

5) CET 1 ratio > 8,75% (SREP), Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio ≥ 100%, Net Stable Funding Ratio ≥ 100%, Retail funding ratio.

6) The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.



The Chief Executive Officer allocates the aggregate bonus pool to be awarded on the basis of the Economic Profit⁸ earned by the Wholesale Banking division (the area in which most staff with the potential to impact on Mediobanca's risk profile are employed) according to quantitative and qualitative indicators. The bonus pool for the individual business areas is calculated on the basis of area scorecards which generally use Economic Profit as their primary metric as well as other secondary quantitative and qualitative metrics, whereas individual awards are made on the basis of overall assessment of personal performance, with particular attention being paid to reputational and compliance issues as well. The bonus pool for staff employed by the control units and staff and support areas is established based on qualitative considerations, to limit the correlation between bonuses paid and the results delivered by the Bank and so guarantee the independence of their role. The Chief Executive Officer's decisions are illustrated to the Remunerations Committee and the Board of Directors. The remuneration paid to the head of company financial reporting and the heads of the control units is approved by the Board. For the other divisions (Consumer, and Wealth Management in the Affluent/Premier and Private Banking), the amounts are decided by the CEOs of the relevant legal entities, liaising to this end with the General Manager and Group HR of Mediobanca S.p.A.

The Group's results for the year ended 30 June 2017 were as follows:

- Gross operating profit of €860m, up more than 17% on last year, and 52% higher than the previous three-year average;
- Revenues of €2.2bn, up 7%, on growth of 7% in net interest income and 10% in net fee and commission income, with the cost of risk declining (from €419m to €317m) for the third year running.
- Net profit up 24%, to €750m.

The Wholesale Banking division's results in the twelve months ended 30 June 2017 reflect:

- Gross operating profit of €353m, 7% higher than last year due to the improved trend in the risk profile.
- Revenues largely stable at €550m; the approx. 6% reduction in net interest income was due primarily to a reduced contribution from the securities portfolio, reflecting the negative interest rate trend.
- Fees and commissions flat, despite the difficult market conditions.

The performance in CIB Client business was as follows:

- Economic Profit delivered strong growth of 28%, from €184m to €235m;

7) Operating profit is defined as total income less operating costs and loan loss provisions, as shown in the restated financial statements.

8) Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.



MEDIOBANCA

- Revenues were resilient despite the market scenario and despite changes in their composition, with reductions in Corporate Finance (from €57m to €47m) and CMS (from €105m to €94m) offset by the increase in net interest income from lending and a higher contribution from ECM business (up from €57m to €69m).
- Administrative expenses were basically stable while labour costs declined as a result of increased organizational efficiency in some teams helped by the favourable GBP/EUR exchange rate trend.
- Writebacks to loans totalling €15m, with no new bad loans taken on.

For the Consumer Banking division, the results as at 30 June 2017 reflect the following:

- Revenues up 7%, on resilient asset returns and higher volumes.
- Cost/income ratio stable.
- Further improvement in asset quality drove a reduction in loan loss provisions, from €354m to €276m, on the back of effective risk-taking policies and recovery action.
- Net profit up 67%, from €154m to €258m, with the ROAC at 25% compared with 16% one year previously.

With regard to the Wealth Management division:

- CheBanca! results reflect the Barclays' business units consolidated for ten months. This, along with the growth in asset management business (AUM up from €3.9bn to €7.9bn), drove growth of 43% in revenues and of 35% in gross operating profit;
- ROAC for CheBanca! came in at 5%, compared with 3.4% last year.
- In private banking, revenues were up 30% to €185m, generating a net profit of €28.1m, slightly lower than the previous year as a result of the integration charges for Banca Esperia following the merger;
- Principal Investing contributed a net profit of €422m to the consolidated results, up 13% Y.o.Y. with the ROAC at 17% (19%).

All the Group's gateways for the year ended 30 June 2017 were thus met: CET 1 ratio 13.2%; leverage ratio 9.2%; AFR/ECAP 258%; liquidity coverage ratio 245%; retail funding ratio 68.8%; net stable funding ratio 107%; consolidated gross operating profit €860m. For the individual Group companies which adopt their own RAF on an individual basis (Compass, CB! and Mediobanca International), in the course of the twelve months their risk profile remained consistent with the objectives and limits set, with no breaches of the thresholds recorded.

The Economic Profit earned by the Wholesale Banking division as stated in the accounts, which is not one of the gateways but is used as a risk-adjusted indicator in assessing the sustainability of the WB bonus pool, totalled €245m, some 31% higher than in 2016 due to the positive trend in the cost of risk and to lower capital absorption. Economic Profit on the proprietary trading portfolio was also positive and improving.



The other quantitative and qualitative metrics were also met, in the sense that the Group's results reflected the required risk/return balance, in compliance with all the objectives set in the Risk Appetite Framework. From a qualitative perspective, Mediobanca confirmed its positioning and market share in a difficult market scenario.

Having therefore ascertained that all the conditions precedent to the distribution of the bonus pool had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer, after consulting with the General Manager, established an aggregate variable remuneration component of €67.5m for Mediobanca (compared to €59.3m in 2016). Variable remuneration for the WB division was set at €48.6m (€43.9m), of which €45.7m (€42.7m) for CIB Client, corresponding to a payout ratio of 20% (24%) and 19% (23%) of the Economic Profit respectively.

These amounts include the variable component reserved to directors who are members of the Mediobanca Group's senior management. The variable/fixed remuneration ratio for WB division staff⁹ was 99%, compared with 87% in 2016, rising to 124% (108%) if only WB staff members are considered. Considering the headcount as a whole for Mediobanca, the ratio is 75%, compared to 66% in 2016.

One of the main objectives in making the award of the variable component was to maintain a competitive compensation package for younger and business staff from a talent retention perspective. Group HR and the Compliance unit reviewed potentially relevant instances in connection with application of the compliance breach mechanism.

The relevant pools of the Consumer division CheBanca!¹⁰ reflect excellent earnings results, including on a risk-adjusted basis.

The total variable remuneration awarded to the Consumer division was approx. €8m, compared with €7m in 2016, with Compass's commercial network like in 2016, reached the cap instituted as part of the incentivization system. For CheBanca! the increase from €4.7m to €10.2m also reflects the growth in headcount. The cost/income and compensation/income ratios were both stable.

The bonus pool for identified staff in the Consumer division was around 57% of the fixed remuneration, compared with 44% in 2016, and for CheBanca! identified staff approx. 53%, as against 43% last year. Considering for the headcount as a whole for the Consumer division, the ratio was 10%, as against 9% in 2016, and 19% for CheBanca! (11%).

As at 30 June 2017 management with strategic responsibilities other than the executive directors and referred to in the Consob resolution issued in 2011, consisted of five persons: the three heads of the control units, the head of company financial reporting and the co-head of the Corporate and Investment Banking division. Their remuneration package reflects the provisions of the Remuneration policies, based on the individual category of identified staff to which they belong.

9) For 2016 the figures have been restated in accordance with the new divisional organization approved by the Group in the Strategic Plan.

7) For 2017 the Consumer division no longer includes MB Credit Solutions staff members who now work for MB Facta, while CheBanca! includes all staff formerly employed at the Barclays' business unit.



Variable remuneration of the Chief Executive Officer and General Manager of Mediobanca S.p.A.

The annual variable remuneration component for directors who are members of the Group's senior management is included in the aggregate bonus pool and reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. In general terms, if the quantitative objectives are met, the amount of the bonus payable to the CEO and the General Manager may be between 50% and 180% of their gross annual salary. This amount may be adjusted by the BoD according to whether or not the qualitative objectives are also met (without prejudice to the 2:1 cap).

The quantitative performance indicators assigned for the financial year ended 30 June 2017 involved: for the CEO, Group risk-adjusted profitability indicators (profit before tax earned from Group banking activities/capital absorbed), Group Texas ratio, CET 1 ratio, and CIB risk-adjusted profitability indicators (CIB profit before tax/capital absorbed); and for the General Manager, Group risk-adjusted profitability indicators (profit before tax earned from Group banking activities/capital absorbed), Group Texas ratio, and Group ordinary and project-based costs. For the CEO the qualitative objectives involved identifying potential future candidates to succeed the executive directors and growth in the Group's management, plus development of Wealth Management activities; and for the General Manager, rationalization of the Group's infrastructure and support areas, optimization of capital allocation between market businesses, and management of initiatives in the mid-corp segment in support of the co-heads of CIB.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of €2,700,000 to the CEO and of €2,070,000 to the General Manager (equal to 150% and 138% respectively of their fixed salaries, higher than the 115% and 70% awarded last year). Contributions to the complementary pension scheme are also paid on the upfront cash component in both cases. Of the variable remuneration awarded, half in cash and half shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a two-year holding period.

Means of distributing the variable component

The means of distribution are as provided in the remuneration policies.

The bonus pool consists of the variable remuneration to be paid to identified staff and consists of the equity component ("performance shares") equal to approx. €16m which in part will be booked to the accounts over the next four financial years under the accounting standards currently in force.

Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,754,358 performance shares¹¹⁾ (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €8.85 per share) including those awarded to identified staff employed at Group companies (20,891 of which were awarded to identified staff of CMB in January 2017).

11) 152,387 of which to the CEO and 116,830 to the General Manager.



New staff remuneration policies

Introduction

As in the past, the new Remunerations policies:

- Comply with the supranational and national regulations currently in force;
- Allow areas of the Bank which create value to be awarded, using objective measurement criteria;
- Enable the Group to attract and retain staff with the professional skills and capabilities required to meet its needs;
- Are in line with the policies adopted by other national and international operators.

The main change compared to the previous versions involves the introduction of specific regulations on the remuneration of staff members working in asset management and financial advisors employed as part of the Wealth Management division.

The cap of 200% of fixed remuneration has been adopted on the variable component continues to be adopted.

Governance

The governance process for the Group remuneration policy is structured across two levels: corporate and organizational.

a) Corporate governance

Under the current Articles of Association:

- Shareholders in general meeting establish the annual fixed fee payable to members of the Board of Directors when they are appointed, and for the entire duration of their term of office, to be allocated among the individual members based on the Board's own decision. Directors who are not members of the Group's senior management are entitled to refunds on expenses incurred by them in the performance of their duties.
- Shareholders in general meeting, within the terms set by the regulations in force at the time, also approve the remuneration policies and compensation schemes based on financial instruments for Group directors, staff and collaborators, and set the criteria for establishing compensation to be agreed in the event of a beneficiary leaving the company or office.
- At the Board of Directors' proposal, shareholders in general meeting may, with the requisite majorities, establish the variable remuneration of Group staff and



MEDIOBANCA

collaborators up to the limit of 200% of their fixed salaries or any other limit set by the regulations in force at the time.

- The Board of Directors institutes the committees envisaged by the regulations in force from among its own number, including the Remunerations Committee, establishing their composition and powers.

Under the regulations in force:

- The Remunerations Committee consists of between three and five members, all non-executive directors, at least a majority of whom qualify as independent under the terms of the Code of conduct in respect of listed companies. Proceedings at Committee meetings are co-ordinated by a chairman appointed from among the independent members. The Committee's duties include proposing compensation for staff whose remuneration and incentivization systems are decided by the Board of Directors; it serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff; it monitors application of the rules governing the remuneration of the heads of the company's control units, working closely with the Statutory Audit Committee in this area. It also prepares the documentation to be submitted to the Board of Directors for the relevant decisions; works together with the other internal committees, in particular the Risks Committee; and ensures the involvement of all relevant company units in compiling and checking the remuneration and incentivization policies and practices. It also gives its opinion, based inter alia on the information received from the relevant company units, on whether the performance objectives to which the incentivization schemes are linked have been reached and ascertains whether or not the other conditions precedent to payment of compensation have been met; it provides feedback on the activities performed to the governing bodies. To be able to perform its activities effectively and responsibly, the Remunerations Committee has access to company information relevant to such ends, is endowed with sufficient funds to guarantee it is independent in operational terms, and may call on the services of experts, including from outside the company, on matters for which it is responsible. The Committee is regularly constituted at meetings where a majority of the directors in office are in attendance, and adopts resolutions on the basis of the majority of those present voting in favour. Minutes of Committee meetings are taken and kept in separate registers.
- The Risks Committee ascertains whether the incentives provided by the remuneration system take adequate account of the Group's risks, capital and liquidity situation, liaising with the Remunerations Committee.
- The Chief Executive Officer presents the proposed Group staff remuneration and retention policies to the governing bodies, is responsible for staff management, and after consulting with the General Manager, determines the bonus pool based on the criteria established by the Board of Directors and then distributes it.

b) Organizational governance

- Group HR directs and governs the entire remuneration process, involving the governing bodies, control units and other teams responsible for verifying the Group's earnings and financial data.



- The Accounting and Financial Reporting and Planning and Control units provide the data for ascertaining that the gateways have been met and for determining the business areas' and divisions' performances based on the results achieved.
- The Risk Management unit helps in defining the metrics to be used to calculate the risk-adjusted company performance, in validating the results and the gateways, and in checking that these are consistent with the provisions of the Risk Appetite Framework.
- The Compliance unit carries out an annual assessment of the remuneration policies' compliance with the sector regulatory framework. It is also responsible, after consulting with the other control units, for checking whether or not any compliance breaches have been committed with relevance for purposes of assessing the performance and award of the variable remuneration component. The Compliance unit is involved in the processes of revising, adapting and managing the remuneration systems to ensure these are in line with the regulations in force at the time, including in terms of establishing the identified staff, analysing the metrics adopted, and the practice in cases where the beneficiary has left the company.
- The Group Audit unit makes a statement declaring that the staff remuneration and incentivization policy adopted by the Bank complies with the Instructions. It also carries out annual controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

All activities are documented appropriately to ensure that they may be fully tracked over time.

Definition of "identified staff"

The criteria adopted to identify relevant staff with a substantial impact on the Mediobanca Group's risk profile are those provided in the EU delegated regulation enacted by the European Commission on 4 March 2014 (published in the *Official Journal of the European Union* on 6 June 2014):

- Qualitative, linked to the role covered within the company organization (including non-executive directors), relevant business units, control and staff units;
- Quantitative, based on total overall remuneration received in the previous financial year.¹²

Mediobanca regularly carries out analysis of the Group's organizational structure via a documented process. At 30 June 2017 the Group's "identified staff" (including non-executive directors) broke down as follows:

¹² Mediobanca may also decide that individual staff members do not impact on the Group's risk profile despite receiving total remuneration \geq €500,000, as permitted by the regulations in force.



Cluster	Definition	EBA regulations	PPR # 2017
1) Non-executive directors	Non-executive members of BoD, including Chairman	Article 3.2	1 (+13)
2) Directors with executive duties	Management who are members of Executive Committee	Article 3.1	4
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	<ul style="list-style-type: none"> ◆ Co-Head CIB Client ◆ Co-Head CIB Client /Head Madrid ◆ Head Principal Investing ◆ Head Finance Division ◆ Head Corporate Finance ◆ Head Equity Capital Markets ◆ Head Debt Capital Markets ◆ Head Lending and Structured Finance ◆ Head Capital Markets Solutions ◆ Head Equity Markets ◆ Head Global Coverage ◆ Head Frankfurt ◆ Head Paris ◆ Head MB Turkey ◆ CEO CMB ◆ CEO Banca Esperia 	Article 3.3 Article 3.5 Article 3.6	16
4) Heads and senior staff of internal control units	<ul style="list-style-type: none"> ◆ Compliance ◆ Risk Management ◆ Group Audit 	Article 3.4 Article 3.7 Article 3.15	8
5) Staff with managerial responsibilities in relevant business units	<ul style="list-style-type: none"> ◆ Heads of trading desks, liquidity and trading origination ◆ Staff with significant responsibility in the Lending and Structured Finance and Corporate Finance areas ◆ Other heads of product areas (Equity Research) ◆ General and Commercial Managers, Compass and CB! ◆ CEOs of SelmaBPM and Spafid 	Article 3.8 Article 3.15	20
6) Heads and senior staff in Staff and support units	<ul style="list-style-type: none"> ◆ Group HR ◆ Head of company financial reporting ◆ Accounting/financial reporting ◆ Budget/Planning and control ◆ Legal counsel ◆ COO ◆ CIO 	Article 3.9 Article 3.15	7
7) Quantitative criteria	Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above	Article 4	23
		TOTAL as at 30/6/17¹³	
		% of total Mediobanca S.p.A. staff	79 (92) 10.4%
		% of total Mediobanca Group staff	1.65%

Management with strategic responsibilities as defined in the Consob resolution issued in 2011 other than directors (i.e. the three heads of the control units, the head of company financial reporting and the co-head of the Corporate and Investment Banking division) are all included in the definition of identified staff.

Pay mix

The Mediobanca Group Remuneration policy is intended to attract and retain highly qualified professional and ethical staff members, who are suited to the complexity, increasing internationalization and specialization of its businesses, based on a rationale of prudent management and sustainability of costs and results over time. The structure of the Group's staff remuneration is based on various components, with the objective of: balancing the fixed and variable parts over time (pay mix), implementing a flexible approach to remuneration, and helping to gear compensation towards performance in view of the significance of role within the company without encouraging risky and/or short-term behaviour. Each year the staff compensation package's positioning is assessed relative to its reference market, including with the assistance of outside advisors.

13) As at 30 June 2016 the Mediobanca Group had a total of 78 (91) identified staff, representing 1.94% of the total Group headcount and 10.5% of that of Mediobanca S.p.A.



a) Remuneration structure for non-executive directors

The non-executive directors' emolument is fixed by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors are covered by a D&O insurance policy which has also been extended to cover the directors of all Group companies.

b) Remuneration structure for directors who are members of the Group's senior management

The remuneration of the CEO and the General Manager is regulated by individual agreements approved by the Board of Directors. Their remuneration structure comprises:

- 1) A fixed salary;
- 2) A variable annual component (or short-term incentive) which only accrues if the gateways stipulated in the Remunerations policy are met (see below the section entitled "Determination of variable remuneration and bonus pools and correlation between risks and performance"), commensurate with the quantitative and qualitative performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being reached.

The scorecards provide for performance objectives for each individual manager's sphere of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to them by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the objectives are met, this triggers the payment of a variable bonus ranging from 50% (or lower) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 200% in the event of outstanding performances.

Of the variable component, 50% is paid in cash and 50% in equity, and 60% is deferred over a five-year time horizon. All the deferred items are subject to the performance and malus conditions stipulated in these Policies (see below the section entitled "Performance conditions, malus condition and clawback").

For the financial year ending 30 June 2018, the Chief Executive Officer has been assigned the following quantitative objectives: profit before tax (PBT) Group banking activities/capital absorbed (optimize the return on and capital absorbed by the core business); Wealth Management division revenues (with focus on growing the division); Group return on assets (ROA), with a view to maximizing profitability; and CET 1 ratio (to preserve capital adequacy). The General Manager has been assigned the following objectives: profit before tax (PBT) Group banking activities/capital absorbed (as for the CEO); Private Banking business line revenues (with focus on growing private banking activities); pre-tax result of Holding Functions division (with a view to optimizing the holding functions' activities); and Group cost/income ratio (to ensure growth in costs which is consistent with the trend in revenues).



- 3) Upon the approval of a long-term Group strategic plan, the Board of Directors may choose to adopt a long-term incentivization scheme conditional upon the objectives set out in the plan itself being reached (long-term incentives). In such cases, the short-term scheme described under the previous point will be linked to the provisions of the long-term scheme, without prejudice to the 200% cap on variable remuneration, which must be complied with in each financial year. Like the short-term incentive scheme, the long-term incentive scheme will have specific quantitative and qualitative objectives linked to the scheme's time horizon, and will be subject to gateways. Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component referred to above, unless provided otherwise by the Board of Directors, having consulted with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes, including any specific resolutions to be adopted in general meetings. In addition to the executive directors, other Group senior representatives may be included in the long-term incentivization scheme, with a specific pay mix identified for them between short- and long-term variable components. At present no such long-term incentivization scheme is in force.

The Chairman receives only a fixed salary. However, the Board of Directors may, having consulted with the Remunerations Committee and within the limits set by the regulations, assess the possibility of also paying him a variable component, on an exceptional basis, to be distributed in accordance with the regulations set forth in this policy.

The Group's executive directors also receive their emoluments as directors, but not those due in respect of participation in committees. (In the case of positions held on behalf of Mediobanca in subsidiaries or investee companies, any emoluments are paid to Mediobanca as the persons concerned are Bank employees.) An insurance policy is available to cover such directors, like the others, for third-party liability, and they also benefit from participation in the complementary pension scheme operated for Mediobanca Group management staff.

c) Compensation structure for staff employed in control units and staff and support areas

The remuneration package for the Group's identified staff in the control units (Group Audit, Compliance and Risk Management), Human Resources and the Head of Company Financial Reporting is structured so that the fixed component represents the majority, with a smaller variable component assigned annually based on qualitative and efficiency criteria. The variable component has a maximum limit of 33% of the fixed component, while that of the heads of unit is set annually by the Board of Directors with the Remunerations Committee in favour.

The remuneration of staff employed in the staff and support areas is normally determined on the basis of positioning vis-à-vis the reference market, which varies according to the value of the individual employee, their role, the quality of their performance and the retention strategies in place. For such staff the variable component, usually limited, is not related to the Group's earnings results but to the quality of the individual's performance.

d) Remuneration structure for other "identified staff"

- Fixed salary: this reflects technical, professional and managerial capabilities, and the related responsibilities. Mediobanca devotes continuous attention to



the value of the fixed salaries it pays, which are monitored in relation to its competitors and adapted to changes in the market scenario from time to time, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.

- Variable remuneration: this functions as recognition and reward for targets set and results achieved, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking, Private Banking and Wealth Management divisions in particular) may form a significant portion of their annual pay, in line with reference market practice, without prejudice to the cap and to the other conditions established by the regulations in force.

The variable component is paid in cash and equity instruments, in part upfront and in part in subsequent years, subject to performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes. The section entitled "Variable component structure" describes the criteria and means of deferral in more detail.

- Benefits: in line with the market, compensation package is completed by a series of fringe benefits which are evidence of the ongoing attention paid by Mediobanca to the personal needs and welfare of its own staff, even after retirement. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes are sometimes distinguished by families of professionals and geographical areas, but do not make provision for individual discretionary systems. The Bank's supplementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company. Company cars are provided only for the most senior figures.

e) Other information on remuneration structure

Under the terms of tax legislation and other relevant applicable regulations, company welfare systems may be implemented for all staff or like-for-like staff clusters. Such systems consist of the provision of non-cash services and instruments, which the Group companies make available to employees and their families. Productivity and/or performance bonuses linked to complementary company contracts may be used to this end, or other amounts earmarked for welfare purposes for like-for-like categories of staff.

Buyout, sign-on and entry bonuses may be awarded to staff with particularly important profiles but only at the recruitment stage, and for the first year of their employment by the company, as per the regulations in force. They also include bonuses awarded upon recruitment to compensate for any loss in earnings from previous jobs, in accordance with sector practice. Such bonuses are decided and paid in accordance with the policies and regulations in force.

Staff members are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the company's risk. The control units carry out checks to this end.

Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to avoid the regulatory provisions.



Limit on variable remuneration

Subject to approval by shareholders in general meeting, and in accordance with the national and supranational regulations, the upper limit on the variable remuneration component for all staff belonging to the Mediobanca Group¹⁴ and hence for all identified staff has been set at 200% the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units, Human Resources and the Head of company financial reporting).¹⁵

The reasons justifying this proposed limit are primarily:

- The need to attract and retain the most talented staff, in investment banking especially, by aligning the Bank's practice with that of its competitors;
- The need to maintain the appropriate operating flexibility, minimizing the risks that would be associated with increasing the fixed labour cost component excessively;
- To ensure that the remuneration policy is consistent with incentives which seek to promote virtuous conduct in the pursuit of business objectives and value creation;
- To align the Bank with the policies adopted by the leading Italian and international banks;
- The increasing presence of competitors in sectors (financial institutions which are not banks, private equity, hedge funds) or geographies (United States, Far East) with a liberalized regulatory framework;
- The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

The sustainability of this limit is guaranteed by the provisions of the remunerations policies regarding the determination of the bonus pool, the correlation between risk and performance, and the performance conditions, malus conditions and clawback provisions.

Determination of variable remuneration and the bonus pool and correlation between risks and performance

Determination of the bonus pool and the correlation between risks and performance is achieved via a process which has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, in accordance with

¹⁴ With the exception of staff not included in the definition of identified staff employed in business areas governed by sector regulations where there is no cap on variable remuneration under the present regulatory framework and in the absence of specific guidance from the supervisory authorities in this area.

¹⁵ The Group's headcount currently comprises approx. 4,798 staff made up as follows: 601 in Corporate & Investment Banking (with 43 qualifying as identified staff), 2,023 in Wealth Management (8 identified staff), 1,405 in Consumer Banking (3 identified staff), 758 in Holding Functions (24 identified staff), and 11 in Principal Investing (1 identified staff).



the risk profile defined in the Risk Appetite Framework (RAF), from the perspective of business continuity and sustainable results over the long term.

In more detail:

a) Gateways

Distribution of the bonus pool (which comprises the variable remuneration earmarked for the remuneration of the "identified staff" in each Group organizational division) only takes place if the following indicators or "gateways" are met:

- a) Capital adequacy and liquidity requirements¹⁶ indicated by the risk metrics adopted in the Risk Appetite Framework¹⁷ approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP;
- b) Positive operating profit delivered at Group level.¹⁸

b) Budgeting phase

Under the process for determining the variable remuneration and the divisional bonus pools, in preparing the budget the Board of Directors approves the cost of labour for the financial year to come, including the amount of variable component, determined on the basis of the all the Mediobanca Group divisions' expected earnings performance targets, the market scenario and historical pay trends.

c) Determination of variable remuneration and divisional bonus pools

Once the final results have been closed, the variable remuneration and the bonus pool payable to the Group's various business divisions are calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC) and on other secondary quantitative and qualitative objectives.

For the Wholesale Banking division,¹⁹ (the area in which the highest number of staff with a substantial impact on Mediobanca's risk profile are employed), the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit to be used for the bonus pool and variable remuneration. The amount determined is measured against the bonus pools resulting from the scorecards for the individual business units, which may be fine-tuned to ensure that overall sustainability is maintained. The aggregate amount also reflects assessment of other quantitative parameters (Group results, Risk Appetite Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual

¹⁶ CET 1 ratio, leverage ratio, AFR/ECAP, liquidity coverage ratio, net stable funding ratio, retail funding ratio.

¹⁷ The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

¹⁸ Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

¹⁹ Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.



budget objectives and the three-year business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and market share, retention of key staff, need to recruit new professional talent).

For the other divisions (Consumer, Wealth Management in the Affluent/Premier and Private Banking segments), the amounts are determined by the Chief Executive Officers of the legal entities forming part of them, who to this end liaise with the General Manager and Human Resources department of Mediobanca S.p.A. (see section entitled "Remuneration policies for staff employed at Group companies").

The variable remuneration and bonus pool to be allocated to staff employed in the Holding Functions and the Principal Investing division are established by the Chief Executive Officer of Mediobanca, on the basis – for the former – of general earnings sustainability with limited correlation to the Group's results, and – for the latter – of qualitative criteria and specific qualitative and quantitative performance indicators.

d) Distribution and allocation of variable remuneration and bonus pools

The variable remuneration and bonus pool for the individual business units of the Wholesale Banking division and the units which provide financial services to the Group as a whole, comprised within the Holding Functions (Group Treasury and Strategic Portfolio) and the Mediobanca Private Banking business unit) are calculated on the basis of scorecards which use primarily Economic Profit or other risk-adjusted metrics depending on the nature of the business and activity, and other secondary quantitative metrics (such as reference to budget objectives and historical results performances) and qualitative metrics with the institution of a cap.

For the other divisions (see section entitled "Remuneration policies for staff employed at Group companies"), the variable remuneration and bonus pool are allocated based on internal organizational structure: for senior management, on the basis *inter alia* of individual scorecards; for the commercial branch network and credit management, based on reaching specific business indicators applicable individually or collectively by organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

e) Exceptions (bonus pools for retention purposes and floors)

The Board of Directors, at the Chief Executive Officer's proposal and with the Remunerations Committee in favour, may authorize payment of a bonus pool for identified staff for retention purposes even if the gateways have not been met. The possibility of paying a retention bonus pool is assessed in the light of the reasons why the individual gateways were not met, and the impact of the individual indicator on the Group's capital adequacy, liquidity and profitability. The scope of the staff and the amount involved is based mainly on the following criteria: the contribution of the individual beneficiary to the overall results of the division and the Group, the importance of the profile to the sustainability of future results, benchmark analysis of the market and competitive scenario, the need to ensure business continuity, and consistency with the succession planning policy.

Furthermore, if the gateways are met but an Economic Profit or other divisional indicator is delivered which is negative or small, the Chief Executive Officer may also propose a variable remuneration floor pool for identified staff, agreeing the rationale



for distributing the proceeds with the governing bodies based on the individual contributions of the business activities to the company's results.

f) Assessment of individual quantitative and qualitative performance in the award of the annual bonus

Annual bonuses are awarded to the individual beneficiaries via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed, the bonus may either not be paid or may be reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary fully maintaining their status as an employee of the Mediobanca Group throughout the assessment period and still being in the company's employment at the actual date of distribution and/or not serving a period of notice for resignation or dismissal. The bonus may not be split over fractions of years, hence if the employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the performance assessments are ratified individually by the Chief Executive Officer and General Manager of Mediobanca.

Mediobanca valorizes its staff on a meritocratic basis, developing their professional capabilities and career opportunities in accordance with the principle of equal opportunities and in line with the Bank's own strategic, organizational and business choices. Professional development is facilitated through the provision of the appropriate training, practical work experience under the leadership of line managers, mobility across different positions, assessment of performance, and ultimately the career advancement and promotion process.

At the start of the year the professional, personal and company objectives for each staff member are assigned and discussed with the respective line manager. Such objectives are meant to be achievable, challenging and weighted according to the priority assigned to each staff member. Particular attention is paid to proper individual conduct in accordance with the provisions of the Code of ethics, Organizational model and Business conduct policy, and in general terms with the principles established by the laws, regulations, operational rules and internal procedures, with reference in particular to those considered to be most relevant in terms of reputational risk.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Interim feedback throughout the year also allows the line managers and staff to agree on the extent to which the objectives have been met, as part of objective discussion of individual performances. In this way the organization is able to reach its objectives while respecting its corporate values, and transparency is assured in the area of training opportunities, professional development and assessment criteria.

For staff belonging to the business units, the assessment reflects:

- Earnings results achieved, e.g. reaching or not reaching budget targets and objectives in terms of improvement from the previous year, with reference to the risk/return and cost/income ratios;
- Qualitative criteria: development of product offering, professional conduct and reliability, quality in terms of customer relationships, technical and analytical skills in the field of finance, ability to control costs, importance placed on achieving



operating efficiency, and co-operation with other areas of the Bank, reputational and compliance issues, and adherence to the Bank's values.

For all the other units, the main aspects of assessment are based on qualitative objectives and a broader appraisal regarding compliance with regulations, control of costs and efficient management of resources. In particular, for staff employed in the accounting, planning and control areas the following aspects are considered: all obligatory, supervisory and market disclosure requirements being complied with, all the accounting processes, related electronic procedures and tax requirements being managed efficiently and accurately. For staff employed in the internal control units, i.e. Group Audit, Compliance and Risk Management, continuous monitoring and control of the Bank's processes and operations, carried out independently and autonomously to prevent risk situations developing and ensure irregular behaviour or events is picked up swiftly; continuous assessment of compliance with the regulations in the form of appropriate audit plans, updates to internal guidance, training of internal units; correct development of models, methodologies and metrics with which to measure market, credit and operational risks, producing adequate reporting for monitoring processes and accurate analysis of new products and their risk profiles.

In close relation to the valuation process, staff may also be involved in a career advancement pathway, which may involve covering new organizational roles, promotion to a new contractual level or being assigned a new corporate title based on the experience acquired and results achieved. Promotions are proposed by the head of the business unit concerned, agreed with Human Resources and approved by the General Manager and/or the Chief Executive Officer (for middle management). For higher levels (senior management or equivalent), the process involves specific appraisal of the candidate concerned, including by other senior Bank staff from a variety of different professional backgrounds, experience and roles. The process is closely linked to that of succession planning which involves researching, identifying and managing individual candidates for senior positions (specifically executive directors, including in cases where such figures have to be replaced ahead of the scheduled expiry of their term of office, in view of the fact that under Mediobanca's current Articles of Association, some of the directors must be chosen from among staff with at least three years' experience as senior management employed by Mediobanca Banking Group companies). The process also requires a pool of possible high-potential replacements to be identified (the "senior talent pool") for key positions, including the business areas, control units, and staff and support roles, in view of likely future requirements in terms of strategic leadership and/or professional and managerial capabilities based on a global organizational approach.

The remunerations policies are therefore closely co-ordinated with the Succession planning and Staff management policies, both of which are approved by the Board of Directors.

Variable component structure: timescale for distribution and instruments

A substantial proportion of the variable component is deferred in time and distributed in the form of equity instruments, in order to link incentives to the objective of value creation in the long term, and to allow the continuity of the company's positive results to be ascertained.

The variable component payable to directors with executive duties, to senior management (i.e. groups 2 and 3 of the table shown in the section entitled "Identified staff") and to staff employed in areas operating on financial markets, included in groups 5 and 7 of the same table, is deferred as to 60%.



For the remaining identified staff the deferred share is 40%.

The time horizon for deferral is three years, save for directors with executive duties and for senior management (i.e. groups 2 and 3 in the table shown in the section entitled "Definition of identified staff"), for whom it is five years, with annual distributions made pro rata. Deferral applies to any amount of variable remuneration.

For line managers and senior staff in the control units and staff and support areas (groups 4 and 6), deferral is applied to variable remuneration which is equal to or exceeds €80,000.

The upfront component (i.e. paid in the same year as the award is made) and the deferred variable remuneration are distributed as to 50% in cash and as to 50% in equity instruments (ordinary shares).

After the vesting period, the shares are subject to a further retention holding period, of two years for the upfront component and one year for the deferred component.

Given the full time horizon over which the variable remuneration is distributed, in cash and shares, the economic benefit for recipients is spread across six financial years for management staff and over five years for the other identified staff.

Mediobanca also applies a 30% deferral over a three-year time horizon, all in cash and subject to malus conditions, to all staff not included in the definition of identified staff who receive variable remuneration equal to or higher than €100,000.

Performance conditions, malus condition and clawback

The deferred variable remuneration component is paid, provided that:

- The beneficiary is still a Group employee and not serving a period of notice for resignation or dismissal;
- In each of the financial years, the performance conditions equating to the gateways described in the section entitled "Determination of variable remuneration and the bonus pool and correlation between risks and performance" are met;
- The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as ratified by the Risk Management unit;
- The beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary measures under the terms, inter alia, of Mediobanca's Code of ethics, Organizational model, Business conduct policy and other internal regulations²⁰) and no losses have been incurred which were attributable to their actions.

²⁰ The relevant cases for application of compliance breaches are assessed internally, through an appraisal of the regulatory areas which are most relevant to the Bank's reputational risk and the gravity of the breach, as well as the process for evaluating them correctly and potentially taking action, involving the control units and governing bodies as well. Relevant factors for applying the malus and/or clawback mechanisms include not only the application of penalties as provided by the various disciplinary codes, but also



This method is consistent with the requirement for staff, in accordance with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital base, a strong liquidity position and close control of all risks as well as positive earnings results, thus guaranteeing that the remuneration systems remain sustainable over the long term.

For staff employed at other Group companies, the Chief Executive Officer may choose to identify one or more specific economic indicators to replace those referred to above.

The Board of Directors, with the favourable opinion of the Remunerations Committee, may, at the Chief Executive Officer's proposal, authorize payment of the deferred component, including in part, even if the gateways are not achieved, either to business divisions or individuals who during the year have delivered particularly outstanding performances or who are expected to be decisive with regard to the sustainability of results over time, for retention purposes.

Mediobanca reserves the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being established. In particular, provision for such measures is made in cases involving breach of the obligations imposed under Article 26 of the Italian banking act (company representatives – personal and professional qualifications and independence) or, where relevant to the party involved, Article 53, paras. 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Performance share schemes

In order to have ordinary shares for use as components of staff remuneration, Mediobanca has adopted a performance share scheme, approved by shareholders at the annual general meeting to be held on 28 October 2015, to which reference is made for all further details.

The scheme involves the award of Mediobanca shares to beneficiaries as the equity component of the variable remuneration granted to them as a result of the annual or long-term performance assessment process. The shares awarded are actually assigned to the beneficiaries at the end of a vesting period of at least three years – two years for the upfront component – provided that the beneficiaries are still employed by the Group and that the performance conditions stipulated in the remuneration policies in force at the time under the section entitled "Performance conditions, malus condition and clawback" regarding the sustainability of the results achieved have been met, without prejudice to the company's capital solidity and liquidity and/or proper individual conduct.

The performance shares awarded as deferred equity component, after the performance conditions for the reference year have been checked, are subject to a

warnings or reminders sent by the control units regarding the most relevant instances, or the outcomes of audits conducted again by the control units. The Compliance unit, after consulting with the other control units, once a year prepares a summary report of the relevant events that have taken place, at both the individual and business unit level.



further holding period of at least one year prior to their actual assignment, which remains conditional upon the beneficiary continuing to work for Mediobanca. The performance shares awarded as upfront equity component are subject to a holding period of two years prior to their actual assignment, which remains conditional upon the beneficiary continuing to work for the Group.

The Chief Executive Officer may also use ordinary shares as an instrument outside the annual award cycle, to define remuneration packages upon the occasion of recruiting new key staff. The governing bodies may also award quantities of performance shares as part of compensation agreed in respect of early termination of the working relationship, to link it to the performance delivered and the risks taken by the individual and the Bank, as required by the regulations in force and consistent with the provisions of the remunerations policies in force at the time.

The shares received are personal, without prejudice to inheritance rights. The right to receive shares is retained in the event of retirement or the beneficiary being permanently disabled and/or suffering from an illness which makes them unable to continue working. Conversely, the right to receive shares is forfeited in cases where the beneficiary tenders their resignation or is dismissed. Exceptions to the foregoing are handled by the governing bodies within their respective areas of authority, namely the Board of Directors, Remunerations Committee and the Chief Executive Officer, based on the powers vested in them, particularly in cases which involve departures by mutual consent within the limits defined by the remunerations policies in force at the time. The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies, and without prejudice to any regulations providing for more favourable treatment instituted by the applicable local legislations.

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for award to Mediobanca Group staff members before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code, which was approved by shareholders on 28 October 2015. Alternatively and/or in addition, those of the 15,736,786 treasury shares held by the Bank and not reserved for other purposes may be used to this end. At present a total of 6,733,321 shares have been awarded but not assigned, 21,725 from the treasury share holdings and the other 6,711,596 from the limit approved by shareholders in general meeting.

Performance stock option scheme

At an extraordinary general meeting held on 27 June 2007, the shareholders of Mediobanca approved a capital increase involving the issue of 40,000,000 shares for use as part of a stock option scheme (to be exercised by 1 July 2022). A total of 24,464,000 are outstanding, and at present their use in the scheme is not anticipated.²¹

²¹ As at 15 September 2017, a total of 4,420,000 stock options and/or performance stock options, as yet unexercised, had been assigned to Mediobanca Group staff, at an average price of €6.53 per share, from the schemes approved by the shareholders in general meetings held on 28 October 2004 and 27 June 2007. As mentioned earlier, a total of 6,733,321 performance shares have been allocated but not yet awarded on the grounds that they are still subject to either vesting or holding periods. The fully-diluted percentage of the company's share capital represented by equity instruments issued to Group staff therefore amounts to 1.2%. The impact on the shares' market value and the possible dilution of the share capital is not material.



At an ordinary general meeting held on 27 October 2007, in accordance with the provisions of the regulatory instructions, the shareholders of Mediobanca approved a resolution to adopt the scheme and its methods of implementation. At a Board meeting held on 24 June 2011, in exercise of the powers granted to them, the directors of Mediobanca revised the stock option scheme to bring it in line with the Instructions, including provision for performance conditions for exercise in addition to those of a purely temporal nature, thereby effectively transforming the scheme into a performance stock option scheme.

The essential characteristics of the scheme, which is for staff with roles key to the achievement of the Group's objectives, are: a vesting period of three years from the award date, subject to the performance conditions being met as defined in the section entitled "Performance conditions, malus condition and clawback"; an exercise period of up to the end of year 8 (three years' vesting plus five years' exercise); a holding period of at least 18 months for Mediobanca shares corresponding to at least half of the capital gain achieved, irrespective of tax issues, for certain participants in the scheme who perform significant roles. In each year the performance conditions must be met for one-third of the stock options awarded. Failure to meet the performance conditions in any one year will result in the relevant share being cancelled.

Remuneration policies for staff employed at Group companies

Mediobanca liaises constantly with its Group companies to ensure that the remuneration systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation, organizational structures, regulations applicable according to type of business and geographical location. In particular the parent company manages the process of defining identified staff, issues guidance to be adopted and takes part in drafting documents relating to the remunerations policies to be compiled by the subsidiaries.

Mediobanca approves the amount of the variable remuneration and bonus pools for identified staff in the different companies and their allocation; establishes the objectives for the CEOs and/or General Managers of the Group companies, and ascertains whether they have been met; and defines the basic principles of the guidelines of the incentives mechanism for the other staff at the companies, leaving the specific decisions up to their respective Boards of Directors.

The incentivization system is reserved specifically to senior staff who, on account of their professional specialization, organizational role and importance to the business, have an impact on their companies' performance and value creation. The beneficiaries are identified by the Chief Executive Officer and/or General Managers of the companies themselves, after consulting with the General Manager and the Human Resources department of Mediobanca. Each beneficiary is notified of their inclusion in the incentives scheme, with a defined annual bonus target and calculation method. The bonus is determined annually on an individual basis in view of the risk-adjusted earnings performance delivered by the company (the indicator used for the Group companies is usually the economic profit earned by the business area and/or the ROAC delivered by the business division in which they work) and other secondary, quantitative objectives. Other assessment criteria are also adopted linked to quality of performance, for example indicators of customer satisfaction, and to the achievement

given the fact that several schemes and several instruments are in operation across different years and vesting and holding periods spread across a medium-/long-term time horizon.



of individual qualitative and project-based objectives. The work once complete is subject to ratification by Mediobanca. For the commercial branch network and credit management, establishment of the variable component is based on reaching specific business indicators applicable individually or collectively by organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

Below given limits, the bonus is paid entirely in cash in the year in which it accrues. Above such limits provision is made for forms of deferral, on a three-year basis. In the event of losses related to provisions which prove to be insufficient, contingent liabilities or other items which might prejudice the integrity of the accounts (such instances not to be construed restrictively; the "malus conditions"), all or part of the deferred share may not be paid.

In line with the provisions in place for Mediobanca, the incentivization schemes in operation at the Group companies too place particular emphasis on the issue of proper individual conduct (i.e. compliance with regulations and internal procedures, and transparency versus clients) by adopting the concept of compliance breaches, both at the stage of award of the variable component, and in assessment of whether or not to pay any deferred components.

External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group, via the Wealth Management division, also uses financial advisors retained on the basis of agency contracts. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view *inter alia* of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components. The former is the more stable, ordinary component of their remuneration, and consists mainly of sales, maintenance or management fees (which in themselves do not serve for incentivization purposes). The latter component, meanwhile, does serve for incentivization purposes, being linked, for example, to beating certain targets in terms of funding, launch of new products, long-term incentivization schemes operative over several years, etc.

As required by the regulations in force, the Group includes staff members belonging to this category in the process of defining identified staff. The qualitative identification criteria adopted refer to the possible liability on the part of the relevant organizational units for the earnings, financial or reputational risk to which they could expose the Group. The quantitative criteria provided for by the regulations are also adopted for employees to be included in the definition of identified staff; these regulations also govern exclusion mechanisms and procedures, if any.

The same rules apply to non-recurring remuneration received by financial advisors included in the definition of identified staff as apply to the payment of variable remuneration for the other identified staff (i.e. gateways, cap, deferral, malus clause and clawback).



Asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, Luxembourg, Principality of Monaco). They are subject to the sector regulations instituted by the local regulators (for the European companies this means the national regulations transposing the UCITS V and AIFMD directives²²) based *inter alia* on the criteria of proportionality and within the broader framework of the consolidated banking regulations on subjects including:

- Role of shareholders in general meeting, governing bodies, Remunerations Committee, and governance processes in general where applicable;
- Definition of identified staff at individual and consolidated levels;
- Remuneration and incentivization system structure;
- Application of specific means of deferral between different categories of risk-takers, including provision, if any, for use of shares in investment funds;
- Caps on variable remuneration, if any, as a result of forming part of the banking group and/or relevant jurisdiction;
- Specific malus clauses and clawback mechanisms;
- Dismissal or resignation;
- Disclosure requirements.

Policies in the event of employment being terminated or otherwise ending

As provided by the regulations and the Articles of Association, the shareholders in ordinary general meeting are responsible for determining the compensation to be awarded in cases of early termination, including the limits set on such compensation in terms of the annual fixed salary and the maximum amount deriving from applying them.

a) Treatment for directors leaving office early

Mediobanca does not make payments to directors who leave office for any reason.

b) Treatment for employees

Treatment for individuals linked to Mediobanca Group companies under the terms of employment contracts (i.e. including directors who are members of the Group's senior management and all identified staff, including the aggregate of management with strategic responsibilities) requires payment of:

¹⁹ In Italy this refers to the joint Bank of Italy/Consob regulations issued on 28 April 2017 which transposes and combines the UCITS V and AIFMD guidelines.



- The amount established and due in accordance with the provisions of law and the locally applicable contractual regulations in respect of the cost of the failure to provide notice and other entitlements payable upon termination (severance provision, holiday leave etc.);
- A possible additional amount by way of severance: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment relationship is terminated by mutual consent, with a view to minimizing the earnings and reputational risks, present and future, which the Bank might face as a result of possible disputes;
- Other types of arrangement, e.g. to cover non-competition agreements or settlements paid in respect of potential moral or material damages.

c) Severance pay amount

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual), as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation given the variety of individual cases, the following factors in particular are taken into account: number of years' service within the Group, age and personal and social conditions, role and organizational position held, the historical performance in qualitative/quantitative terms delivered by the individual concerned, the reasons underlying the termination of the employment relationship (which in some cases may be organizational and strategic rather than related to the question of individual performance), the performance of activities which have generated criticalities for the risk profile established by the Group, the adoption of personal conduct which does not conform to company values, and the existence of risks for the Bank linked to possible disputes. The approach adopted reflects the effective and long-term results of the individual and company performance.

The basis for calculating the additional monthly salaries to be paid by way of severance is usually the most recent fixed salary, the average variable remuneration paid over a given time horizon (generally the last three years), and in some cases the value of fringe benefits.

Mediobanca defines the total maximum amount payable by way of severance as 24 monthly salaries, as previously defined and in any case no more than €5m, unless provided otherwise by shareholders in general meeting. This amount includes any non-competition agreements. The amount does not include any amounts paid as indemnity for failure to give notice and the other amounts due in connection with termination of the employment relationship (severance provision, holiday leave etc.) referred to under the first bullet point of the foregoing point b).²³ Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

Severance may not be paid in cases where the conduct of individual staff members has resulted in damages to the integrity of the Bank's capital, profitability and

²³ In terms of the number of years' fixed remuneration, if an employee has received variable remuneration throughout the time horizon considered equal to twice their annual fixed salary (cf. 2:1 cap), a total of six years' annual salary would be considered. This provision, which is entirely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.



earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

d) Timescales for payment and instruments used

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Definition of identified staff", the methods and timescales provided for in making severance payments and any compensation for non-competition agreements entered into upon terminating an employment relationship include payment of a deferred share of at least 40% over a time horizon of at least three years, use of shares or instruments related to them, payment being made subject to malus conditions in the event of liability being established in cases of fraud and/or wilful misconduct and/or attributed in a court of law to the individual staff member's own responsibility during the period in which they worked for the company which emerge after the employment relationship has been terminated. For other identified staff, forms of deferral and risk adjustment may be applied, with the appropriate methods to be identified based on the amount to be paid by way of severance, in addition to the considerations described under point c) above.

The Bank also reserves the right to use the claw back mechanism in the cases provided for in the applicable employment law regulations.

e) Treatment of any variable remuneration deferred component awarded but not yet paid and fringe benefits

Entitlement to receive deferred variable remuneration components, in cash and/or equity, awarded in previous years but not yet paid, is forfeited in cases where staff members tender their resignations or are dismissed, as the entitlement to any company benefits.

Cases where termination of the employment relationship is by mutual consent, for more favourable treatment in individual cases and the possibility of applying more favourable local legislations, are handled by the governing bodies within their respective areas of responsibility, namely the Board of Directors, Remunerations Committee and Chief Executive Officer, based on the powers vested in them.

f) Decisions by third parties

The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies.

g) Involvement of governing bodies

Regular reporting is made to the Remunerations Committee on any decisions taken vis-à-vis employees qualifying as identified staff, and the Committee itself is involved promptly in deciding on the treatment of the most significant individual cases.

h) Arrangements for the Chairman, the Chief Executive Officer and General Manager

In cases where the Chairman (if a member of the Group's management), Chief Executive Officer and/or General Manager leave the Bank's employment for any reason, the provisions of the Group's remuneration policies for identified staff and the sector regulations in force from time to time shall apply. Any amounts paid in cash, in addition to notice, shall be subject to contributions to the company's complementary pension scheme, and save in cases of dismissal for just cause, the said persons will be



MEDIOBANCA

allowed to retain any financial instruments assigned to them up to the time when the employment relationship is terminated.



Section 2

Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities.

(A) Name and surname	(B) Post	(C) Period for which post has been held		Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/2016	30/06/2017	30/06/2017	100.000	1.800.000					350.388 of which complementary pension scheme 344.409				
					100.000	1.800.000	1.900.000				350.388		2.250.388		
					8.247		8.247						8.247		
					108.247	1.800.000	1.908.247				350.388		2.258.635		
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/2016	30/06/2017	30/06/2017	135.000		135.000						135.000		
	Member of Executive Committee	01/07/2016	30/06/2017	30/06/2017	90.000		90.000						90.000		
					225.000		225.000						225.000		
					225.000		225.000						225.000		
Marco Trenchelli Provera	Deputy Chairman of Board of Directors	01/07/2016	30/06/2017	30/06/2017	135.000		135.000						135.000		
					135.000		135.000						135.000		
					135.000		135.000						135.000		
Alberto Nagel	CEO	01/07/2016	30/06/2017	30/06/2017	100.000	1.800.000	1.900.000		877.500		456.726 of which complementary pension scheme 451.879		3.234.226	818.841	
					100.000	1.800.000	1.900.000		877.500		456.726		3.234.226	818.841	
					100.000	1.800.000	1.900.000		877.500		456.726		3.234.226	818.841	
Francesco Saverio Vinci	General Manager	01/07/2016	30/06/2017	30/06/2017	100.000	1.500.000	1.600.000		694.500		375.557 of which complementary pension scheme 369.119	50.000	2.720.057	587.706	
					100.000	1.500.000	1.600.000		694.500		375.557	50.000	2.720.057	587.706	
					15.342		15.342						15.342		
					115.342	1.500.000	1.615.342		694.500		375.557	50.000	2.735.399	587.706	
Tarak Ben Ammar	Director	01/07/2016	30/06/2017	30/06/2017	100.000		100.000						100.000		
					100.000		100.000						100.000		
					100.000		100.000						100.000		



MEDIOBANCA

(A) Name and surname	(B) Post	(C) Period for which post has been held	Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance (f)
				Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Gilberto Benetton	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	(I) Compensation in company preparing the accounts				100.000	-	100.000	-	-	-	-	100.000	-	-
	(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	-
(III) Total				100.000	-	100.000	-	-	-	-	-	100.000	-	-
Mauro Bini	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	Member of Risks committee and Related parties committee	01/07/2016	30/06/2017	30/06/2017	80.000	-	80.000	-	-	-	-	80.000	-	-
	Chairman of Appointments committee	01/07/2016	30/06/2017	30/06/2017	20.000	-	20.000	-	-	-	-	20.000	-	-
	(I) Compensation in company preparing the accounts				200.000	-	200.000	-	-	-	-	200.000	-	-
(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	-	
(III) Total				200.000	-	200.000	-	-	-	-	-	200.000	-	-
Marie Bolloré	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	Member of Appointments committee	01/07/2016	30/06/2017	30/06/2017	20.000	-	20.000	-	-	-	-	20.000	-	-
	(I) Compensation in company preparing the accounts				120.000	-	120.000	-	-	-	-	120.000	-	-
(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	-	
(III) Total				120.000	-	120.000	-	-	-	-	-	120.000	-	-
Maurizio Carfagna	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	Member of Risks committee and Related parties committee	01/07/2016	30/06/2017	30/06/2017	80.000	-	80.000	-	-	-	-	80.000	-	-
	Member of Remunerations committee	01/07/2016	30/06/2017	30/06/2017	30.000	-	30.000	-	-	-	-	30.000	-	-
	(I) Compensation in company preparing the accounts				210.000	-	210.000	-	-	-	-	210.000	-	-
(II) Compensation from subsidiaries/associates at 30/06/2017				34.247	-	34.247	7.589	-	-	-	41.836	-	-	
(III) Total				244.247	-	244.247	7.589	-	-	-	251.836	-	-	
Angelo Casò	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	Member of Executive Committee	01/07/2016	30/06/2017	30/06/2017	90.000	-	90.000	-	-	-	-	90.000	-	-
	(I) Compensation in company preparing the accounts				190.000	-	190.000	-	-	-	-	190.000	-	-
(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	-	
(III) Total				190.000	-	190.000	-	-	-	-	-	190.000	-	-
Maurizio Costa	Director	01/07/2016	30/06/2017	30/06/2017	100.000	-	100.000	-	-	-	-	100.000	-	-
	Member of Remunerations committee	01/07/2016	30/06/2017	30/06/2017	30.000	-	30.000	-	-	-	-	30.000	-	-
	Member of Appointments committee	01/07/2016	30/06/2017	30/06/2017	20.000	-	20.000	-	-	-	-	20.000	-	-
	(I) Compensation in company preparing the accounts				150.000	-	150.000	-	-	-	-	150.000	-	-
(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	-	
(III) Total				150.000	-	150.000	-	-	-	-	-	150.000	-	-



MEDIOBANCA

(A) Name and surname	(B) Post	(C) Period for which post has been held		Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance (i)
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Mussimiliano Fossati	Director	01/07/2016	21/09/2016		22.739		22.739					22.739			
					22.739	-	22.739					22.739			
					22.739	-	22.739					22.739			
Marina Natale	Director	28/10/2016	30/06/2017		67.398		67.398					67.398			
					67.398	-	67.398					67.398			
					67.398	-	67.398					67.398			
Vanesa Labérenne	Director	01/07/2016	30/04/2017	30/06/2017	100.000		100.000					100.000			
	Chairman of Remunerations committee	01/07/2016	30/06/2017	30/06/2017	30.000		30.000					30.000			
	Member of Risks committee and Related parties committee	01/07/2016	30/04/2017	30/06/2017	80.000		80.000					80.000			
					210.000	-	210.000					210.000			
					210.000	-	210.000					210.000			
					210.000	-	210.000					210.000			
Elisabetta Magistrelli	Director	01/07/2016	30/06/2017	30/06/2017	100.000		100.000					100.000			
	Chairman of Risks committee and Related parties committee	01/07/2016	30/06/2017	30/06/2017	80.000		80.000					80.000			
	Member of Appointments committee	01/07/2016	30/06/2017	30/06/2017	20.000		20.000					20.000			
	Member of Remunerations committee	01/07/2016	30/06/2017	30/06/2017	30.000		30.000					30.000			
					230.000	-	230.000					230.000			
					230.000	-	230.000					230.000			
					230.000	-	230.000					230.000			
Alberto Pecci	Director	01/07/2016	30/06/2017	30/06/2017	100.000		100.000					100.000			
	Member of Remunerations committee	01/07/2016	30/06/2017	30/06/2017	30.000		30.000					30.000			
					130.000	-	130.000					130.000			
					130.000	-	130.000					130.000			
					130.000	-	130.000					130.000			
Gian Luca Sichel	Director	01/07/2016	30/06/2017	30/06/2017	100.000		100.000					100.000	269.009		
					100.000		100.000					100.000	269.889		
					600.000	600.000	600.000		292.500		7.028	899.528	269.889		
					100.000	340.000	700.000		292.500		7.028	999.528	269.889		
					100.000	340.000	440.000		103.385		41.639	585.024	94.469		
					100.000	340.000	440.000		103.385		41.639	585.024	94.469		
					100.000	340.000	440.000		103.385		41.639	585.024	94.469		



(A) Name and surname	(B) Post	(C) Period for which post has been held	Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance (i)
				Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Management with strategic responsibilities (6)					2.420.929	2.420.929		1.094.160		231.627 <i>of which complementary pension scheme</i>	3.746.716		1.049.521	
(I) Compensation in company preparing the accounts					2.420.929	2.420.929		1.094.160		214.803				
(II) Compensation from subsidiaries/associates at 30/06/2017					-	-		-		-				
(III) Total					2.420.929	2.420.929		1.094.160		231.627	3.746.716		1.049.521	
Natale Freddi	Chairman of Statutory Audit Committee	01/07/2016	30/06/2017	30/06/2017	140.000	-	140.000	-	-	-	140.000	-	-	
	(I) Compensation in company preparing the accounts				140.000	-	140.000	-	-	-	140.000	-	-	
	(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	
(III) Total				140.000	-	140.000	-	-	-	140.000	-	-		
Laura Gualtieri	Member of Statutory Audit Committee	01/07/2017	30/06/2017	30/06/2017	105.000	-	105.000	-	-	-	105.000	-	-	
	(I) Compensation in company preparing the accounts				105.000	-	105.000	-	-	-	105.000	-	-	
	(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	
(III) Total				105.000	-	105.000	-	-	-	105.000	-	-		
Gabriele Villa	Member of Statutory Audit Committee	01/07/2016	30/06/2017	30/06/2017	105.000	-	105.000	-	-	-	105.000	-	-	
	(I) Compensation in company preparing the accounts				105.000	-	105.000	-	-	-	105.000	-	-	
	(II) Compensation from subsidiaries/associates at 30/06/2017				-	-	-	-	-	-	-	-	-	
(III) Total				105.000	-	105.000	-	-	-	105.000	-	-		

- 1) Fees are paid directly to the company of origin.
- 2) Fees due in respect of position held in Banca Esperia.
- 3) Fees due in respect of position held in Banca Esperia and Duemme Sgr
- 4) Of which € 42,466 paid directly to the company of origin.
- 5) Other forms of compensation: fixed amount awarded for length of service (30 years) as established by Company Supplementary contract.

As shown in the Report on remuneration, the definition of "management with strategic responsibilities other than directors", as at 30 June 2017 involved five staff members: the three heads of the control units, the head of company financial reporting and the co-head of the Corporate and Investment Banking division.



Table 2: Stock options granted to members of the governing bodies, general managers and managerial staff with strategic responsibilities

A	B	(1)	Options held at start of financial year			Options awarded during the year						Options exercised during the year			Options expired during the year	Options held at year-end	Options attributable to the year
			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2)+(5)-(11)-(14)	(16)
Name and surname	Post	Scheme	No. of options	Strike price	Possible exercise period (from-to)	No. of options	Strike price	Possible exercise period (from-to)	Fair value at award date	Award date	Market price of shares underlying award	No. of options	Strike price	Market price of underlying shares at exercise date	No. of options	No. of options	Fair value
Renato Pagliaro	Chairman	271007	350.000	6,537	From 2 August 2013 to 1 August 2018							200.000	6,537	7,781			150.000
Alberto Nagel	CEO	271007	350.000	6,537	From 2 August 2013 to 1 August 2018												350.000
Francesco Saverio Vinci	GM	271007	250.000	6,537	From 2 August 2013 to 1 August 2018												250.000
Managerial staff with strategic responsibilities		271007	80.000	6,537	From 2 August 2013 to 1 August 2018												80.000
(III) Total			1.030.000									200.000					830.000



Table 3A: Incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

A	B	(1)	Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and not allocated	(11)	Financial instruments attributable to the year	
			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		(12)	
Name and surname	Post	Scheme	No. and type of instrument	Vesting period	No. and type of financial instrument	Fair value at award date	Vesting period	Award date	Market price at award	No. and type	No. and type	Value upon vesting	Fair value	
Alberto Nagel CEO		28-ott-10	122.605 Performance shares	Nov. 2017 – Nov. 2019									261.725	
			183.956 Performance shares	Nov. 2018 – Nov. 2021										242.787
					152.387 Performance shares	1.195.562	Nov. 2019 – Nov. 2022	27/09/17	9,061					314.329
Francesco Saverio Vinci GM		28-ott-10	101.898 Performance shares	Nov. 2017 – Nov. 2019									225.792	
			91.627 Performance shares	Nov. 2018 – Nov. 2021										120.929
					115.830 Performance shares	916.597	Nov. 2019 – Nov. 2022	27/09/17	9,061					240.385
Gian Luca Sichel Director		28-ott-10	17.697 Performance Shares	Nov. 2017 – Nov. 2018							11.797	73.141	25.163	
			29.970 Performance shares	Nov. 2017 – Nov. 2019										66.410
			55.719 Performance shares	Nov. 2018 – Nov. 2021										
					50.796 Performance shares	398.523	Nov. 2019 – Nov. 2022	27/09/17	9,061				104.778	
Alexandra Young Director		28-ott-10	11.089 Performance shares	Nov. 2017 – Nov. 2019									25.963	
			21.181 Performance shares	Nov. 2018 – Nov. 2021										29.363
					18.174 Performance shares	143.214	Nov. 2019 – Nov. 2022	27/09/17	9,061					39.143
Managerial staff with strategic responsibilities		28-ott-10	169.631 Performance Shares	Nov. 2017 – Nov. 2019							221.209	1.371.496	475.714	
			100.809 Performance shares	Nov. 2017 – Nov. 2019										228.990
			122.462 Performance shares	Nov. 2018 – Nov. 2020										164.724
					85.676 Performance shares	673.456	Nov. 2019 – Nov. 2021	27/09/17	9,061				180.093	
Total			1.028.644		423.863	3.327.352					233.006	1.444.637	2.820.426	

Included awards made on 27 September 2017 for FY ending 30 June 2017.



Table 3B: Cash incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

A Name and surname	B Post	[1] Scheme	[2]			[3]			[4] Other bonuses
			Bonus for the year			Previous years' bonuses			
			(A) Payable/paid	(B) Deferred	(C) Deferral period	(A) No longer payable	(B) Payable/paid	(C) Still deferred	
Alberto Nagel CEO		FY 2015/2016	420.000	630.000	Nov.2017-Nov.2021				
		FY 2014/2015						675.000	
Francesco Saverio Vinci GM		FY 2015/2016	209.200	313.800	Nov.2017-Nov.2021				
		FY 2014/2015						561.000	
Gianluca Sichel Director		FY 2015/2016	127.215	190.822.5	Nov.2017-Nov.2021				
		FY 2014/2015						165.000	
		FY 2013/2014					80.000	40.000	
		FY 2012/2013					30.000	30.000	
		FY 2011/2012					26.000		
Alexandra Young Director		FY 2015/2016	57.360	63.540	Nov.2017-Nov.2021				
		FY 2014/2015						49.850	
Management with strategic responsibilities		FY 2015/2016	424.400	399.600	Nov.2017-Nov.2021				
		FY 2014/2015						545.000	
Total compensation in company preparing the accounts			1.238.175	1.597.763		136.000	2.065.850		



Investments held by members of the governing and control bodies and by general managers

Name and surname	Post	Investee company	No. of shares held at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
PAGLIARO RENATO	Chairman	MEDIOBANCA	2.600.000	200.000 ¹	300.000	2.500.000
NAGEL ALBERTO	CEO	MEDIOBANCA	2.626.050	==	==	2.626.050
VINCI FRANCESCO SAVERIO	GM	MEDIOBANCA	945.000	==	==	945.000
MAURIZIO CARFAGNA	Director	MEDIOBANCA	33.000 ²	7.000	--	40.000 ³
PECCI ALBERTO	Director	MEDIOBANCA	4.707.500	==	==	4.707.500 ⁴
GIAN LUCA SICHEL	Director	MEDIOBANCA	7.600	11.797 ⁵	5.820	13.577

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

- (1) Shares awarded in execution of stock option scheme
- (2) of which n. 13.000 shares owned through subsidiaries
- (3) of which n. 20.000 shares owned through subsidiaries
- (4) Investment owned through subsidiaries
- (5) Shares awarded in execution of performance share scheme

Investments held by other managerial staff with strategic responsibilities

No. of managerial staff with strategic responsibilities	Investee company	No. of shares owned at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
5*	MEDIOBANCA	97.125	221.209 **	221.209 **	97.125

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal

* Managerial staff with strategic responsibilities as at 30.6.2017

** Shares awarded in execution of performance share scheme.



Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	Fixed Salary	Variable	% variable maximum	% variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1) Management body Supervisory function - Mediobanca	4.032.630	5.992.000	-	-	-	-	-	-
2) Management body Management function - Mediobanca	4.705.342	5.992.000	200%	127%	1.209.100	1.209.100	1.786.900	1.786.900
3) Staff, Support, holding units	98.707.705	18.297.205	200%	19%	17.626.405	135.000	420.800	115.000
4) Control functions (Risk Management, Compliance, Audit)	15.498.957	2.668.883	33%	17%	2.557.458	29.400	62.425	19.600
5) Investment Banking - business	57.150.722	49.313.201	200%	86%	27.280.063	5.265.000	10.805.638	5.962.500
6) Retail e Consumer - business	76.805.640	5.829.879	200%	8%	5.301.229	207.150	183.400	138.100
7) Private Banking / Asset Management - business	22.551.700	11.611.653	200%	51%	10.140.230	327.900	813.673	329.850
	279.452.696	93.712.821	-	33,5%	64.114.485	7.173.550	14.072.834	8.351.950

EBA classification - Gross amounts

Includes Group companies which ended FY on 31 December 2016.

Aggregate quantitative information by the various categories of "identified staff" as required by the Bank of Italy instructions

Mediobanca Group	#	Fixed Salary	Variable	% variable maximum	% variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1) Non-executive directors (non-executive members of BoD, including Chairman)	1	1.800	-	-	-	-	-	-	-
CEO	1	1.800	2.700	200%	150%	540	540	810	810
2) GM	1	1.500	2.070	200%	138%	414	414	621	621
Other Directors with executive duties (management who are members of Executive Committee)	2	940	1.222	200%	130%	255,1	255,1	355,9	355,9
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and	16	11.352	10.092,5	200%	89%	2.018,5	2.018,5	3.027,75	3.027,75
4) Heads and senior staff of internal control units (Compliance, Risk Management, Group Audit)	8	1.415	405,6	33%	29%	337,0	29,4	19,6	19,6
5) Staff with managerial responsibilities in relevant business units	20	5.412	6.990,5	200%	129%	1.664,2	1.664,2	1.831,1	1.831,1
6) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operat	7	1.524	547	200%	36%	302	105	70	70
7) Quantitative criteria	23	6.592	7.528	200%	114%	2.147,4	2.147,4	1.616,6	1.616,6
	79	32.335	31.555,6	-	98%	7.678,15	7.173,55	8.351,95	8.351,95

Gross amounts in €'000 – Performance variable FY ending 30 June 2017

For Group Directors does not include emoluments payable in respect of their office.

Includes relevant staff (one person) employed at Group company which financial year ended 31 December 16.



Mediobanca Group	#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in number of MB shares ¹	#	Deferred from previous years due for cash payment during the year being cancelled
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-	-	-
2) Directors with executive duties (management who are members of Executive Committee)	4	758.785	1	11.797	-	-
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	12	7.993.160	10	1.980.592	-	-
4) Heads and senior staff of internal control units (Compliance, Risk Management, Group Audit)	21	2.201.082	-	-	-	-
5) Staff with managerial responsibilities in relevant business units	-	-	8	300.280	-	-
6) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	2	26.000	-	-	-	-
7) Quantitative criteria	21	6.794.440	6	1.628.198	-	-
	60	17.773.467	25	3.920.867	-	-

¹ Number of Mediobanca shares.

Group	#	Treatment at start of relationship	#	Treatment at end of relationship ¹
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) Directors with executive duties (management who are members of Executive Committee)	-	-	-	-
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	-	-	-	-
4) Heads and senior staff of internal control units (Compliance, Risk Management, Group Audit)	-	-	-	-
5) Staff with managerial responsibilities in relevant business units	-	-	2	838.650*
6) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	-	-	-	-
7) Quantitative criteria	1	600.000	2	687.665
	1	600.000	4	1.526.315

¹ With reference to the identified staff identified as of 30 June 2016.

* Of which € 94,470 by way of incentive, deferred as to 60% over the three-year cash horizon. The highest amount paid to an individual person was € 479,000



MEDIOBANCA

Total remuneration awarded over € 1 mln.	#
€ 1 million - 1,5 millions	8
€ 1,5 - 2 millions	4
€ 2 - 2,5 millions	2
€ 2,5 - 3 millions	
€ 3 - 3,5 millions	1
€ 3,5 - 4 millions	1
€ 4 - 4,5 millions	
€ 4,5 - 5 millions	1



MEDIOBANCA

Declaration by Head of Company Financial Reporting

As required by Article 154-bis, paragraph 2 of Italian Legislative Decree 58/98 the undersigned hereby declares that the financial information contained in this document corresponds to that contained in the company's documents, account books and ledger entries.

Milan, 28 October 2017

Head of
Company Financial
Reporting
Emanuele Flappini