

Basel III pillar 3 Disclosure to the public

Half-yearly situation as at 31 December 2018



MEDIOBANCA

Some declarations contained in this document constitute estimates and forecasts of future events, and are based on information available to the Bank at the reporting date. Such forecasts and estimates take into account all information other than *de facto* information, including, *inter alia*, the future financial position of the Bank, its operating results, the strategy, plans and targets. Forecasts and estimates are subject to risks, uncertainties and other events, including those not under the Bank's control, which may cause actual results to differ, even significantly, from related forecasts. In light of these risks and uncertainties, readers and users should not rely excessively on future results reflecting these forecasts and estimates. Save in accordance with the applicable regulatory framework, the Bank does not assume any obligation to update forecasts and estimates, when new and updated information, future events and other facts become available.



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Introduction

The regulations on banking supervision have been revised with the issue of Capital Requirements Directive IV and Capital Requirements Regulation (the "CRD IV/CRR Package") enacted in Italy under Bank of Italy circular no. 285 issued in 2013 as amended, to adapt the national Italian regulations to the changes to the European Union banking supervisory framework (one of the most recent such changes was Commission Delegated Regulation issued on 10 October 2014, to harmonize the diverging interpretations of means for calculating the Leverage Ratio). The body of regulations on prudential supervision and corporate governance for banks has incorporated the changes made by the Basel Committee in its Global Regulatory Framework for More Resilient Banks and Banking Systems".

Further guidance in the area of Pillar III has been provided by the European Banking Authority (EBA) in several documents:

- Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation No (EU) 575/2013
- Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013), to improve and enhance the consistency and comparability of institutions' disclosures to be provided as part of Pillar III starting from 31 December 2017. These guidelines apply to institutions classifiable as G-SII (Globally Systemically Important Institutions) or O-SII (Other Systemically Important Institutions); the regulatory authority has not required them to be applied in full for other significant institutions (SI); accordingly, this structure, which conforms to part 8 of the CRR, is substantially up-to-date and unchanged from the previous publications of this document. According to the provisions of the CRR, banks are to publish the required information at least annually; the entities themselves are responsible for assessing whether or not the information requested needs to be published more often. The guidelines set out a minimum content consistent with the significance of the reporting entity, with reference in particular to the capital ratios, composition and adequacy of capital, leverage ratio, exposure to risks and the general



characteristics of the systems adopted to identify, measure and manage the risks.

For the information not included in this Disclosure, please refer to the "Basel III Pillar III Disclosure to the Public" as at 30 June 2018; some comparative data may not be fully comparable with the figures included in this half-yearly Disclosure as they were compiled in accordance with IAS 39 previously in force.

The prudential regulation continues to be structured according to three "pillars":

- "Pillar I" introduces a capital requirement to cover the risks which are typical of banking and financial activity, and provides for the use of alternative methodologies to calculate the capital required;
- "Pillar II" requires banks to put in place system and process for controlling capital adequacy (ICAAP) liquidity adequacy (ILAAP), both present and future;
- "Pillar III" introduces obligations in terms of disclosure to the public to allow market operators to make a more accurate assessment of banks' solidity and exposure to risks.

This document published by the Mediobanca Group (the "Group") has been drawn up by the parent company Mediobanca on a consolidated basis with reference to the prudential area of consolidation, including information regarding capital adequacy, exposure to risks and the general characteristics of the systems instituted in order to identify, measure and manage such risks. Disclosure of the Leverage ratio is also provided.

Much of the information in the document has been excerpted from the Group's consolidated financial statements for the twelve months ended 30 June 2018 (a document signed by the Head of Company Financial Reporting as required by Article 154-bis, paragraph 2 of Italian Legislative Decree 58/98 – the Italian Finance Act – and subject to external audit by PricewaterhouseCoopers S.p.A.) as well as the consolidated supervisory reporting. Also used in the preparation of this document were items in common with the capital adequacy



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process (i.e. the ICAAP and ILAAP reports for FY 2017/18). The contents are also consistent with the Annual Statement on Corporate Governance and Ownership Structure", and with the reporting used by the senior management and Board of Directors in their risk assessment and management.

Unless stated otherwise, figures are in €'000, unless otherwise specified.

The Group keeps this document updated on its website at www.mediobanca.com.



References to regulatory disclosure requirements

The tables below provide an overview of where to find the information being disclosed to the market, as required by the EU regulations in force, in particular CRR part VIII and the EBA Guidelines:

- GL/2016/11 – “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013”;
- GL/2017/01 – “Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013”;
- GL/2018/01 – “Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds”.

References to information required by CRR

CRR Article	Reference to Pillar 3 section	Reference to other statutory information at 31/12/18
435 - Risk management policies and objectives	Section 1 - General disclosure requirement	Interim financial statements as at 31/12/18 Notes to the accounts - section E: information on risks and related hedging policies
436 – Scope of application	Section 2 - Scope of application	Interim financial statements as at 31/12/18 Notes to the accounts – section A: Accounting policies
437 – Own funds	Section 3 - Composition of regulatory capital	Interim financial statements as at 31/12/18 Notes to the accounts – section F: Information on consolidated capital
438 – Capital requirements	Section 4 - Capital adequacy	
439 – Exposure to counterparty credit risk	Section 7.1 - Counterparty risk: standard method Section 7.2 - Counterparty risk: AIRB method	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.2, Market risk)



CRR Article	Reference to Pillar 3 section	Reference to other statutory information at 31/12/18
440 – Capital buffers	Section 4 - Capital adequacy	
441 – Indicators of global systemic importance	N/A	N/A
442 –Credit risk adjustments	Section 6.1 - Credit risk: general information for all banks and credit quality tables	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.1, Credit risk)
443 – Unencumbered assets	Section 6.4 - Credit risk: Unencumbered assets	N/A
444 – Use of ECAls	Section 6.2 - Credit risk: use of ECAls	N/A
445 – Exposure to market risk	Section 13 - Market risk	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.2, Market risk)
446 – Operational risk	Section 10 – Operational risk	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.4, Operational risks)
447 – Exposures in equities not included in the trading book	Section 11 – Exposure to equities: information on banking book positions	N/A
448 – Exposure to interest rate risk on positions not included in the trading book	Section 12 - Interest rate risk on banking book positions	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.2, Market risk)
449 – Exposure to securitization positions	Section 9 - Securitizations	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.1, Credit risk)



CRR Article	Reference to Pillar 3 section	Reference to other statutory information at 31/12/18
450 – Remuneration policy	Section 14 - Staff remuneration and incentivization systems and practices (annual disclosure)	Interim financial statements as at 31/12/18 N/A (annual disclosure)
451- Financial leverage	Section 5 - Financial leverage	Interim financial statements as at 31/12/18 Notes to the accounts – section F: Information on consolidated capital
452 – Use of the IRB approach to credit risk	Section 6.3 - Credit risk: AIRB methodology, risk assets	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.1, Credit risk)
453 – Use of credit risk mitigation techniques	Section 8 - Risk mitigation techniques	Interim financial statements as at 31/12/18 Notes to the accounts – section E: information on risks and related hedging policies (section 1.1, Credit risk)
454 – Use of the Advanced Measurement Approaches to operational risk	N/A	N/A
455 – Use of Internal Market Risk models	N/A	N/A
471 – Exemption from deduction of equity holdings in insurance companies from Common Equity Tier 1 items	Section 3 – Composition of regulatory capital	Interim financial statements as at 31/12/18 Notes to the accounts – section F: Information on consolidated capital (section 2, Own funds and supervisory capital requirements for banks)



**References to EBA requisites
(EBA/GL/2016/11, EBA/GL/2018/01 and EBA/GL/2017/01)**

EBA GL/2016/11, EBA GL/2018/01, EBA GL/2017/01			Pillar III as at 31/12/18	
Section	Type of information	Tables	Section (qualitative information)	Tables (quantitative information)
Section 4.3 ** - Risk management, objectives and policies, sections A and B	Qualitative	EU OVA * EU CRA *	Section 1 - General disclosure requirement	
EBA/GL/2017/01	-	LIQ1 *	Section 1 - General disclosure requirement	Table 1.1 Table LIQ1
Section 4.4 - Information on the scope of application of the regulatory framework	Qualitative/ Quantitative	EU LI1* EU LI2* EU LI3* EU LIA*	Section 2 - Scope of application	Table 2.1
Section 4.5 ** – Own funds	Qualitative	Reference to Regulation EU/1423/2013	Section 3 - Composition of regulatory capital	Table 3.1 Table 3.2 Table 3.3.1
Section 4.6 – Capital requirements	Quantitative	EU OV1	Section 4 - Capital adequacy	Table 4.1
Section 4.10 - Credit risk and CRM in the IRB approach , section B	Quantitative			Table 4.6*
Section 4.7 ** – Macro-prudential supervisory measures	Quantitative	Reference to Regulation EU/1555/2015		Table 4.7 * Table 4.8 *
EBA/GL/2018/01	Qualitative/ Quantitative	IFRS9-FL		Table 4.2 Table IFRS9-FL
Section 4.15 ** – Leverage ratio	Quantitative	Reference to Regulation EU/200/2016 LrCom LrSum LrSpl		Section 5 - Financial leverage



EBA GL/2016/11, EBA GL/2018/01, EBA GL/2017/01			Pillar III as at 31/12/18	
Section	Type of information	Tables	Section (qualitative information)	Tables (quantitative information)
Section 4.8 – Credit risk and general information on CRM, sections A and B	Qualitative/ Quantitative	EU CRB-A	Section 6.1 - Credit risk: general information for all banks and credit quality tables	From Table 6.1.1 to 6.1.10
Section 4.9 – Credit risk and CRM in the standardised approach , section B	Quantitative	EU CR4		Table 6.1.9 Table 6.1.10
Section 4.9 – Credit risk and CRM in the standardized approach, section A	Qualitative	EU CRD*	Section 6.2 - Credit risk: ECAI	
Section 4.10 – Credit risk and IRB in the standardized approach, section B	Qualitative	EU CRE	Section 6.3 – Credit risk: information on portfolios subject to AIRB method	Table 6.3.1 Table 6.3.2 Table 6.3.3* Table 6.3.4
Section 4.10 - Credit risk and CRM in the IRB approach , section B	Quantitative	EU CR6 EU CR7 EU CR8 EU CR9*		
Section 4.12 ** – Unencumbered assets	Quantitative	Reference to EBA Guidelines EBA/GL/03/2014	Section 6.4 - Credit risk: Unencumbered assets	Table 6.4.1 * Table 6.4.2 *
Section 4.3 **– Risk management, objectives and policies, section B	Qualitative	EU CCRA *	Section 7.1 - Counterparty risk: standard method	Tables from 7.1.1 to 7.1.17
Section 4.11 – CCR, section B	Quantitative	EU CCR4	Section 7.2 - Counterparty risk: IRB	Table 7.2.1
Section 4.8 – Credit risk and general information on CRM, section C	Qualitative	EU CRC *	Section 8 - Risk mitigation techniques	Table 8.1
Section 4.8 – Credit risk and general information on CRM, section D	Quantitative	EU CR3		Table 8.3
			Section 9 - Securitizations	Table 9.1 Table 9.2



EBA GL/2016/11, EBA GL/2018/01, EBA GL/2017/01			Pillar III as at 31/12/18	
Section	Type of information	Tables	Section (qualitative information)	Tables (quantitative information)
			Section 10 - Operational risk	
			Section 11 – Exposure to equities: information on banking book positions	Table 11.1 Table 11.2
			Section 12 - Interest rate risk on banking book positions	Table 12.1
Section 4.3 ** - Risk management, objectives and policies, section B	Qualitative	EU MRA *	Section 13 - Market risk	Tables from 13.1 to 13.3
Section 4.13 – Market Risk, section A	Quantitative	EU MR1	Section 13 - Market risk	Table 13.4
Section 4.14 ** - Remuneration	Qualitative	Reference to Directive EU/36/2013	Section 14 - Remuneration and incentivization systems and practices *	

* Annual disclosure.

** Disclosure required under point 8 of EBA/GL/2016/11; the other sections of the guidelines apply on a voluntary basis as and where appropriate.



Section 1 – General disclosure requirement

Qualitative information

Description of risk governance organization

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

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on



matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; and the Private Investments Committee, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

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

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the coordination of the Risk Management unit at parent company Mediobanca S.p.A. (the Group Risk Management unit), which also performs specific activities for the parent company scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in strategic planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring



and managing credit, market and counterparty risks, formulates the credit risk management policies, and carries out second-level controls; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator; iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; v) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and is responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Group's Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and coordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

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 RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank's capability in terms of governing its own company risks, and also ensuring sustainable growth over the medium and long



term. In this connection, the Group has developed a Risk Appetite Framework governance model which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, Mediobanca:

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

For the purposes of defining the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the four framework risk pillars, in line with best international practice: capital adequacy; liquidity; bank-specific factors; conduct/operational risk. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each dimension analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular



no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Mediobanca Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate ratio between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

Credit risk

With reference to the authorization process to use AIRB models to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books. As 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 (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). On 12 December 2018, CheBanca! received authorization to use internal PD and LGD models to calculate the credit risk deriving from its Italian mortgage loans. The adoption of models for reporting purposes is conditional upon the PD metrics being revised for certain sub-portfolios. Actual usage of the models will therefore begin from 1Q 2019.

Details by individual business segment

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

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time readings. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.



Leasing (SelmaBipiemme)

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).

The activities of analysis, disbursement, monitoring and credit risk control are significantly supported by the company's information system; and the assets being leased are also subject to a technical assessment.

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

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. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured basis according to internal PD ratings and LGD parameters. To define the PD parameters, the through-the-cycle transition matrices for the management models based on internal data are used, which are then converted into point-in-time readings. The forward-looking component is factored in by applying the internal scenarios defined to the PD readings. The LGD readings for the exposures differ according to type of product (vehicle leasing, core goods, yachts and property), and are subjected to the same macroeconomic scenarios defined internally to obtain forward-looking data.



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, to ensure that applications and credit scoring results are processed and transmitted swiftly. Under the system of powers for approval assigned by the company's Board of Directors, for increasing combinations of amount and expected loss, approval is required from 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 established, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies (in which Group company MBCredit Solutions may also participate), for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. To define the PD parameters, the through-the-cycle transition matrices from the management models based on internal data are used, which are then converted to point-in-time data. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in by applying the internal scenarios defined to the PD readings, whereas the LGD parameters are defined based on



the internal models estimated on the basis of internal rates of recovery experienced.

Factoring (MBFacta)

Factoring includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which in virtually all cases is a retail customer).

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

Non-performing exposures are quantified analytically, for corporate counterparties, based on similar clusters to those identified for retail exposures. The portfolio of performing assets is valued on the basis of PD and LGD parameters. To define the PD parameters, the revised indicators supplied by external providers are used, or indicators estimated internally based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the relevant process apply.

NPL business (MBCredit Solutions)

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



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

Private Banking (Mediobanca and CMB)

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

Loans themselves are normally guaranteed, i.e. backed by endorsements or real guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

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



the size of the loan, guarantees and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing is made on an individual basis, and takes into account the value of the real guarantees provided. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees. The LGD values used differ according on the type of guarantee involved.

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. A new valuation is generally requested for properties established as security for positions which have become non-performing.

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

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



accounts, and generally become non-performing once the ineffectiveness of the recovery actions has been certified.

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

Provisioning is determined analytically for non-performing items and based on clusters of similar positions identified for probable default, other overdue and performing accounts. For the analytical provisions for non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. Also factored in are scenarios related to the strategies for selling non-performing mortgages. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time readings. The forward-looking component is factored in by applying the internal scenarios to the PD readings. The LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models.

Credit Value Adjustment (“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 via derivative products and collateralized loans (repos and securities lending transactions) with clients or



institutional counterparties is measured in terms of potential future market value. the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) via a Monte Carlo simulation method at various points on a time horizon which covers the lifetime of the instrument being analysed. The method takes 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

Exposure to financial risks on the trading book, which within the Group affects only Mediobanca S.p.A., is measured on a daily basis by calculating the following main indicators:

- Sensitivity – chiefly delta and vega – 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 these 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 daily and monthly 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 more effectively other risks on trading positions that are not fully measured by VaR and sensitivity analysis. 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.

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

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

Further information on operational risk is provided in section 10.

Interest rate risk on the banking book

This 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 parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

Conversely, the sensitivity of economic value measures the impact of future flows on the current value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS).

All the scenarios present a floor set by the Basel Committee guidelines (BCBS) at minus 1.5% on the demand maturity with linear progression up to 0% at the 30 year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from current account deposits for retail clients, which have been treated on the basis of behavioural models, and Compass consumer credit items (which reflect the possibility of early repayment).

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

Hedge accounting

As for the IFRS 9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS 39, the Group has nonetheless



chosen to opt into the new general hedging criteria, with no significant impact as a result.

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months).

– **Fair value hedges**

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

– **Cash flow hedges**

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged



by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Group uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Financial leverage risk

The leverage ratio, which is calculated as the ratio between an entity's CET1 equity and its aggregate borrowings, measures the extent to which capital is able to cover its total exposures (including cash exposures net of any deductions from CET equity and off-balance-sheet exposures); the Basel Committee has introduced a minimum regulatory limit of 3%, which will come into force on a date to be stipulated in the new version of the CRR which is currently in the approval process.

The objective of the indicator is to ensure that the level of indebtedness remains low compared to the amount of own funds available. The ratio measures the degree of leverage accurately by managing the risk of excessive financial leverage.

The ratio is monitored on a regular basis by the Group, as part of its quarterly reporting requirements, at both individual and consolidated level (COREP), and is one of the metrics which the Bank has identified in its Risk Appetite Framework, specifying warning and limit levels for different areas as part of its risk appetite quantification activity.

Liquidity risk

Liquidity risk is defined by drawing a distinction between risks which refer to the short term (known as "liquidity risk") and risks which refer to the long term ("funding risk"):

- Liquidity risk is the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;



— Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to meet its own financial requirements without incurring an excessive increase in the cost of financing.

Within the Mediobanca Group, liquidity and funding risk is governed by the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. The Regulations set out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system and the contingency funding plan.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated level.

The Regulations assign various important duties to the Board of Directors, including:

- Definition and approval of the guidelines and strategic direction;
- Responsibility for ensuring that the risk governance system is fully reliable;
- Monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The issues most relevant to liquidity risk are discussed by the Group ALM Committee which defines the asset and liability structure and related risk taking,



directing management in line with the commercial and financial objectives set in the budget and the Group RAF.

The parent company units responsible for ensuring that the Regulations are applied accurately are:

- Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
- Business & Capital Planning unit supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
- Risk Management, in compliance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring losses.

The Mediobanca Group short-term liquidity policy is intended to ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

The 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 marketable securities) and the cumulative net cash outflows.

The system of limits is structured on the basis of the normal course of business up to a time horizon of three months, with an early warning system if the limit is



approached. The short-term liquidity monitoring is supplemented by stress testing which assumes three scenarios ("Italy downgrade", "Name crisis", and "Combined") described in the Regulations.

As at 31 December 2018, the counterbalancing capacity stood at €12.3bn, €12.1bn of which in the form of bonds deliverable in exchange for cash from the ECB (€10.1bn as at 30 June 2018, €8.7bn of which deliverable bonds); while the balance of liquidity reserves established at the European Central bank amounted to €5.6bn (unchanged from the amount recorded for the previous six-month period), approx. €1.3bn of which in the form of cash not used and hence qualifying as part of the counterbalancing capacity.

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 at least 90% of outflows for maturities of more than one and three years.

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

In accordance with the Regulations, the Group monitors and records the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the period under review, both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, remained well above the limits set under the regulation in force of 100% at all times. In particular, the LCR as at 31 December 2018 stood at 210%. Although the ratio reflects a sufficiently high level of highly liquid assets, they are mostly concentrated in Level 1 assets issued by sovereign entities. To mitigate this level of concentration, the Mediobanca, has introduced diversification between issuers, holding securities issued by the Italian state but also a significant component of securities issued by the French and German governments too.



In order to manage and monitor foreign currency misalignment, the Mediobanca Group carries out regular checks to ascertain that liabilities held in a foreign currency are not equal to or higher than 5% of the total liabilities. If the limit set by Regulation (EU) 575/2013 is breached for a given currency, this means it qualifies as “significant” and that the entity is obliged to calculate the LCR in that currency. As at 31 Dicembre 2018, the currencies which qualify as “significant” at consolidated level are the Euro (EUR) and the US dollar (USD). Monitoring possible currency misalignments between highly liquid assets and net cash flows, shows that the Group is able to meet possible mismatches in part through its holding HQLAs denominated in USD and in part due to its easy access to the forex market to transform excess liquidity in EUR into USD.

The Mediobanca Group executes derivative contracts (both with central counterparties and OTC) which are sensitive to different types of risk factors. Changes in market conditions, influencing potential future exposures to this type of derivative contract, could introduce commitments in terms of liquidity, in respect of which collateral may be requested in cash or in other financial instruments to the occurrence of adverse market movements. The Group adopts the Historical Look Back Approach to quantify any increase in the collateral requested. The amounts thus determined are included among the additional outflows for the LCR indicator, thereby contributing to the determination of the Liquidity Buffer. The risk of incurring such outflows is mitigated by holding highly liquid assets to hedge them.

The sustainability of the LCR and NSFR indicators, which are included in the Group Risk Appetite Framework, is also analysed in preparing the Group Funding Plan, through future analysis over a three-year time horizon, with monitoring and half-yearly updates.

The Group Funding Plan guarantees that the funding structure is balanced relative to the planned uses of funds, and has the further objective of assessing the capability to access the capital markets and define a strategy to optimize the cost of funding.

The adequacy and the cost of funding are guaranteed by ongoing diversification. The main sources of funding for the Mediobanca Group consist of:



(i) deposits deriving from the retail domestic market, (ii) funding from institutional clients, split between collateralized funding (secured financing transactions, covered bonds and ABS) and non-collateralized funding (debt securities, CD/CP and deposits from institutional clients), and (iii) refinancing transactions with the Eurosystem.

During the six months under review, the Group has been able to meet its funding budget targets, thanks to its capability to vary the composition of its liabilities with a view to optimizing the cost based on the same quantity, despite the European Central Bank completing and gradually exiting from the quantitative easing programme and despite the instability of the Italian scenario.

Against redemptions of senior securities totalling €1.5bn, issues of €1.65bn were placed, €300m of which senior unsecured, €600m in securitizations of Compass Banca loans, and €750m in covered bonds with six-year maturity. In addition, there was also €800m in secured financing and €300m in interbank loans with maturities of longer than 24 months. Funding from the European Central Bank through refinancing activities remained unchanged at €4.3bn.

In addition to the processes described above, an event governance model has also been defined, known as the Contingency Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

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

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors or from situations which are specific to the Banking Group itself.



To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

- An adequate level of high-quality, highly liquid assets to offset any mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable early warning indicator system.

In October 2018, the Mediobanca Group's governing bodies, as part of the ILAAP process, approved the Liquidity Adequacy Statement (or LAS), declaring, by means of a self-assessment process, the degree of adequacy in managing liquidity risk and the liquidity position. In this self-assessment, the Mediobanca Group expresses a high level of confidence in the liquidity management process adopted, considering it to be adequate in order to govern the Group both to implement the business model adopted and to cope with any adverse events that should occur. The governing bodies have also expressed a high degree of satisfaction in their assessment of the liquidity profile assumed. On the basis of qualitative and quantitative analysis, indications have been given to the relevant authority regarding the conformity of the liquidity position, current and future, to the strategies and risk tolerance expressed by the governing bodies.

The table below presents the quantitative information on the Group's Liquidity Coverage Ratio (LCR), measured in accordance with the European regulations (CRR and CRD IV) and subject to monthly reporting to the relevant authorities. The data shown have been calculated as the simple average of the month-end readings recorded in the twelve months prior to the end of each quarter.



Table 1.1 EU LIQ1 – Liquidity Coverage Ratio (LCR) disclosure template and additional information

		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		mar-18	jun-18	sept-18	dec-18	mar-18	jun-18	sept-18	dec-18
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
(€ mln)									
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid					6,351	5,982	6,297	6,886
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	15,019	15,192	15,520	15,974	1,139	1,164	1,202	1,253
3	Stable deposits	9,732	9,816	9,930	10,118	487	491	497	506
4	Less stable deposits	5,287	5,376	5,590	5,856	653	673	706	747
5	Unsecured wholesale funding	3,441	3,400	3,664	3,758	1,843	1,921	2,173	2,175
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	469	407	380	353	98	83	76	70
7	Non-operational deposits (all counterparties)	2,614	2,600	2,799	3,071	1,387	1,445	1,612	1,771
8	Unsecured debt	358	394	484	334	358	394	484	334
9	Secured wholesale funding					931	1,322	1,648	1,733
10	Additional requirements	6,927	7,456	7,777	7,643	1,711	1,761	1,854	1,827
11	Outflows related to derivative exposures and other collateral requirements	1,069	1,171	1,097	893	573	564	558	499
12	Outflows related to loss of funding on debt products	—	—	—	—	—	—	—	—
13	Credit and liquidity facilities	5,858	6,285	6,680	6,750	1,138	1,197	1,297	1,327
14	Other contractual funding obligations	1,388	1,414	1,585	1,745	635	595	745	823
15	Other contingent funding obligations	1,560	1,628	1,617	1,568	341	351	359	343
16	TOTAL CASH OUTFLOWS					6,601	7,114	7,982	8,154
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	4,127	4,707	5,227	5,177	1,973	2,156	2,192	2,014
18	Inflows from fully performing exposures	1,397	1,527	1,602	1,701	1,013	1,126	1,236	1,321
19	Other cash inflows	1,328	1,578	1,641	1,725	678	937	1,013	1,106
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					—	—	—	—
20	TOTAL CASH INFLOWS	6,853	7,812	8,470	8,603	3,664	4,220	4,441	4,441
EU-20a	Fully exempt inflows	—	—	—	—	—	—	—	—
EU-20b	Inflows subject to 90% cap	—	—	—	—	—	—	—	—
EU-20v	Inflows subject to 75% cap	6,410	7,092	7,635	7,819	3,664	4,220	4,441	4,441
21	LIQUIDITY BUFFER					6,351	5,982	6,297	6,886
22	TOTAL NET CASH OUTFLOWS					2,954	2,931	3,541	3,713
23	LIQUIDITY COVERAGE RATIO (%)					215%	204%	178%	185%

Other risks

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

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

- **Equity shares risk** for the “held to collect and sale” (“HtCS”) portfolio, related to the potential value reduction of equity investments, listed or unlisted, included within the HtCS portfolio deriving from negative fluctuations of financial markets or from certain counterparties downgrade (when not already considered into other risk categories);
- **Sovereign risk**, related to the possible downgrade of countries or Central Banks to whom the Group is exposed;
- **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.

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.



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 IFRS10 “Consolidated financial statements”, IFRS11 “Joint arrangements” and IFRS12 “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 events in the six months should be noted:



MEDIOBANCA

- The liquidation procedure for MB Advisory Turkey commenced in July 2018;
- Conversely, the liquidation procedure for Quarzo MB (owned by Mediobanca S.p.A.) was completed and the company's name removed from the company register, as was the liquidation of Société Monégasque des Études Financières ("SMEF"), owned CMB S.A.

There were no new additions to the scope of consolidation during the period under review.



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. Prominvestment 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	99.92	99.92
8. CMB Asset Management S.A.M.	Montecarlo	1	A.1.6	99.3	99.4
9. CMB Wealth Management Limited	London	1	A.1.1	100.-	100.-
10. Mediobanca International (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.-	99.-
			A.1.12	1.-	1.-
11. Compass Banca S.p.A.	Milan	1	A.1.1	100.-	100.-
12. CheBanca! S.p.A.	Milan	1	A.1.1	100.-	100.-
13. MBCredit Solution S.p.A.	Milan	1	A.1.12	100.-	100.-
14. SelmaBipiemme Leasing S.p.A.	Milan	1	A.1.1	60.-	60.-
15. MB Funding Luxembourg S.A.	Luxembourg	1	A.1.1	100.-	100.-
16. Ricerche e Studi	Milan	1	A.1.1	100.-	100.-
17. Mediobanca Securities USA LLC.	New York	1	A.1.1	100.-	100.-
18. MBFACTA S.p.A.	Milan	1	A.1.1	100.-	100.-
19. Quarzo S.r.l.	Milan	1	A.1.12	90.-	90.-
20. Futuro S.p.A.	Milan	1	A.1.12	100.-	100.-
21. Quarzo CQS S.r.l.	Milan	1	A.1.21	90.-	90.-
22. Mediobanca Covered Bond S.r.l.	Milan	1	A.1.13	90.-	90.-
23. Compass RE (Luxembourg) S.A.	Luxembourg	1	A.1.12	100.-	100.-
24. Mediobanca International Immobiliere S.A R.L.	Luxembourg	1	A.1.11	100.-	100.-
25. MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	Istanbul	1	A.1.1	100.-	100.-
26. Cairn Capital Group Limited	London	1	A.1.1	100.- *	51.-
27. Cairn Capital Limited	London	1	A.1.28	100.-	100.-
28. Cairn Capital North America Inc.	Stamford (US)	1	A.1.28	100.-	100.-
29. Cairn Capital Guarantee Limited (non operating)	London	1	A.1.28	100.-	100.-
30. Cairn Capital Investments Limited (non operating)	London	1	A.1.28	100.-	100.-
31. Cairn Investment Managers Limited (non operating)	London	1	A.1.28	100.-	100.-
32. Amplus Finance Limited (non operating)	London	1	A.1.28	100.-	100.-
33. Spafid Family Office SIM	Milan	1	A.1.3	100.-	100.-
34. Spafid Trust S.r.l.	Milan	1	A.1.3	100.-	100.-
35. Mediobanca Management Company S.A.	Luxembourg	1	A.1.1	100.-	100.-
36. Mediobanca SGR S.p.A.	Milan	1	A.1.1	100.-	100.-
37. RAM Active Investments S.A.	Geneva	1	A.1.1	89.3 **	69.-
38. RAM Active Investments (Luxembourg) S.A.	Luxembourg	1	A.1.39	100.-	100.-

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

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

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 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 2017.¹ At 31 December 2018, the authority asked Mediobanca to maintain a CET ratio of 7.654% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.154%): these figures include the transitional regime for the capital conservation buffer of 1.875%, as opposed to 2.50% when fully operative from 2019, and the counter-cyclical capital buffer, calculated considering the exposure in the different member states at 31 December 2018.

Based on the new body of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) issued by the European Parliament in 2013 and enacted in Italy in Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limits versus insurance groups, equal to 20% of the limit for related parties).

¹ Following the results of the supervisory review and evaluation process from the supervisory authority (the "SREP 2018 Decision") received on 5 February 2019, the authority has asked Mediobanca to maintain, as from March 2019, a CET1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2 ("P2R") requirement of 1.25%, unchanged from last year, bearing out the Group's asset quality and the adequacy of its risk management and the capital conservation buffer at its full level of 2.50%.



On 4 December 2018, Ecofin approved the proposal² of the Parliament and of the European Commission for the revision of the Capital Requirement Regulation (CRR), in which the Article 471 has been amended, on one side, extending its transitional effectiveness to 31 December 2024 and, on the other, providing for the right not to deduct the investment in insurance entities, based on the adequacy of monitoring investment risk. For effect of this change, it is reasonable to believe that Mediobanca can continue to not deduct the full participation in Assicurazioni Generali³ by opting for the weighting at 370%.

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €606.3m of the positive FVOCI financial assets reserves, €18.8m of which in government securities and €521.9m deriving from Assicurazioni Generali being equity-consolidated) and the profit for the period (€238m, net of the estimated payout). The deductions regard: treasury shares (€234m), including €151m already owned as at 31 December 2018 and commitments to buy totalling €83m to reach 3% of the share capital (as approved by shareholders in annual general meeting and authorized by the ECB in October 2018⁴), intangible assets (€131.2m), goodwill of €621.2m, and other prudential adjustments of €43.6m in connection with the values of financial instruments (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €1,686.1m were deducted, €1,409.7m of which in respect of the Assicurazioni Generali investment and €103.3m in respect of Compass RE.

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

Tier 2 capital includes subordinated liabilities, down from €1,819.4m to €1,669,7m due to amortization. No subordinated tier 2 issue benefits from the grandfathering permitted under Articles 483 of the CRR. The buffer, which consists of the higher accounting adjustments to cover the expected losses, totalled €12.5m (30/6/18: €9.2m).

² The amended Regulation will be published in the Official Journal after the formal approval by the Council and Parliament.

³ Subject to compliance with the concentration limits

⁴ In accordance with the provisions of Commission Delegated Resolution (EU) no. 241/2014 of 7 January 2014 supplementing Regulation (EU) no. 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions.



Quantitative information

Table 3.1 – Bank equity

	31/12/18	30/6/18
A. Common equity tier 1 (CET1) prior to application of prudential filters	8,958,930	9,285,623
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(10,190)	(12,852)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	8,948,740	9,272,771
D. Items to be deducted from CET1	(3,463,601)	(3,518,758)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	1,101,433	992,586
F. Total common equity tier 1 (CET1) (C-D+E)	6,586,572	6,746,599
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,682,183	1,828,666
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	—	—
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+O)	1,682,183	1,828,666
Q. Total own funds (F+L+P)	8,268,755	8,575,265



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

Information on own funds	Amount at disclosure date
1 Capital instruments and the related share premium accounts	2,638,237
of which: Instrument type 1	2,638,237
2 Retained earnings	6,086,307
3 Accumulated other comprehensive income and other reserves	418,209
5 Minority Interests	50,198
6 Common Equity Tier 1 (CET1) capital: regulatory adjustments	9,192,951
Common Equity Tier 1 (CET1) capital: regulatory adjustments	(996,694)
7 Additional value adjustments	(32,673)
8 Intangible assets (net of related tax liability)	(752,387)
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(98)
11 Fair value reserves related to gains or losses on cash flow hedges	33,414
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(10,931)
15 Defined-benefit pension fund assets (negative amount)	—
16 Direct and indirect holdings by an institution of own CET1 instruments	(234,020)
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector or entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	—
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector or entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(2,607,821)
20 Empty Set in the EU	
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	
20b of which: qualifying holdings outside the financial sector (negative amount)	
20c of which: securitisation positions (negative amount)	
20d of which: free deliveries (negative amount)	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	
22 Amount exceeding the 15% threshold (negative amount)	(103,296)
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	(91,412)
24 Empty Set in the EU	
25 of which: deferred tax assets arising from temporary differences	
25a Losses for the current financial year (negative amount)	
25b Foreseeable tax charges relating to CET1 items (negative amount)	
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	—
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution	—
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	1,101,433
29 Total Capital Tier 1 (CET1)	6,586,572



Table 3.2 (cont.)

Information on own funds	Amount at disclosure date
Additional Tier 1 (AT1) capital: instruments	—
30 Capital instruments and the related share premium accounts	—
31 of which: classified as equity under applicable accounting standards	
32 of which: classified as liabilities under applicable accounting standards	
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	
Public sector capital injections grandfathered until 1 January 2018	
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	
35 of which: instruments issued by subsidiaries subject to phase out	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	
Additional Tier 1 (AT1) capital: regulatory adjustments	—
37 Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
39 Direct and indirect holdings of the AT1 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) (negative amount)	
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	
41 Regulatory adjustments applied to additional tier 1 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)	
41a Residual amounts deducted from Additional Tier 1 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	
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, short fall of provisions to expected losses etc	
41 Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	
b Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	
41c Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	
44 Additional Tier 1 (AT1) capital	
45 Tier 1 capital (T1 = CET1 + AT1)	6,586,572
Tier 2 (T2) capital: instruments and provisions	1,682,183
46 Capital instruments and the related share premium accounts	1,669,723
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	
49 of which: instruments issued by subsidiaries subject to phase out	
50 IRB Excess of provisions over expected losses eligible	12,460
51 Tier 2 (T2) capital before regulatory adjustments	
Tier 2 (T2) capital: regulatory adjustments	—
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
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)	—
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	—
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)	—
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	—
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	—
56c Amount to be deducted from or to be added to T2 capital with respect to additional filters and deductions pursuant to pre-CRR treatment	—
58 Tier 2 (T2) capital	1,682,183
59 Total capital (TC = T1 + T2)	8,268,754
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out	—
60 Total risk weighted assets	47,487,589



Table 3.2 (cont.)

Information on own funds		Amount at disclosure date
Capital ratios and buffers		
61	Common Equity Tier 1	13.87%
62	Tier 1	13.87%
63	Total capital	18.11%
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)	3,032,261
65	of which: capital conservation buffer requirement	888,050
66	of which: countercyclical buffer requirement	12,891
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	3,032,261
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)	790,800
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)	819,626
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)	106,558
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	12,460
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	55,200
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	



Table 3.3.1 – Reconciliation of net equity and owns funds

Equity constituents	31/12/18	30/6/18
Share capital	460,150	459,918
Share premiums	2,196,564	2,193,591
Reserves	5,936,442	5,559,032
Equity instruments		
(Treasury shares)	(167,608)	(109,338)
Valuation reserves:	415,565	761,276
- HTC securities	84,299	121,540
- Property, plant and equipment	—	—
- Intangible assets	—	—
- Foreign investment hedges	—	—
- Cash flow hedges	(17,914)	(18,569)
- Exchange rate differences	(6,696)	(8,899)
- Non-current assets being sold	—	—
- Actuarial profits (losses) on defined-benefit pension schemes	(6,108)	(6,163)
- Equity-accounted companies' share of valuation reserves	352,352	663,735
- Special revaluation laws	9,632	9,632
Profit (loss) for the period attributable to the Group and minorities	452,982	867,726
Net equity	9,294,095	9,732,205
Dividends	(215,275)	(412,814)
Share attributable to ineligible minorities	(36,501)	(33,768)
CET1 pre-application of prudential filters, phase-in adjustments and deductions	9,042,318	9,285,623
Prudential filters ¹	(846,062)	(765,649)
Phase-in adjustments ²	76,391	—
Deductions	(1,686,075)	(1,773,375)
CET1	6,586,572	6,746,599
Subordinated loans eligible as Tier 2 instruments	1,669,723	1,819,428
IRB Excess of provisions over expected losses eligible	12,460	9,238
Phase-in adjustments	—	—
Deductions	—	—
Tier 2 equity	1,682,183	1,828,666
Own funds	8,268,755	8,575,265

¹ This heading reflects the deduction of Mediobanca not yet bought back but which may potentially be bought back (83 million) up to the limits set in the buyback scheme authorized by the ECB in October 2018 (the maximum amount that can be bought back is equal to 3% of the share capital).

² The adjustments reflect application of the IFRS 9 phase-in provisions.



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.⁵

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 31 December 2018, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 13.87%, lower than at 30 June 2018 (14.24%) due chiefly to the treasury share buyback scheme launched (which accounted for 38 bps). RWAs were basically stable during the six months under review: much of the growth in CIB (of €0.3bn) and Consumer Banking (€0.2bn) was offset by the reduction in PI (down €0.3bn), on a €0.1bn reduction in the book value of the Holding Functions division. It should be noted that since EBA opinion no. 2017_3270 was issued in September 2018, the

⁵ The most recent stress testing exercise confirmed the Group's solidity, with an adverse impact on CET1 fully loaded of just 182 bps, one of the lowest levels among EU banks.



weighting applied to the non-performing loans acquired by Mediobanca Credit Solutions has been increased from 100% to 150%, leading to an increase in RWAs of approx. €0.2bn (in the CIB segment). Conversely, the total capital ratio declined from 18.11% to 17.41%.

Fully-loaded ratios, without Danish compromise (i.e with the Assicurazioni Generali investment deducted), stood at 12.52% (CET1 ratio) and 16.36% (total capital ratio), slightly lower than six months previously when they stood at 13.15% and 17.32% respectively.

Quantitative information

Table 4.1 - Capital adequacy

Categories/Values	Unweighted amounts ¹		Weighted amounts/requirements	
	30/6/18	30/6/17	30/6/18	30/6/17
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	66,539,905	65,110,914	40,455,583	40,479,850
1. Standardized methodology	50,590,485	49,338,183	31,155,392	31,415,612
2. Methodology based on internal ratings	15,782,109	15,611,090	9,199,959	8,936,201
2.1 Basic	—	—	—	—
2.2 Advanced	15,782,109	15,611,090	9,199,959	8,936,201
3. Securitizations	167,311	161,641	100,232	128,037
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,236,447	3,238,388
B.2 Credit value adjustment risk			46,250	49,724
B.3 Settlement risk			—	—
B.4 Market risks			204,502	189,093
1. Standard methodology			204,502	189,093
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risks			311,808	311,808
1. Basic method			311,808	311,808
2. Standardized method			—	—
3. Advanced method			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			3,799,007	3,789,013
C. RISK-WEIGHTED ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,487,589	47,362,665
C.2 CET1/RWAs (CET1 capital ratio)			13.87%	14.24%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			13.87%	14.24%
C.4 Total capital/RWAs (total capital ratio)			17.41%	18.11%

¹ For the standardized methodology, "unweighted amounts", as required by the regulations, refer to the exposure value net of the prudential filters, CRM techniques and CCFs. For the AIRB methodology, "unweighted amounts" refer to the Exposure At Default (EAD). For guarantees issued and commitments to disburse funds, calculation of the EAD also factors in the CCFs.



Table 4.2 -- Own funds, capital and leverage ratios under IFRS 9/analogous ECLs transitional arrangements compared to fully loaded IFRS 9/analogous ECLs (EU IFRS9-FL)

	31/12/18	30/6/18
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	6,586,572	6,746,599
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,489,722	6,645,869
3 Tier 1 capital	6,586,572	6,746,599
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,489,722	6,645,869
5 Total capital	8,268,755	8,575,265
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,171,905	8,474,535
Risk-weighted assets (amounts)		
7 Total risk-weighted assets	47,487,589	47,362,665
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	47,411,887	47,383,568
Capital ratios		
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	13.87%	14.24%
# Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.69%	14.03%
# Tier 1 (as a percentage of risk exposure amount)	13.87%	14.24%
# Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.69%	14.03%
# Total capital (as a percentage of risk exposure amount)	17.41%	18.11%
# Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.24%	17.88%
Leverage ratio		
# Leverage ratio total exposure measure	77,541,097	76,858,339
# Leverage ratio	8.49%	8.78%
# Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.37%	8.65%



Section 5 – Financial leverage

Qualitative information

In January 2015, the Basel Committee introduced the leverage ratio as an indicator to keep down borrowings and reduce excessive recourse financial leverage in the banking sector. The indicator is calculated from the ratio between regulatory Tier 1 capital and the Group's overall aggregate exposure, which includes assets net of any deductions from Tier 1, and the off-balance-sheet exposures as well. The minimum regulatory level set by the Committee is 3%, and will come into force in conjunction with the revised version of the CRR which is currently at the approval stage.

The ratio is calculated on a quarterly basis, point-in-time at the end of the three months, on an individual and consolidated basis, and is subject to monitoring having been identified as one of the reference metrics in the Risk Appetite Framework for managing risks and preserving the Group's capital adequacy.

The CRR and Commission Delegated Regulation (EU) 62/2015 (introduced in order to harmonize the methods used for calculating the leverage ratio) lay down the means by which the ratio is to be calculated, stipulating in particular that:

- Derivative contracts must be valued using the Current Exposure Method, i.e. the sum between net market value, if positive, and potential future exposure, with the possibility if certain conditions are met of deducting the margin of change in cash from the value of the exposure; for credit derivatives sold, the ratio can be measured on the basis of the gross notional amount rather than at fair value, with the possibility of deducting the changes in fair value recorded through the profit and loss account from the notional amount (as negative components); protection sold can also be offset by protection acquired if given criteria are respected;
- In secured financing transactions real guarantees received cannot be used to reduce the value of the exposure for such transactions, whereas cash receivables and payables deriving from such transactions can be offset if



certain very strict criteria are met and providing the transaction are with the same counterparty;

- The other off-balance-sheet exposures reflect the credit conversion factors;
- The other exposures are recognized at the book value remaining following application of the specific loan loss provisions, supplementary value adjustments and other reductions to own funds in respect of the asset item.

Since 30 June 2016, the Mediobanca Group has published its leverage ratio in this document based on the provisions contained in the Commission Delegated Regulation, and since 30 September 2016 (first reference date, six months after the regulation was published in the Official Journal of the European Union), the reporting flows have also been produced in accordance with the provision of the Commission Delegated Regulation and the Commission Implementing Regulation.

Quantitative information

The table below shows the readings for the Mediobanca Group leverage ratio as at 30 June 2018, stated in accordance with the principles set forth in the CRR, the provisions of Commission Delegated Regulation 62/2015 and Commission Implementing Regulation EU 200/2016.



Table 5.1 – LRCom – Leverage ratio common disclosure

On-balance-sheet exposures (excluding derivatives and SFTs)		31/12/18	30/6/18
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	64,462,875	66,360,445
2	Asset amounts deducted in determining Basel III Tier 1 capital - phase-in regime	(1,686,075)	(1,773,375)
3	Total on-balance-sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	62,776,801	64,587,070
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1,260,860	1,252,200
5	Add-on amount for PFE associated with all derivatives transactions (mark-to-market method)	1,607,797	1,311,100
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)	(473,533)	(461,896)
8	(Exempted CCP leg of client-cleared trade exposures)	—	(188,730)
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)	2,395,124	1,912,674
Securities financing transaction exposures (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,258,199	5,360,479
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(4,039,590)	(2,308,771)
14	CCR exposure for SFT assets	2,811,683	2,015,560
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)	(188,451)	(202,117)
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	6,841,841	4,865,151
Other off-balance-sheet exposures			
17	Off-balance-sheet exposure at gross notional amount	9,924,798	10,628,200
18	(Adjustments for conversion to credit equivalent amounts)	(4,397,468)	(5,134,756)
19	Off-balance-sheet items (sum of lines 17 and 18)	5,527,330	5,493,444



(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	6,586,572	6,746,599
21	Total exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	77,541,096	76,858,339
Leverage ratio			
22	Basel III leverage ratio	8.49%	8.78%
Choice of transitional arrangements and amount of derecognized fiduciary items			
EU-23	Choice of transitional arrangements for definition of capital measure	Tier 1 with Danish Compromise	Tier 1 with Danish Compromise
EU-24	Amount of derecognized fiduciary items pursuant to Article 429, para. 11 of EU regulation 575/2013	—	—



The leverage ratio as at 31 December 2018, calculated in accordance with the new provisions of Commission Delegated Regulation 62/2015 and those for defining the measurement of capital (Tier1 capital with Danish Compromise) was 8.49%. The reduction from the 8.78% at 30 June 2018 was due to the reduction in capital as a result of launch of the buyback scheme.

The fully-loaded ratio (i.e. without the Assicurazioni Generali investment being weighted at 370% for purposes of calculating Tier1 capital) stood at 7.07% (30/6/18: 7.49%).

Table 5.2 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

Summary comparison of accounting assets vs leverage ratio exposure		31/12/18	30/6/18
1	Total consolidated assets as per published financial statements	76,531,114	72,300,522
2	Adjustment for investments that are consolidated for accounting purposes but outside the scope of regulatory consolidation *	137,516	136,468
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	(1,552,432)	(753,476)
5	Adjustment for securities financing transactions (SFTs)	(1,416,357)	1,813,443
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	5,527,330	5,493,444
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 **	(1,686,075)	(1,773,375)
8	Leverage ratio exposure	77,541,096	77,217,027

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

** The heading entitled "Other adjustments" includes the amounts in respect of assets deducted from the calculation of Tier1 capital– with Danish compromise.



Table 5.3 – LRSpl – Split-up of on-balance-sheet exposures (without derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures 31/12/18	CRR leverage ratio exposures 30/6/18
EU-1 Total on-balance-sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	62,776,801	66,360,445
EU-2 Trading book exposures	5,908,467	4,497,313
EU-3 Banking book exposures, of which:	56,868,334	61,863,132
EU-4 Covered bonds	283,190	291,407
EU-5 Exposures treated as sovereigns	5,852,604	7,183,661
EU-6 Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	29,696	177,149
EU-7 Institutions	3,806,358	3,360,619
EU-8 Secured by mortgages of immovable properties	8,382,838	8,108,537
EU-9 Retail exposures	14,012,578	13,726,577
EU-10 Corporate	18,171,937	17,171,958
EU-11 Exposures in default	872,447	788,105
EU-12 Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	5,456,685	11,055,119



Section 6 – Credit risk

6.1 General information

Qualitative information

The Mediobanca Group is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep the levels of impaired assets on the books low, including the use of different options typically available, such as disposals (of both individual assets and portfolios), collateral enforcement activity, and negotiating restructuring agreements.

Impaired exposures are identified on the basis of definitions that give equal weight to the guidance provided by the regulations in force on regulatory capital requisites (for the concept of “default”), supervisory statistical reporting (for the definition of “non-performing”), and Stage 3 assets (for the definition of “credit-impaired”). This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to prioritize analytical methods for detecting impairment of individual positions not yet ninety days overdue, or systems based on automatic algorithms. Equally, the accounting treatment by which impaired exposures are represented may either reflect analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company’s own business.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts are written off before legal action to recover the asset is completed, and this does not necessarily entail waiving the Group’s legal right to recover the amount due to it.



Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client's initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which completes the notion of forbearance measure, occurs, in accordance with the specific regulations on this issue, when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Group assesses whether or not, as a result of such concessions being made to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises due to the accumulation, actual or potential (in the latter case if the concessions are not granted), of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, 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).



6.1.1 Description of methodologies adopted to determine loan loss provisions

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating the expected losses, subject to the regulatory indicators in particular being adjusted to make allowance for characteristics which do not lend themselves to direct use in an accounting environment (for example, reconvert the data to reflect a point-in-time approach). Indeed, the calculation of expected losses required under IFRS 9 derives from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which the risk has undergone significant impairment ("Stage 2") or which show objective signs of impairment ("Stage 3") and on a time horizon over twelve months for the instruments not included in the previous two categories ("Stage 1").

The Group adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are also identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor's scale, or a corresponding internal PD estimate. In accordance with the provisions of IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Group has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time. The change in PD selected to determine reclassification to Stage 2 is specific to each Group company but on average reflects the reading at least trebling since the initial recognition date.

In cases where there is no internal rating model for a specific portfolio, the backstop indicators apply as qualitative criteria; the qualitative factors considered by the Group for reclassification to Stage 2 include: a) Mediobanca Corporate and Financial Institutions counterparties being



classified in the watchlist as “amber” and “red”; b) indicators of a delay in payments for retail exposures.

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as represented in the previous sections, an account being assigned the status of “forborne” is considered to be incompatible with its being classified as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned the “forborne” status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the “forborne performing exposure” status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for “non-performing forborne exposure” to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the “forborne performing exposure” status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as “forborne” must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, “forborne” exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately to Stage 3 on prudential grounds.

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months or to the contractual expiry date of the relevant exposure, depending on which Stage it is classified in) discounted at the effective interest rate. The expected loss is the result of the combined valuation



of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring. The scenarios, determined at Group level, are updated once every six months. In particular, the Group defines the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations regarding interest rates. Levels of deviation from the baseline scenario are defined in order to determine the mild-negative and mild-positive scenarios.

6.1.2 Exposure to sovereign credit risk

The securities portfolio chiefly consists of financial instruments with Italy country risk worth €2.9bn, 60% of the total, with an average maturity of approx. 2.5 years). The exposure to German bonds remains substantial (at 25% of the total – the book value is equal to €1,103m corresponding to a notional value of €1,052m). Trading operations include short selling (that is to say, the sale of a security without owing the asset), conventionally indicated with the minus sign.



Quantitative information

Credit exposures, gross and net, by main type of exposure

Table 6.1.4 – Credit exposures by portfolio and credit quality (gross and net values)

Asset portfolio/quality	Non-performing loans				Performing loans			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,132,657	(975,704)	1,156,953	–	55,175,054	(506,814)	54,668,240	55,825,193
2. Financial assets at fair value with impact taken to comprehensive income	–	–	–	–	4,443,102	-	4,443,102	4,443,102
3. Financial assets designated at fair value	–	–	–	–	X	X	51,253	51,253
4. Other financial assets mandatorily at fair value	132,122	(118,412)	13,710	–	X	X	229,124	242,834
5. Financial assets being sold	14,350	(11,091)	3,259	–	–	–	–	3,259
Total 31/12/18	2,279,129	(1,105,207)	1,173,922	–	59,618,156	(506,814)	59,391,719	60,565,641



Net credit exposures by main exposure type

Table 6.1.5 – Financial assets by portfolio and credit quality (book values)

Asset portfolio/quality	Bad loans	Probable defaults	Overdue exposures (NPLs)	Overdue exposures (performing)	Other exposures (performing)	Total
1. Financial assets at amortized cost	452,999	641,562	62,392	340,112	54,328,128	55,825,193
2. Financial assets at fair value with impact taken to comprehensive income	–	–	–	–	4,443,102	4,443,102
3. Financial assets designated at fair value	–	–	–	–	51,253	51,253
4. Other financial assets mandatorily at fair value	–	13,710	–	–	229,124	242,834
5. Financial assets being sold	3,259	–	–	–	–	3,259
Total 31/12/18	456,258	655,272	62,392	340,112	59,051,607	60,565,641



Table 6.1.6 - Cash and off-balance-sheet exposures to banks by geography

Exposures / Geographical Area	31/12/2018									
	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
a) Bad loans	-	-	-	-	-	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-	-	-	-	-	-
c) Overdue exposures	-	-	-	-	-	-	-	-	-	-
d) Performing exposures	2,400,512	(754)	5,593,346	(850)	50,295	(7)	1,787	(1)	474	(2)
Total (A)	2,400,512	(754)	5,593,346	(850)	50,295	(7)	1,787	(1)	474	(2)
B. Off-balance sheet credit exposures										
a) Non-performing exposures	-	-	-	-	-	-	-	-	-	-
b) Performing exposures	404,222	(45)	6,839,467	1	33	-	-	-	-	-
Total (B)	404,222	(45)	6,839,467	1	33	-	-	-	-	-
Total (A+B)	2,804,734	(799)	12,432,813	(849)	50,328	(7)	1,787	(1)	474	(2)



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

Exposures / Geographical Area	31/12/2018									
	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
a) Bad loans (*)	446,150	(383,115)	8,953	(12,903)	403	(87)	–	(15)	752	(39)
b) Unlikely to pay	651,882	(598,865)	2,947	(3,263)	253	(131)	190	(99)	–	–
c) Overdue exposures	54,178	(106,233)	3,795	(193)	4,420	(264)	–	–	–	–
d) Performing exposures	42,473,127	(466,718)	10,549,366	(28,597)	2,239,300	(7,302)	83,319	(440)	215,728	2,163
Total (A)	43,625,337	(1,554,931)	10,565,061	(44,956)	2,244,376	(7,784)	83,509	(554)	216,480	(2,202)
B. Off-balance sheet credit exposures										
a) Non-performing exposures	9,446	(1,581)	–	–	–	–	–	–	–	–
b) Performing exposures	7,740,170	(5,036)	6,012,678	(1,304)	864,040	(902)	155,175	(294)	59,839	–
Total (B)	7,749,616	(6,617)	6,012,678	(1,304)	864,040	(902)	155,175	(294)	59,839	–
Total (A+B)	51,374,953	(1,561,548)	16,577,739	(46,260)	3,108,416	(8,686)	238,684	(848)	276,319	(2,202)

(*) Includes the NPLs held by MBCredit Solutions in an amount of €339m



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

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans (*)	—	—	413	(2,037)	—	—	94,345	(38,857)	361,500	(355,265)
- of which: forborne exposures	—	—	—	—	—	—	10,036	(11,476)	4,366	(60,092)
A.2 Unlikely to pay	12,202	(2,931)	17,685	(11,897)	—	—	441,488	(312,206)	183,897	(275,324)
- of which: forborne exposures	—	—	11,492	(7,906)	—	—	422,336	(291,475)	103,024	(119,249)
A.3 Overdue exposures (NPLs)	1,783	(46)	96	(50)	—	—	11,389	(3,417)	49,125	(103,177)
- of which: forborne exposures	—	—	—	—	—	—	65	(138)	8,040	(26,280)
A.4 Performing exposures	9,277,257	(2,849)	8,803,692	(7,556)	1,058,225	(1,783)	14,559,331	(53,855)	22,920,560	(440,960)
- of which: forborne exposures	—	—	363,272	(6)	—	—	62,481	(2,167)	224,960	(53,892)
Total (A)	9,291,242	(5,826)	8,821,886	(21,540)	1,058,225	(1,783)	15,106,553	(408,335)	23,515,082	(1,174,726)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	3,700	(1,300)	—	—	5,077	(53)	669	(228)
B.2 Performing exposures	1,969,436	—	4,805,329	(803)	423,552	—	6,689,388	(3,221)	1,367,749	(3,512)
Total (B)	1,969,436	—	4,809,029	(2,103)	423,552	—	6,694,465	(3,274)	1,368,418	(3,740)
Total (A+B)	11,260,678	(5,826)	13,630,915	(23,643)	1,481,777	(1,783)	21,801,018	(411,609)	24,883,500	(1,178,466)

(*) Includes the NPLs held by MBCredit Solutions in an amount of €339m



Table 6.1.9 – Credit and counterparty risk: exposures by portfolio – standard method

Portfolios	Amounts as at 31/12/18				
	Value of exposure gross of CRM ¹	Exposure values net of CRM ²	Unweighted amounts ³	Guaranteed exposures	
				Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	5,929,116	6,497,640	6,445,534	—	—
Exposures to or guaranteed by regional entities	10,336	10,336	10,336	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	54,087	22,229	22,228	—	31,858
Exposures to or guaranteed by Banche multilateral development banks	1	1	1	—	—
Exposures to or guaranteed by international organizations	—	—	—	—	—
Exposures to or guaranteed by regulated intermediaries	23,841,710	9,839,558	9,837,171	14,074,353	327,759
Exposures to or guaranteed by companies	8,809,396	6,599,225	6,272,871	2,089,209	227,282
Retail exposures	15,424,395	15,152,583	13,997,187	197,016	74,796
Exposures guaranteed by properties	8,400,789	8,396,490	8,387,515	211	4,088
Overdue exposures	880,589	870,948	869,601	6,815	2,827
High-risk exposures	329,515	329,515	329,515	—	—
Exposures in the form of guaranteed bank debt securities	283,190	283,190	283,190	—	—
Short-term exposures to companies	—	—	—	—	—
Exposures to OICRs	306,551	306,551	306,551	—	—
Exposures to equity instruments	2,019,386	2,019,386	2,019,386	—	—
Other exposures	1,809,401	1,809,401	1,809,399	—	—
Total cash risk assets	44,764,886	43,370,865	43,370,865	1,360,136	653,703
Total guarantees issued and commitments to disburse funds	4,076,010	3,865,976	2,319,408	227,865	14,907
Total derivatives contracts	1,886,572	1,520,531	1,520,531	366,041	—
Total SFTs and trades with long-term settlement	17,370,994	3,379,681	3,379,681	14,413,560	—
Grand Total	68,098,462	52,137,053	50,590,485	16,367,603	668,610

- ¹ The value of the exposure is equal to the original gross exposure net of adjustments.
- ² The value of the exposure is equal to the original gross exposure net of the prudential filters, CRM techniques and CCFs for off-balance-sheet exposures.
- ³ The value of the exposure is equal to the original gross exposure net of the prudential filters, CRM techniques and CCFs for off-balance-sheet exposures.

The comparative data as at 30 June 2018 are shown below:

Portfolios	Amounts as at 30/6/18				
	Value of exposure gross of CRM ¹	Exposure values net of CRM ²	Unweighted amounts ³	Guaranteed exposures	
				Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7,259,661	7,727,776	7,684,957	—	—
Exposures to or guaranteed by regional entities	8,631	8,631	8,631	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	168,521	168,521	168,519	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	—	—	—	—
Exposures to or guaranteed by international organizations	—	—	—	—	—
Exposures to or guaranteed by regulated intermediaries	16,921,179	7,035,225	7,032,621	9,850,630	327,662
Exposures to or guaranteed by companies	9,267,711	7,412,984	6,927,694	1,786,844	204,523
Retail exposures	15,106,752	14,935,279	13,792,659	113,527	57,946
Exposures guaranteed by properties	8,126,129	8,122,262	8,113,467	188	3,679
Overdue exposures	793,647	788,887	785,961	2,038	2,722
High-risk exposures	288,183	288,183	288,183	—	—
Exposures in the form of guaranteed bank debt securities	291,407	291,407	291,407	—	—
Short-term exposures to companies	—	—	—	—	—
Exposures to OICRs	318,623	318,623	318,623	—	—
Exposures to equity instruments	2,193,111	2,193,111	2,193,111	—	—
Other exposures	1,732,460	1,732,460	1,732,350	—	—
Total cash risk assets	45,086,654	43,909,144	43,909,144	1,058,176	582,367
Total guarantees issued and commitments to disburse funds	3,544,467	3,364,652	1,679,485	180,249	14,164
Total derivatives contracts	1,446,931	1,097,522	1,097,522	349,409	—
Total SFTs and trades with long-term settlement	12,397,963	2,652,032	2,652,032	10,165,393	—
Grand Total	62,476,014	51,023,349	49,338,183	11,753,226	596,531

- ¹ The value of the exposure is equal to the original gross exposure net of adjustments.
- ² The value of the exposure is equal to the original gross exposure net of the prudential filters, CRM techniques and CCFs for off-balance-sheet exposures.
- ³ The value of the exposure is equal to the original gross exposure net of the prudential filters, CRM techniques and CCFs for off-balance-sheet exposures.



Table 6.1.10 – Credit risk: exposures by portfolio – standard method (CR4)

Portfolios	Amounts as of 31/12/18					
	Exposure amount gross of CRM and CCF ¹		Exposure amount net of CRM and CCF ²		RWA and RWA density	
	Cash	Off-balance	Cash	Off-balance	RWA	RWA density
Exposures to or guaranteed by central administrations and central banks	5,852,604	76,000	6,392,914	52,106	286	0%
Exposures to or guaranteed by regional entities	10,336	—	10,336	—	2,067	20%
Exposures to or guaranteed by non-profit-making or public-sector entities	47,577	2	15,719	—	14,113	30%
Exposures to or guaranteed by multilateral development banks	1	—	1	—	—	0%
Exposures to or guaranteed by international organizations	—	—	—	—	—	0%
Exposures to or guaranteed by regulated intermediaries	3,806,358	1,807,645	3,289,057	1,809,759	1,235,414	22%
Exposures to or guaranteed by companies	7,120,231	668,599	5,921,573	198,736	5,933,319	76%
Retail exposures	14,012,578	1,411,817	13,835,712	161,475	10,398,578	67%
Exposures guaranteed by properties	8,382,838	17,950	8,378,539	8,975	2,984,974	36%
Overdue exposures	872,447	5,870	867,098	231	1,082,256	123%
High-risk exposures	242,576	86,938	242,576	86,938	494,272	150%
Exposures in the form of guaranteed bank debt securities	283,190	—	283,190	—	33,900	0%
Short-term exposures to companies	—	—	—	—	—	0%
Exposures to OICRs	305,364	1,187	305,364	1,187	645,687	211%
Exposures to equity instruments	2,019,386	—	2,019,386	—	5,737,538	284%
Other exposures	1,809,399	2	1,809,399	—	1,498,680	83%
Grand Total	44,764,885	4,076,010	43,370,864	2,319,407	30,061,084	

¹ The value of the exposure is equal to the original gross exposure net of the prudential filters.

² The value of the exposure is equal to the original gross exposure net of the prudential filters, CRM techniques and CCFs for off-balance-sheet exposures.



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	31/12/18		
	Value of exposure*	Exposures guaranteed	
		Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	5,929,116	—	—
credit rating class 1	5,928,031	—	—
credit rating class 2	—	—	—
credit rating class 3	572	—	—
credit rating classes 4 and 5	513	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by regional entities	10,336	—	—
credit rating class 1	—	—	—
credit rating class 2	10,336	—	—
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	54,087	—	31,858
credit rating class 1	—	—	—
credit rating class 2	33,867	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	20,220	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by Banche multilateral development banks	1	—	—
credit rating class 1	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	—	—	—
Exposures to or guaranteed by regulated intermediaries	23,841,710	14,074,353	327,759
credit rating class 1	—	—	—
credit rating class 2	20,777,328	—	—
credit rating class 3	2,443,657	—	—
credit rating classes 4 and 5	620,720	—	—
credit rating class 6	5	—	—
Exposures to or guaranteed by companies	8,809,396	2,089,209	227,282
credit rating class 1	108,294	—	—
credit rating class 2	167,500	—	—
credit rating classes 3 and 4	8,508,779	—	—
credit rating classes 5 and 6	24,823	—	—
Retail exposures	15,424,395	197,016	74,796
Exposures guaranteed by properties	8,400,789	211	4,088
Overdue exposures	880,589	6,815	2,827
High-risk exposures	329,515	—	—
Exposures in the form of guaranteed bank debt securities	283,190	—	—
Short-term exposures to companies	—	—	—
Exposures to UCITs	306,551	—	—
credit rating class 1	—	—	—
credit rating class 2	—	—	—
credit rating classes 3 to 4	306,551	—	—
credit rating classes 5 to 6	—	—	—
Exposures to equity instruments	2,019,386	—	—
Other exposures	1,809,401	—	—
Total cash risk assets	44,764,886	1,360,136	653,703
Total guarantees issued and commitments to disburse funds	4,076,010	227,865	14,907
Total derivatives contracts	1,886,572	366,041	—
Total SFTs and trades with long-term settlement	17,370,994	14,413,560	—
Grand total	68,098,462	16,367,603	668,610

1 The value of the exposure is equal to the original gross exposure net of the prudential filters.



6.3 Credit risk: disclosure on portfolios subject to IRB methods

Qualitative information

6.3.1 Autorizzazione and piano di estensione dei modelli interni

As part of authorization process to use AIRB models in order to calculate the regulatory capital requirements for credit risk (the "Roll Out Plan"), following the authorization for the Mediobanca and Mediobanca International corporate lending portfolios, on 12 December 2018, CheBanca! received authorization to use internal PD and LGD models to calculate the credit risk deriving from its Italian mortgage loans. The adoption of the models for reporting purposes is conditional upon the PD metrics being revised for certain sub-portfolios. Actual usage of the models will therefore begin from 1Q 2019; the estimated saving in terms of RWAs is in the region of €1.4bn (average weighting for mortgages is below 20%), with a corresponding increase in the Group's CET1 ratio of some 40 bps.

6.3.2 Scope of application for AIRB model

As at 31 December 2018, internal models are used by Mediobanca and Mediobanca International for the Wholesale Banking division's corporate loan book only. The internal models also cover extraordinary financing transactions, but do not extend to the specialized lending and real estate sub-portfolios which, in view of their non-material nature, have been authorized to receive standard treatment on permanent basis.

6.3.3 Struttura del modello PD Corporate

The Corporate PD model has been developed based on a shadow approach, using the ratings assigned to counterparties by the ratings agencies (ECAIs) as the target variables, in line with the methodology used to value companies adopted by the Bank's analysts.

The model consists of:



- A quantitative module, which provides a score obtained on the basis of the individual borrower's balance-sheet data;
- A qualitative module which provides a score obtained on the basis of qualitative information resulting from structured and indepth analysis performed by the credit analysts.

Both modules are based on a statistical approach intended to optimize the model's ranking capability. The integration between them, which enables a synthetic risk indicator to be derived, is also estimated statistically. The final rating is the result of a phase of fine-tuning in which the alignment between the external ratings and the ratings returned by the model is maximized.

At the application phase, a rating is assigned at the counterparty level, taking due account of the Group criteria whereby Mediobanca S.p.A. can influence the final rating.

The analyst has the option of overriding the rating returned by application of the model, taking into account all information available resulting *inter alia* from the analysts themselves liaising directly with the management of the borrower counterparties. This override process is governed internally and the process includes a limit on upgrades to ratings.

The master-scale for the model replicates the agencies' rating scales; the PD readings assigned to each class are obtained by estimating the average default rates provided by the agencies over a long-term time horizon according to a through-the-cycle approach.

6.3.4 LGD Corporate model structure

The Bank has equipped itself with an LGD model for the performing portfolio and an LGD defaulted asset model.

For the performing exposures, the model returns a Loss Given Default reading which differs according to type of transaction (i.e. different values are assigned to bonds and loans), taking into account the level of seniority of the debt and the possible existence of real or financial guarantees. If personal guarantees have



been issued, the substitution method is applied. Account is also taken of the counterparty's characteristics in terms of industrial sector in assigning an LGD indicator.

For the non-performing positions, there is a dedicated model in which an LGD uncertainty parameter has been estimated for the expected loss. This parameter, in accordance with the regulatory requirements, depends on the amount of time (vintage) the position has been in a state of default.

6.3.5 Rating system uses

The rating attribution process leads to a probability of default (and a rating class) being assigned on the basis of all qualitative and quantitative information available and the LGD reading.

The Credit Risk Management unit is responsible for the assignment process. This unit is made up of the analysts responsible for assessing the credit standing of all counterparties featured in the Group's portfolio.

The parameters used for regulatory purposes are incorporated with potential adjustments into the Bank's various processes, and are at the centre of the assessment process at the loan granting stage.

Risk-adjusted pricing

The risk-adjusted return on a specific transaction takes account of the counterparty's credit risk parameters in the calculation of the ROAC (Return On Allocated Capital). This incorporates the expected loss calculated via the management PD and LGD readings in line with the calculation of the loan loss provisions, which are then revised on a point-in-time basis. LGD in particular, apart from reflecting the operational risk mitigation through the existence of collateral, excludes the downturn factor and indirect costs. The ROAC formula also includes a simulation of the capital absorbed according to the AIRB approach.

ROAC is a vital component in assessing the sustainability of a given transaction, and contributes to the final decision as to whether to approve or



reject the deal in question. It is also consistent with the Economic Profit metric used in the performance assessment process.

Delegated powers to approve, reject and renew credit

The system of delegated powers allows the body responsible for approving credit to be identified on the basis of the deal's risk, using the PD and LGD risk parameters.

Thus a prudential mechanism is established based on escalation by the approving body every time the risk is breached.

The designated approving body assesses the proposal in view of an information set which includes the risk parameters assigned by Credit Risk Management and decides whether to approve the deal, ask for it to be amended, or rejects it.

Credit monitoring

Credit Risk Management is responsible for updating the assessments of credit standing as expressed in the counterparties' rating. It does this by collecting and analysing, among other information: financial reports issued by the client, market indicators, internal reports on behavioural irregularities, if any, and evidence from the central credit risk databases.

Analysis of this information flow may entail launch of the process for classification among irregular positions, or may result in the rating being updated. In the event of early warnings of a potential deterioration in credit quality emerging, the counterparty is included in a specific watchlist with further enhancement of the monitoring process.

Internal reporting

The internal reporting process supports the credit risk monitoring process at the portfolio level. Group Risk Management provides a structured and integrated representation of the principal risks facing the Group. A dashboard of indicators is



provided to the Board of Directors regularly, showing the portfolio's distribution by rating classes and its change over time. This report also illustrates the trend in the LGD values. Monitoring the analysis and the changes in the exposures entered in the watchlist are regularly submitted to the attention of the Group Risk Management Committee.

Value adjustments for impairment

The process for calculating impairment uses risk parameters estimated internally to factor in the expected loss on the performing positions. The regulatory PD indicator is transformed into a point-in-time reading, while the LGD does not reflect the downturn factor or indirect costs.

Non-performing exposures in the Mediobanca Corporate portfolio are subject to individual assessment.

ICAAP and Risk Appetite Framework

As part of the stress testing which is an integral component of the ICAAP process, Risk Management applies risk parameters which, for the Mediobanca Corporate portfolio, are derived from the regulatory parameters through the application of satellite models. Such models provide risk parameters conditional upon the adverse macroeconomic scenarios defined by the Bank. Risk-based metrics (primarily expected loss and economic capital) too underpin the definition of the risk appetite metrics for the loan book.



6.3.6 Control and review of the internal models

The internal rating systems are subject to review by the Bank's control units. This applies at the first stage of requesting authorization, and as part of the ongoing process of monitoring and maintaining the risk measurement system.

The unit responsible for the internal validation process for the Mediobanca Group is Group Internal Validation. This unit reports directly to the Group Chief Risk Officer and is independent of the units involved in developing the models and the credit granting processes.

Once a year, Group Internal Validation compiles a report for submission to the Board of Directors, illustrating the results of the checks carried out in support of the statement regarding conformity with the regulatory requisites set by the Board itself.

The Group Audit Unit is responsible for the internal rating system revision process. The audits, in the same way as the validation activity, are not confined to modelling issues but also regard every component of the rating system: models, processes, IT systems and data quality. The Group Audit Unit too reports to the Board once a year on the audits it has carried out, and gives its assessment of the adequacy of the entire system.



Quantitative information

Table 6.3.1 – Credit risk exposures by class and PD scale (CR6)

31/12/18		a	b	c	d	e	f	g	h	i	j	k	l
AIRB Exposure class	PD scale	Original on balance-sheet gross exposure	Offbalancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provision
Exposures to corporates - Others	0.00 to <0.15	1,557,747	1,814,036	50%	2,464,765	0.08%	35	36.9%	2.50	566,368	23%	759	
	0.15 to <0.25	1,323,935	977,683	52%	1,835,776	0.17%	34	36.9%	2.50	640,001	35%	1,151	
	0.25 to <0.50	5,019,958	2,297,856	54%	6,175,428	0.38%	121	40.9%	2.50	3,675,995	60%	10,036	
	0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	
	0.75 to <2.50	2,917,116	447,994	48%	3,126,457	0.99%	89	39.8%	2.50	2,723,572	87%	13,210	
	2.50 to <10.00	805,791	279,760	53%	951,927	3.16%	57	41.4%	2.50	1,275,737	134%	15,454	
	10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	
	100.00 (Default)	516,579	9,821	51%	521,627	100.00%	7	32.2%	2.50	69,116	13%	162,547	
Sub-total		12,141,125	5,827,151	52%	15,075,980	4.93%	343	39.3%	2.50	8,950,788	59%	203,157	207,882
Total		12,141,125	5,827,151	52%	15,075,980	4.93%	343	39.3%	2.50	8,950,788	59%	203,157	207,882

The table below shows the AIRB exposures for the “Other enterprises” segment, broken down by PD category. The table refers to credit risk with counterparty risk excluded, which is shown in table 7.2.1 (EU CCR 4).



The comparative figures as at 30 June 2018 are shown below:

30/6/18		a	b	c	d	e	f	g	h	i	j	k	l
AIRB Exposure class	PD scale	Original on balance-sheet gross exposure	Offbalancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provision
	0.00 to <0.15	1,190,819	2,553,217	50%	2,479,076	0.08%	39	38.2%	2.50	563,337	23%	739	
	0.15 to <0.25	1,196,759	965,476	52%	1,702,497	0.17%	30	37.0%	2.50	595,132	35%	1,070	
Exposures to corporates -	0.25 to <0.50	4,702,732	2,579,165	53%	5,998,591	0.38%	124	41.4%	2.50	3,564,233	59%	9,589	
	0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	
	0.75 to <2.50	3,007,937	729,502	50%	3,384,383	0.99%	96	39.8%	2.50	2,880,575	85%	13,294	
Others	2.50 to <10.00	627,691	289,458	53%	781,673	3.16%	51	41.8%	2.50	999,155	128%	10,377	
	10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	
	100.00 (Default)	647,950	11,647	51%	653,912	100.00%	7	48.3%	2.50	86,643	13%	308,623	
	Sub-total	11,373,888	7,128,464	52%	15,000,131	4.93%	347	40.3%	2.50	8,689,075	58%	343,691	343,572
Total		11,373,888	7,128,464	52%	15,000,131	4.93%	347	40.3%	2.50	8,689,075	58%	343,691	343,572



Table 6.3.2 – Effect of credit derivatives used as part of credit risk mitigation techniques on RWAs (CR7)

	a	b
	Pre-credit derivatives RWAs	Actual RWAs
1	Exposures under FIRB	
2	—	—
3	—	—
4	—	—
5	—	—
6	—	—
7	Exposures under AIRB	
8	—	—
9	—	—
10	—	—
11	—	—
12	8,950,788	8,950,788
13	—	—
14	—	—
15	—	—
16	—	—
17	—	—
18	—	—
19	—	—
20	8,950,788	8,950,788

It should be noted that the column headed “RWAs prior to credit derivatives effect” is the same as the column headed “Actual RWAs” on account of the fact that the Group does not use credit derivatives as risk mitigation techniques.



Table 6.3.4 – RWA flow statements of credit risk exposures under the IRB approach (CR8)

	a	b
	RWA amounts	Capital requirements
1 RWAs as at the end of the previous reporting period (30 June 18)	8,689,075	695,126
2 Asset size	435,201	34,816
3 Asset quality	56,539	4,523
4 Model updates	—	—
5 Methodology and policy	—	—
6 Acquisitions and disposals	—	—
7 Foreign exchange movements	(4,271)	(342)
8 Other	—	—
9 RWAs as at the end of the reporting period (30 Sept 2018)	9,176,544	734,123
1 RWAs as at the end of the previous reporting period (30 Sept 18)	9,176,544	734,123
2 Asset size	(260,431)	(20,834)
3 Asset quality	26,939	2,155
4 Model updates	—	—
5 Methodology and policy	—	—
6 Acquisitions and disposals	—	—
7 Foreign exchange movements	7,736	619
8 Other	—	—
9 RWAs as at the end of the reporting period (31 Dec 2018)	8,950,788	716,063

The tables above show the changes in RWAs calculated with application of the IRB in the three months to end-September and end-December, with a breakdown by the reasons for such changes.

RWAs increased during the first quarter and declined in the second, reaching just under €9bn. The change in exchange rates was marginal.



Section 7 – Counterparty risk

7.1 - Counterparty risk – Standard method

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.

Mediobanca downgrade effects

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 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 but the deal expired on 27 July 2018. Another four ISDA contracts (three 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, which may be debited if the counterparty



(only one has an exposure other than zero) decides to exercise their termination rate, which is highly unlikely. The exposure as at 31 December 2018 is in favour of Mediobanca.

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

Table 7.1.2 - Counterparty risk – risk assets

Counterparty risk	Amounts as at 31/12/18	Amounts as at 30/6/18
Standardized approach		
- derivatives contracts	1,520,531	1,097,522
- SFTs and trades with long-term settlement	3,379,681	2,652,032
IRB approaches		
- derivatives contracts	523,186	506,790
- SFTs and trades with long-term settlement	100,292	28,787



Table 7.1.3 Financial trading derivatives: reporting-date notional values

Underlying assets / Type of derivatives	31/12/18			
	Central Counterparts	Over the counter		Established markets
		Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Debt securities and interest rate				
a) Options	–	8,077,688	150,000	33,545,742
b) Swap	42,780,673	36,035,818	1,426,444	–
c) Forward	–	474,380	–	–
d) Futures	–	–	–	816,386
e) Others	–	1,786,000	–	–
2. Equities and stock indexes				
a) Opzioni	–	9,444,865	1,877,576	10,512,886
b) Swap	–	1,388,751	–	–
c) Forward	–	117,149	–	–
d) Futures	–	–	–	445,339
e) Others	–	–	–	–
3. Currencies and gold				
a) Opzioni	–	1,845,518	–	–
b) Swap	–	3,693,516	104,803	–
c) Forward	–	4,396,260	1,882	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
4. Commodities				
	–	–	–	–
5. Other				
	–	–	–	–
Total	42,780,673	67,259,945	3,560,705	45,320,353



Table 7.1.4 Financial trading derivatives: fair value, gross (positive and negative) – by product

Underlying assets / Type of derivatives	31/12/18			
	Central Counterparts	Over the counter		Established markets
		Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Positive fair value				
a) Options	–	447,228	3,892	551,216
b) Interest rate swap	139	1,819,375	13,839	–
c) Cross currency swap	–	202,498	10,670	–
d) Equity swap	–	41,428	–	–
e) Forward	–	24,564	598	–
f) Futures	–	–	–	8,003
g) Others	–	–	–	–
Total	139	2,535,093	28,999	559,219
2. Negative fair value				
a) Options	–	(452,402)	(25,441)	(614,519)
b) Interest rate swap	(1)	(1,010,653)	(9,270)	–
c) Cross currency swap	–	(153,928)	–	–
d) Equity swap	–	(1,545)	–	–
e) Forward	–	(103,538)	(171)	–
f) Futures	–	–	–	(21,478)
g) Others	–	–	–	–
Total	(1)	(1,722,066)	(34,882)	(635,997)



Table 7.1.5 OTC financial trading derivatives: notional values, fair value, gross (positive and negative) by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	1,385,335	–	191,109
- positive fair value	X	15,924	–	318
- negative fair value	X	(9,116)	(188)	(14)
2) Equities and stock indexes				
- notional value	X	1,415,617	461,931	29
- positive fair value	X	1,325	379	384
- negative fair value	X	(25,436)	(119)	(8)
3) Currencies and gold				
- notional value	X	1,130	752	104,803
- fair value positivo	X	–	–	10,670
- fair value negativo	X	–	(2)	–
4) Commodities				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
5) Others				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	42,780,673	28,573,889	10,432,595	7,367,402
- positive fair value	139	1,496,729	274,042	197,213
- negative fair value	(1)	(829,153)	(353,568)	(30,067)
2) Equities and stock indexes				
- notional value	–	6,499,918	2,845,167	1,605,681
- positive fair value	–	134,738	71,077	107,122
- negative fair value	–	(207,125)	(75,064)	(14,827)
3) Currencies and gold				
- notional value	–	5,632,653	2,416,802	1,885,838
- fair value positivo	–	73,290	102,072	78,812
- fair value negativo	–	(105,069)	(8,918)	(98,277)
4) Commodities				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) Others				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–



Table 7.1.6 Trading credit derivatives: reporting-date notional values

Type of transaction	Trading derivatives	
	With a single counterparty	With more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	2,156,085	19,449,208
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others ⁽¹⁾	559,597	—
Total as at 31/12/18	2,715,682	19,449,208
2. Security sales		
a) Credit default products	6,773,200	23,614,427
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total as at 31/12/18	6,773,200	23,614,427

⁽¹⁾ Refers to the amount of the certificates.

Table 7.1.7 Trading credit derivatives: fair value, gross (positive and negative) – by product

Types of derivatives	Total 31/12/18
1. Positive fair value	
a) Credit default products	222,757
b) Credit spread products	—
c) Total rate of return swap	—
d) Others	—
Totale	222,757
2. Negative fair value	
a) Credit default products	(878,237)
b) Credit spread products	—
c) Total rate of return swap	—
d) Others ⁽¹⁾	(478,874)
Totale	(1,357,111)

⁽¹⁾ Refers to the amount of the certificates.



Table 7.1.8 OTC trading credit derivatives: notional values, gross fair value, positive and negative, by counterparty

	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Purchase protection				
- notional value ⁽¹⁾	X	4,485,619	12,251	–
- positive fair value	X	21,766	3,400	–
- negative fair value ⁽¹⁾	X	(478,874)	–	–
2) Protection sale				
- notional value	X	11,413,413	–	–
- positive fair value	X	44,554	–	–
- negative fair value	X	(3,935)	–	–
Contratti rientranti in accordi di compensazione				
1) Purchase protection				
- notional value	4,669,000	6,470,454	6,527,566	–
- positive fair value	–	46,580	20,666	–
- negative fair value	(5,660)	(59,083)	(44,567)	–
2) Protection sale				
- notional value	4,555,747	8,170,064	6,248,403	–
- positive fair value	–	52,222	33,569	–
- negative fair value	–	(733,651)	(31,341)	–

⁽¹⁾ Of which certificates for a nominal amount of €559,597,000, with a fair value of minus €478,874,000.

Table 7.1.9 Financial derivatives used for hedging purposes: reporting-date notional values

Underlying assets / Type of derivatives	31/12/18			
	Central Counterparts	Over the counter		Established markets
		Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Debt securities and interest rate				
a) Opzioni	–	130,000	–	–
b) Swap	18,074,454	6,583,954	40,850	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	100,000	–	–
2. Equities and stock indexes				
a) Opzioni	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
3. Currencies and gold				
a) Opzioni	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
4. Commodities				
	–	–	–	–
5. Other				
	–	–	–	–
Total	18,074,454	6,813,954	40,850	–



Table 7.1.10 Financial derivatives used for hedging purposes: fair value, gross (positive and negative) – by product

Underlying assets / Type of derivatives	Positive and negative fair value				Change in the value used to calculate the ineffectiveness of the hedge
	31/12/18				
	Central Counterparts	Over the counter		Established markets	
		With clearing arrangements	Without clearing arrangements		
1. Positive fair value					
a) Options	–	3,987	–	–	–
b) Interest rate swap	84,166	123,223	951	–	69,383
c) Cross currency swap	–	–	–	–	–
d) Equity swap	–	–	–	–	–
e) Forward	–	–	–	–	–
f) Futures	–	–	–	–	–
g) Others	–	–	–	–	–
Total	84,166	127,210	951	-	69,383
2. Negative fair value					
a) Options	–	(2,332)	–	–	–
b) Interest rate swap	(22,250)	(150,631)	(5,197)	–	(21,241)
c) Cross currency swap	–	–	–	–	–
d) Equity swap	–	–	–	–	–
e) Forward	–	–	–	–	–
f) Futures	–	–	–	–	–
g) Others	–	–	–	–	–
Total	(22,250)	(152,963)	(5,197)	–	(21,241)



Table 7.1.11 Financial derivatives used for hedging purposes OTC: notional values, fair value, gross (positive and negative) by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	40,850	–	–
- positive fair value	X	951	–	–
- negative fair value	X	(5,197)	–	–
2) Equities and stock indexes				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
3) Currencies and gold				
- notional value	X	–	–	–
- fair value positivo	X	–	–	–
- fair value negativo	X	–	–	–
4) Commodities				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
5) Others				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	18,074,454	5,552,839	911,115	350,000
- positive fair value	84,166	126,530	680	–
- negative fair value	(22,250)	(137,462)	(5,108)	(10,393)
2) Equities and stock indexes				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) Currencies and gold				
- notional value	–	–	–	–
- fair value positivo	–	–	–	–
- fair value negativo	–	–	–	–
4) Commodities				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) Others				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–



7.2 - Counterparty risk – AIRB method

Table 7.2.1 - AIRB: CCR exposures by portfolio and PD scale (CCR4)

Exposure class AIRB	PD scale	a	b	c	d	e	f	g
		EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Exposures to corporates - Others	0.00 to <0.15	92,191	0.09%	10	32.5%	2.46	19,979	22%
	0.15 to <0.25	33,899	0.17%	9	35.8%	2.50	11,474	34%
	0.25 to <0.50	309,516	0.34%	48	38.2%	2.50	159,184	51%
	0.50 to <0.75	—	—	—	—	—	—	—
	0.75 to <2.50	24,346	1.20%	24	40.8%	2.50	22,651	93%
	2.50 to <10.00	29,057	3.06%	9	39.6%	2.50	34,882	120%
	10.00 to <100.00	—	—	—	—	—	—	—
	100.00 (Default)	7,556	100.00%	2	6.1%	2.50	1,001	13%
	Sub-total	496,564	2.00%	102	36.7%	2.49	249,172	50%
Total		496,564	2.90%	106	37.1%	2.50	249,172	51%

As at end-December 2018, the only portfolio for which Mediobanca has chosen to apply the AIRB approach is the Large Corporate segment, within the exposure class “Exposures towards companies – Other companies”. Figures into table EU-CCR4 amount to 3% of total AIRB risk-weighted assets of this segment.



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 31 December 2018, 88% of the guarantees received (€14.4bn) involve securities and cash in connection with securities financing transactions which are recorded among real financial guarantees; there is also €366m (approx. 2% 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: standard method

Exposures to	Amounts as at 31/12/18			Amounts as at 30/6/18		
	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives
Exposures to or guaranteed by central administrations and central banks	—	—	—	—	—	—
Exposures to or guaranteed by regional entities	—	—	—	—	—	—
Exposures to or guaranteed by non-profit-making and public sector entities	—	—	31,858	—	—	—
Exposures to or guaranteed by multilateral development banks	—	—	—	—	—	—
Exposures to or guaranteed by international organizations	—	—	—	—	—	—
Exposures to or guaranteed by regulated intermediaries	14,074,353	—	327,759	9,850,630	—	327,662
Exposures to or guaranteed by companies	2,089,209	—	227,282	1,786,844	—	204,523
Retail exposures	197,016	—	74,796	113,527	—	57,946
Exposures guaranteed by properties	211	—	4,088	188	—	3,679
Overdue exposures	6,815	—	2,827	2,038	—	2,722
High-risk exposures	—	—	—	—	—	—
Exposures in the form of guaranteed bank obligations	—	—	—	—	—	—
Short-term exposures to companies and other subjects	—	—	—	—	—	—
Exposures to OICRs	—	—	—	—	—	—
Exposures to equity instruments	—	—	—	—	—	—
Other exposures	—	—	—	—	—	—
Total	16,367,603	—	668,610	11,753,226	—	596,531



Table 8.2 - Risk mitigation techniques: AIRB method

Exposures to	31/12/18			30/6/18		
	Real financial guarantees	Other guarantees	Personal guarantees and credit	Real financial guarantees	Other guarantees	Personal guarantees and credit
METHODOLOGY BASED ON INTERNAL RATINGS - BASIC						
Exposures to or guaranteed by central administrations and central banks	—	—	—	—	—	—
Exposures to or guaranteed by central administrations, public entities, regional entities and other s	—	—	—	—	—	—
Exposures to or guaranteed by companies - SME	—	—	—	—	—	—
Exposures to or guaranteed by companies - Specialized lending	—	—	—	—	—	—
Exposures to or guaranteed by companies - Other companies	—	—	—	—	—	—
METHODOLOGY BASED ON INTERNAL RATINGS - ADVANCED						
Exposures to or guaranteed by central administrations and central banks	—	—	—	—	—	—
Exposures to or guaranteed by central administrations, public entities, regional entities and other s	—	—	—	—	—	—
Exposures to or guaranteed by companies - SME	—	—	—	—	—	—
Exposures to or guaranteed by companies - Specialized lending	—	—	—	—	—	—
Exposures to or guaranteed by companies - Other companies	209,565	—	163,451	126,610	438	151,264
Retail exposures secured by immovable properties: SME	—	—	—	—	—	—
Retail exposures secured by immovable properties: Physical persons	—	—	—	—	—	—
Qualified revolving retail exposures	—	—	—	—	—	—
Other retail exposures: SME	—	—	—	—	—	—
Other retail exposures: Physical persons	—	—	—	—	—	—
METHODOLOGY BASED ON INTERNAL RATINGS - ADVANCED						
PD/LGD method: Risk assets	—	—	—	—	—	—
Internal ratings method: Risk assets	—	—	—	—	—	—
Simplified weighting method: Risk assets	—	—	—	—	—	—
Total	209,565	—	163,451	126,610	438	151,264

Table 8.3 - Risk mitigation techniques (CR3) – AIRB method

	31/12/18					30/6/18				
	Exposure gross of CRM - UNSECURED	Exposure gross of CRM - TO BE SECURED	Guaranteed exposures			Exposure gross of CRM - UNSECURED	Exposure gross of CRM - TO BE SECURED	Guaranteed exposures		
			from real financial guarantees	from other guarantees	from personal guarantees and credit derivatives			from real financial guarantees	from other guarantees	from personal guarantees and credit derivatives
Total receivables	17,148,763	246,103	82,652	-	163,451	17,505,030	227,085	75,383	438	151,264
Total debt securities	491,861	-	-	-	-	678,834	-	-	-	-
Total exposures	17,640,624	246,103	82,652	-	163,451	18,183,864	227,085	75,383	438	151,264
of which: defaulted	526,400	-	-	-	-	659,597	-	-	-	-



Section 9 – Securitizations

Qualitative information

The Group's portfolio of securities deriving from securitizations by other issuers totalled €432.4m (approx. 60% of which as part of the trading book), higher than the €181.8m reported last year, following purchases of €332.3m and disposals and redemptions totalling €79m. The purchases mainly regard the trading book, which accordingly increased from 21m to 265.3m, and involves a senior issue with NPLs originated by Intesa and ICCREA as the underlying instrument, in which Mediobanca acted as sponsor; the securities acquired will be sold on gradually the secondary market. In this issue, Mediobanca held a retention share of 5% of the mezzanine and junior securities on its trading book in connection with its role as sponsor.

The banking book, which remains concentrated in senior tranches, increased from securities, increased from €160.8m to €167.1m, following early redemptions of €56.5m, sales of €8.4m, and purchases of €73.8m in connection with the Intesa/ICCREA NPL deal referred to above.

Overall the securitization portfolio remains concentrated in senior tranches (96%), with the remainder regarding two mezzanine issues (€6.5m) and two junior securities (€10.6m, €10m of which acquired at end-December 2018 as part of the Adagio deal).

Mediobanca also has exposures to:

- 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 it manages, with an investment of €25.8m;
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28.5m.



Regarding the securitizations by Group SPVs currently outstanding, the following should be noted:

- Securitization by Quarzo S.r.l. (Compass), executed on 6 December 2018, of a €0.9bn portfolio of performing assets. The deal involves performing Compass Banca receivables being sold on a revolving basis. After the assets have been sold, securities worth a total of €0,9bn were issued, €0.6bn of which senior notes A1 (subsequently sold on the market) and €0.147bn in senior A2 notes, plus €0.153bn in junior notes, the latter subscribed for by Compass Banca S.p.A.;
- A new, unsecured issue by MB Funding Lux S.A. for an amount of €400m, with a duration of five years and maturing on 30 October 2023, and guaranteed by a pool of corporate loans originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books).

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	153.0	0.5	1.2	29.3
Quarzo S.r.l.	2,741.9	2,164.1	7.2	23.8	186.5
MB Funding Lux	850.3	47.5	—	—	0.9

Quantitative information
Standardized methodology: positions in securitizations
Table 9.1 – Banking book securitizations (HTC portfolio)

Risk weighting classes	Amounts as at 31/12/18									
	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%	—	—	—	—	—	—	—	—	—	—
Weighting 50%	—	—	75,480	—	—	—	—	—	—	—
Weighting 100%	—	—	100,232	—	—	—	—	—	—	—
Weighting 350%	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - with rating	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - without rating	—	—	—	—	—	—	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—	—	—	—	—	—	—
Look-through - other	—	—	3,693	—	—	—	—	—	—	—
Total	—	—	100,232	—	—	—	—	—	—	—

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

There is also a third-party securitization guaranteed entirely by the Italian government in an amount of €67,079,000 with null weighting.

Table 9.2 – Trading book transactions

Risk weighting classes	Amounts as at 31/12/18			
	Cash risk assets *			
	Own securitizations		Third-party securitizations	
	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	—	—	21,130	—
Weighting 50%	—	—	—	—
Weighting 100%	—	—	241,324	—
Weighting 350%	—	—	—	—
Weighting 1250% - with rating	—	—	—	—
Weighting 1250% - without rating	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—
Look-through - other	—	—	2,640	—
Weighting 650%	—	—	—	—
Total	—	—	265,095	—

(*) No off-balance-sheet risk assets included.



Section 10 – Operational risk

Qualitative information

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.

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 31 December 2018 was €311.8m (unchanged since the balance-sheet date).

The operating losses recorded in the course of the financial year have been low and account for less than 1% of the Group's total revenues.

As for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.



Event type	% on Total Loss
Clients, products and business practices	47%
Execution, delivery and process management	31%
External fraud	10%
Employment practices and workplace safety	12%
Other	0%

During the six months under review, around half of the operating losses were due to the “Clients, products and business practices” event type, which includes losses deriving from complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. One-third of the overall losses was due to process risks (“Execution, delivery and process management”), whereas the other classes regard external fraud on retail financing products (fake documentation and/or cards) and employment practices.

In terms of potential effects, or estimates, operational risks will be higher than in the past due to the growth in the Wealth Management and Consumer Banking businesses, the commercial networks and the higher number of potential instances of risk, such as cyber risk, the potential risk of low frequency/high severity events inherent in businesses which feature non-standard transactions of large size, such as CIB and in part Wealth Management in particular. All operational risks are mitigated by stronger governance and enhanced first-level controls, and by stepping up monitoring activity and valuation capability.



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

With reference to the Group's banking book positions at 31 December 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates (“parallel down”), estimated net interest income would reduce by some €34m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the shock which produces the worst change occurs if the interest rate curve increases by 200 basis points (“parallel up”). The loss in this case would be €12m, chiefly due to decreases by CheBanca! (€10m) and Compass (€53m), which would outweigh the increase by Mediobanca (€42m).

This data is summarized in the table below:

Table 12.1 – Sensitivity analysis

Data in €m	Amounts at 31/12/18					
	Limit scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Sensitivity of Interest income margin	Parallel down	(34)	(34)	(12)	15	(3)
Sensitivity of Expected Cash Flows present values	Steepener	(12)	42	(10)	(53)	9

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/estimated Group net interest income) and 6% (economic value sensitivity/regulatory capital).



Section 13 – Market risk

Table 13.1 - Capital requirements by calculation method

Description	Balance-sheet requirement	
	31/12/18	30/6/18
Risk-weighted exposures: concentration risk	2,556,275	2,363,665
Standardized methodology	204,502	189,093
<i>Debt-securities-exposure risk</i>	154,978	136,160
<i>Equity-securities-exposure risk</i>	49,524	52,933
<i>Exchange risk</i>	—	—
<i>Commodities-exposure risk</i>	—	—
Internal models	—	—
Risk-weighted exposures: concentration risk	—	—

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

RWAs facing market risk at end-December 2018 totalled €2.6bn (30/6/18: €2.4bn), the increase being due to the exposure to interest rate risk on positions in debt securities, which includes the trading book securitizations (up from €7.3m to €260m) as a result of the deal described in Section 9. Exchange rate risk continues not to generate significant absorption of capital, given the limited exposure which is below the limit set to calculate the requirements.

Exposure to financial risks on the trading book, which within the Group affects only Mediobanca S.p.A., is measured on a daily basis by calculating the following main indicators:

- Sensitivity – chiefly delta and vega – 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 these 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 daily and monthly 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 more effectively other risks on trading positions that are not fully measured by VaR and sensitivity analysis. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

The value-at-risk on the Trading and General Management HFT portfolio in Mediobanca ranged from a low of €2.4m (end-July 2018) and a high of €4.6m (mid-December 2018). The trading portfolio reflects an increased exposure to directional risks; the volatilities of the forex and sovereign interest rate asset classes showed an increase in the month of November which continued to the end of the reporting period, driven by uncertainties over the Italian budget and the difficulties that have arisen in the Brexit negotiations. The average VaR reading for the first six months of FY 2018-19, €3.4m, was therefore higher than the average reading for the second half of 2017-18 (€2.7m). The point-in-time reading for VaR at 31 December 2018 was €3.3m.

The expected shortfall on the combined trading portfolio showed a sharp increase in the average reading, from €3.4m to €4.2m, due to the increase in trading positions.

The results of the daily back-testing on the trading book during the six months under review, based on comparison with the theoretical profits and losses, showed only one event in which the theoretical losses deriving from trading activity were higher than the VaR. This event occurred at the start of December and was largely due to widespread losses on indexes and the individual underlying stocks.



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

Trading-portfolio Value at Risk and Expected Shortfall Risk factors	6 mths to 31/12/18				12 mths to 30/6/18
	31 Dec	Min	Max	Avg	
Interest rates	2,287	614	2,697	1,554	591
Credit	1,080	773	2,637	1,285	732
Shares prices	1,129	989	2,243	1,623	2,303
Exchange rates	1,560	607	1,840	1,234	416
Inflation	187	17	377	99	59
Volatility	1,073	579	1,619	868	697
Diversification effect *	(3,317)	(2,229)	(4,468)	(3,239)	(2,129)
Total	4,000	2,401	4,615	3,424	2,669
Expected Shortfall	4,283	2,960	5,295	4,161	3,380

(*) Due to mismatch between risk factors.

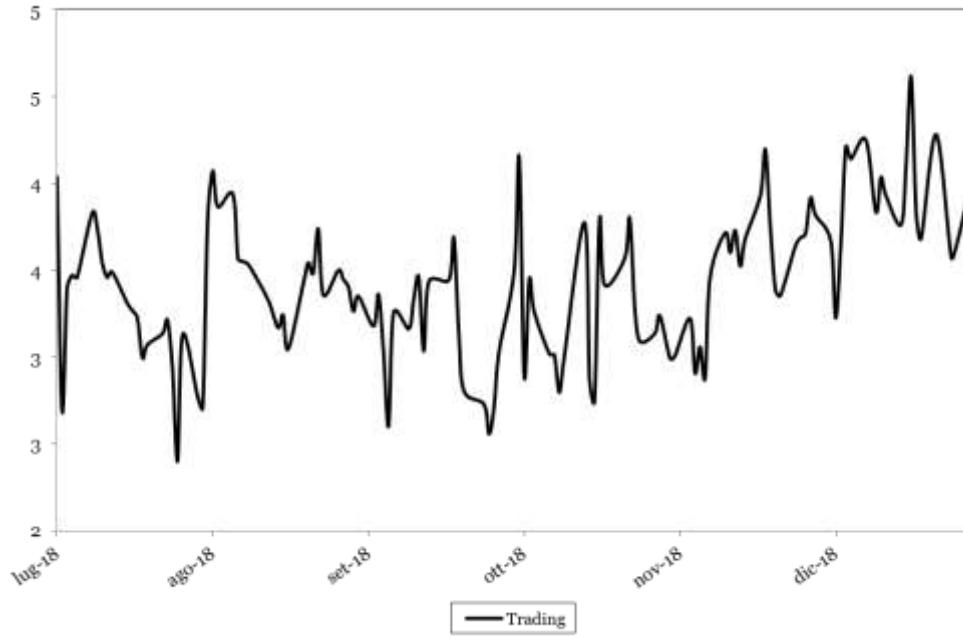
Apart from the overall VaR limit for the trading and General Management books, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks on average reflect long delta and vega positions. The exposure to interest rates ranged from €82,000 to €496,000, with an average reading of approx. €273,000.

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

Risk factors	6 mths to 31/12/18			
	30/6/18	Min	Max	Avg.
Equity delta (+1%)	811	(427)	1,236	724
Equity vega (+1%)	363	(179)	605	165
Interest rate delta (+1bp)	491	82	496	273
Inflation delta (+1 bp)	20	(9)	24	2
Exchange rate delta (+1%)	673	(1,080)	682	(83)
Credit delta (+1bp)	634	321	784	570



Trend in VaR on the trading book





Trends in VaR constituents (trading book)

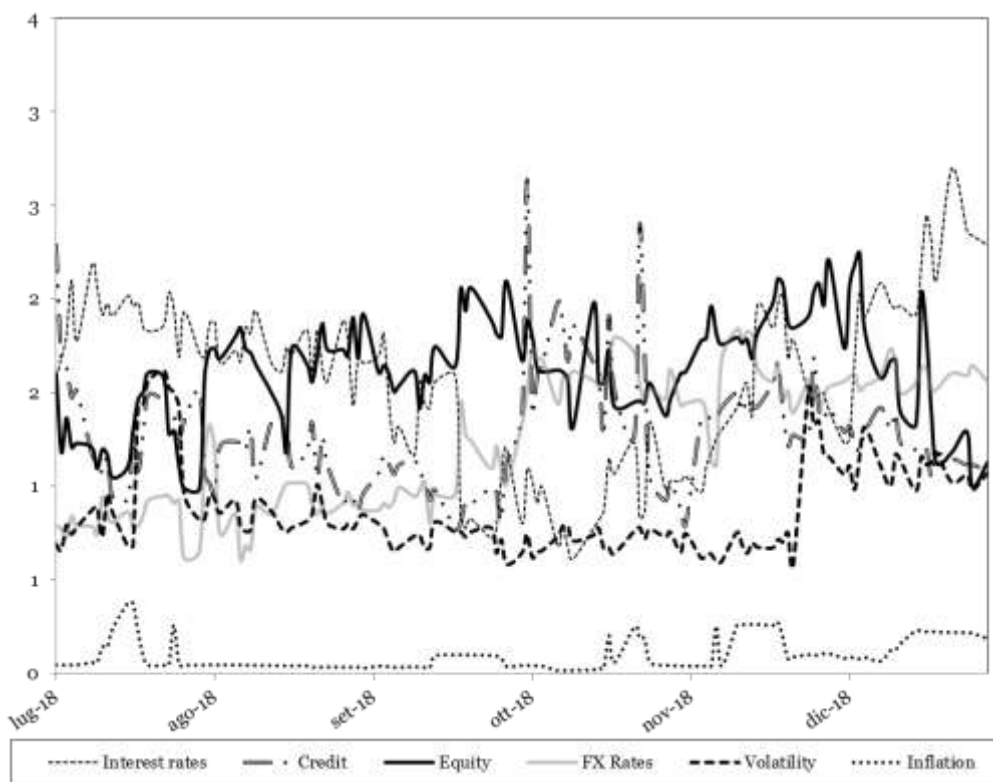


Table 13.4 - Capital requirements by market risk

Capital requirement for market risk	31/12/18	30/6/18
Position risk	204,502	189,093
<i>of which relating to positions in respect of securitizations</i>	20,788	587
Concentration risk	—	—
Regulatory risk for DVP transactions	—	—
Exchange rate risk	—	—
Risk on positions in commodities	—	—
Total Market Risk	204,502	189,093



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, 7 February 2019

Head of Company
Financial Reporting
Emanuele Flappini