

# MEDIOBANCA



*Quarterly review of operations*

(31 March 2012)

# MEDIOBANCA

LIMITED COMPANY  
SHARE CAPITAL € 430,564,606  
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK  
PARENT COMPANY OF THE MEDIOBANCA BANKING GROUP



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(31 March 2012)

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**REVIEW OF  
GROUP OPERATIONS  
31 MARCH 2012**



## **REVIEW OF GROUP OPERATIONS 31 MARCH 2012**

The Group's results for the nine months reflect a positive performance for the third quarter. Total income for the whole nine months amounted to €1,537.4m, near last year's levels (31/3/11: €1,554.3m), driven by the contributions from trading (€133.1m in the third quarter), net fee and commission income (€151.2m), and net interest income, which rose again year-on-year to €813.3m (€799.8m). Pre-tax profit for the period totalled €615.5m (€620.3m). However, as a result of the negative market trends in this period, losses on securities and investments rose substantially, from €8.1m to €404.1m, and consist of: €179.5m in writedowns to the AFS securities portfolio, €56.1m in losses on disposals, and €168.5m in impairment charges to investments (€113.3m in respect of Telco for the quarter). The other item worthy of note was the €44.3m gain realized on disposal of a non-core property owned by Compagnie Monégasque de Banque in Monaco. Net profit accordingly totalled €104.9m, compared with €418.9m last year. The main income items performed as follows:

- net interest income rose slightly, from €799.8m to €813.3m (up 1.7%), driven by the retail and private banking division, where net interest income rose from €484m to €532.1m, partly offset by the reduction in such income recorded in corporate and investment banking (down from €325m to €295.5m);
- net trading income increased from €185.6m to €245.6m, boosted in particular by the short-lived reduction in spreads on Italian government securities during the third quarter;
- net fee and commission income declined from €405.3m to €385.6m in the nine months, but corporate and investment banking fees performed well in the third quarter, totalling €99.4m;
- the amount added by the equity-accounted companies fell from €163.6m last year to €92.9m, due to lower profits earned by Assicurazioni Generali (€70.1m, compared with €157.2m).

Operating costs fell by 2.9%, from €613.1m to €595.1m, primarily due to the reduction in labour costs (down 5.4%).

In a scenario which remains highly critical, loan loss provisions were virtually stable at €326.8m, up from €320.9m. The improvement in consumer finance, where provisioning was down from €228.5m to €222.7m, and retail banking (down from €19m to €11.1m) offset the deterioration in wholesale banking, where provisions rose from €53.2m to €68.9m, and leasing (up from €19.7m to €22.1m).

Provisions for other financial assets include: an adjustment of €129.8m for the Greek government securities held, to reflect the market value of the bonds received in exchange under the restructuring agreements; impairment charges of €55.2m for the RCS MediaGroup investment (corresponding to a net present value of €1.23 per share) and of €113.3m for the stake owned in Telco (corresponding to a net present value of €1.5 per share for the Telecom Italia shares); and €62.9m in writedowns to AFS equities, €34m of which in respect of the Delmi investment (in connection with the Edison stake being swapped for that in Edipower).

Turning to the individual business areas, total income in corporate and investment banking rose by 4.9%, from €740.1m to €776.3m, with costs reducing by 7.1% (from €257.7m to €239.5m). The net profit of €88.5m (which reflects €125.9m earned in the third quarter) is well below the €238.4m earned in the same period last year, but solely as a result of the losses on the securities portfolio (€242.4m). Conversely, retail and private banking showed profit up from €49.7m to €120.4m, helped by growth in consumer credit, where net profit climbed from €58.1m to €87.1m (with €28.8m earned in the third quarter), a resilient performance by CheBanca! (where the net loss was virtually unchanged, at approx. €30m, despite the increase in interest rates on tied deposits), and the €44.3m gain on the CMB property disposal. The principal investing division reported a loss of €107.2m for the period, as a result of writedowns to the investments in Telco (€113.3m) and RCS MediaGroup (€55.2m).

As for the balance-sheet aggregates, there were increases in funding (up from €54bn to €57bn), due to the second tranche of the ECB three-year facility (€3.5bn), and in CheBanca! retail deposits (up from €10.7bn to €11.5bn), which were used to fund growth in the AFS bond portfolio (which increased from €5.5bn to €10.9bn). Treasury funds fell sharply, from €9.4bn to €8.6bn, as did loans and advances to customers (from €37.8bn to €37.1bn). Assets under management in private banking grew by 3.1% in the third quarter (up from €12.6bn to €13bn) and by 2.7% for the nine months.

The Group's main capital ratios remain at high levels, with the core tier 1 ratio at 11.10%, and the total capital ratio at 13.66%.

\* \* \*

Significant events during the third quarter include:

- the disposal by Compagnie Monégasque de Banque of its Swiss branch CMB Banque Privée (Suisse), with headquarters in Lugano;
- completion of the partial demerger by Compass to Mediobanca of its investments in CheBanca! and SelmaBipiemme, its stake in Assicurazioni Generali (equal to 0.91% of the company's share capital), and the property located in Foro Buonaparte, Milan; the transaction was completed under a deed executed on 23 March 2012, registered with the Milan Companies' Register on 26 March 2012, which took legal effect from 1 April 2012;
- sale of a 8.47% stake in Autostrade Sud America for a consideration of €104.6m, realizing a gain of some €90m. The sale is due to be executed by 30 June 2012.



## Consolidated financial statements \*

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

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	(€m)			
	9 mths to 31/3/11	6 mths to 31/12/11	9 mths to 31/3/12	Y.o.Y. chg (%)
<b>Profit-and-loss data</b>				
Net interest income	799.8	554.6	813.3	+1.7
Net trading income	185.6	112.5	245.6	+32.3
Net fee and commission income	405.3	234.4	385.6	-4.9
Equity-accounted companies	163.6	71.8	92.9	-43.2
<b>TOTAL INCOME</b>	<b>1,554.3</b>	<b>973.3</b>	<b>1,537.4</b>	<b>-1.1</b>
Labour costs	(318.2)	(201.3)	(300.9)	-5.4
Administrative expenses	(294.9)	(197.9)	(294.2)	-0.2
<b>OPERATING COSTS</b>	<b>(613.1)</b>	<b>(399.2)</b>	<b>(595.1)</b>	<b>-2.9</b>
Gains (losses) on AFS, HTM and L&R	11.9	(37.8)	(56.1)	n.m.
Loan loss provisions	(320.9)	(212.3)	(326.8)	+1.8
Provisions for financial assets	(20.0)	(231.1)	(348.0)	n.m.
Other profits (losses)	0.1	43.7	45.2	n.m.
<b>PROFIT BEFORE TAX</b>	<b>612.3</b>	<b>136.6</b>	<b>256.6</b>	<b>-58.1</b>
Income tax for the period	(189.6)	(71.4)	(151.5)	-20.1
Minority interest	(3.8)	(1.8)	(0.2)	n.m.
<b>NET PROFIT</b>	<b>418.9</b>	<b>63.4</b>	<b>104.9</b>	<b>-75.0</b>

\* For a description of the methods by which the data has been restated, see also the section entitled “Accounting policies”.

## RESTATED BALANCE SHEET

	(€m)		
	30/6/11	31/12/11	31/3/12
<b>Assets</b>			
Treasury funds	8,608.0	9,391.1	8,551.5
AFS securities	7,749.9	6,859.6	12,161.3
<i>of which: fixed-income</i>	<i>6,092.3</i>	<i>5,534.8</i>	<i>10,852.5</i>
<i>equities</i>	<i>1,643.6</i>	<i>1,312.6</i>	<i>1,295.1</i>
Fixed financial assets (HTM & LR)	2,308.1	2,412.6	2,287.8
Loans and advances to customers	36,225.6	37,833.5	37,133.4
Equity investments	3,156.1	2,976.9	2,834.9
Tangible and intangible assets	757.8	728.4	721.5
Other assets	1,376.7	1,270.6	1,206.3
<i>of which: tax assets</i>	<i>967.0</i>	<i>1,003.0</i>	<i>930.5</i>
Total assets	<u>60,182.2</u>	<u>61,472.7</u>	<u>64,896.7</u>
<b>Liabilities and net equity</b>			
Funding	51,712.9	54,028.8	57,021.2
<i>of which: debt securities in issue</i>	<i>34,460.5</i>	<i>32,422.8</i>	<i>31,045.2</i>
<i>retail deposits</i>	<i>9,960.3</i>	<i>10,671.3</i>	<i>11,530.2</i>
Other liabilities	1,258.9	1,036.1	1,159.5
<i>of which: tax liabilities</i>	<i>565.8</i>	<i>430.7</i>	<i>530.3</i>
Provisions	182.6	182.0	181.5
Net equity	6,659.2	6,162.4	6,429.6
<i>of which: share capital</i>	<i>430.6</i>	<i>430.6</i>	<i>430.6</i>
<i>reserves</i>	<i>6,113.9</i>	<i>5,619.3</i>	<i>5,888.4</i>
<i>minority interest</i>	<i>114.7</i>	<i>112.5</i>	<i>110.6</i>
Profit for the period	368.6	63.4	104.9
Total liabilities and net equity	<u>60,182.2</u>	<u>61,472.7</u>	<u>64,896.7</u>
<i>Tier 1 capital</i>	<i>6,156.1</i>	<i>6,127.3</i>	<i>6,142.5</i>
<i>Regulatory capital</i>	<i>7,899.1</i>	<i>7,499.8</i>	<i>7,561.1</i>
<i>Tier 1 capital/risk-weighted assets</i>	<i>11.19%</i>	<i>11.01%</i>	<i>11.10%</i>
<i>Regulatory capital/risk-weighted assets</i>	<i>14.36%</i>	<i>13.48%</i>	<i>13.66%</i>
<i>No. of shares in issue (millions)</i>	<i>861.1</i>	<i>861.1</i>	<i>861.1</i>

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

	(€m)			
31 March 2012	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
<b>Profit-and-loss data</b>				
Net interest income	295.5	(6.4)	532.1	813.3
Net trading income	237.1	—	7.7	245.6
Net fee and commission income	225.3	—	190.5	385.6
Equity-accounted companies	18.4	73.1	—	92.9
<b>TOTAL INCOME</b>	<b>776.3</b>	<b>66.7</b>	<b>730.3</b>	<b>1,537.4</b>
Labour costs	(159.0)	(4.2)	(148.4)	(300.9)
Administrative expenses	(80.5)	(2.1)	(232.9)	(294.2)
<b>OPERATING COSTS</b>	<b>(239.5)</b>	<b>(6.3)</b>	<b>(381.3)</b>	<b>(595.1)</b>
Gains (losses) on AFS, HTM and L&R	(64.8)	—	0.4	(56.1)
Loan loss provisions	(91.0)	—	(235.0)	(326.8)
Provisions for financial assets	(177.6)	(169.9)	(0.5)	(348.0)
Other profits (losses)	—	—	46.9	45.2
<b>PROFIT BEFORE TAX</b>	<b>203.4</b>	<b>(109.5)</b>	<b>160.8</b>	<b>256.6</b>
Income tax for the period	(114.7)	2.3	(40.4)	(151.5)
Minority interest	(0.2)	—	—	(0.2)
<b>NET PROFIT</b>	<b>88.5</b>	<b>(107.2)</b>	<b>120.4</b>	<b>104.9</b>
Cost/income ratio (%)	30.9	9.4	52.2	38.7
<b>Balance-sheet data</b>				
Treasury funds	9,750.3	—	5,840.0	8,551.5
AFS securities	10,828.5	142.7	1,660.0	12,161.3
Fixed financial assets (HTM & LR)	3,975.5	—	2,702.1	2,287.8
Equity investments	390.6	2,359.2	—	2,834.9
Loans and advances to customers	27,835.9	—	14,308.8	37,133.4
<i>of which: to Group companies</i>	<i>4,969.0</i>	<i>—</i>	<i>—</i>	<i>—</i>
Funding	(50,191.6)	(259.8)	(23,243.8)	(57,021.2)
Risk-weighted assets	40,778.8	2,671.4	11,869.6	55,346.4
No. of staff	991	—	2,655 *	3,517

\* Includes 129 staff employed by Banca Esperia pro-forma, not included in the Group total.

1) Divisions comprise:

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

2) Sum of divisional data differs from Group total due to:

- Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
- adjustments/differences arising on consolidation between business areas (€23m as at 31 March 2011 and €3.5m as at 31 March 2012).

	(€m)			
31 March 2011	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
<b>Profit-and-loss data</b>				
Net interest income	325.0	(5.6)	484.0	799.8
Net trading income	168.8	—	11.5	185.6
Net fee and commission income	249.9	—	186.0	405.3
Equity-accounted companies	(3.6)	166.3	—	163.6
<b>TOTAL INCOME</b>	<b>740.1</b>	<b>160.7</b>	<b>681.5</b>	<b>1,554.3</b>
Labour costs	(182.4)	(4.1)	(142.3)	(318.2)
Administrative expenses	(75.3)	(1.9)	(238.1)	(294.9)
<b>OPERATING COSTS</b>	<b>(257.7)</b>	<b>(6.0)</b>	<b>(380.4)</b>	<b>(613.1)</b>
Gains (losses) on AFS, HTM and L&R	(1.1)	—	40.2	11.9
Loan loss provisions	(72.9)	—	(247.9)	(320.9)
Provisions for financial assets	(15.0)	(4.5)	(0.4)	(20.0)
Other profits (losses)	—	—	—	0.1
<b>PROFIT BEFORE TAX</b>	<b>393.4</b>	<b>150.2</b>	<b>93.0</b>	<b>612.3</b>
Income tax for the period	(151.2)	3.6	(43.3)	(189.6)
Minority interest	(3.8)	—	—	(3.8)
<b>NET PROFIT</b>	<b>238.4</b>	<b>153.8</b>	<b>49.7</b>	<b>418.9</b>
Cost/income ratio (%)	34.8	3.7	55.8	39.4
<b>Balance-sheet data</b>				
Treasury funds	10,915.1	—	4,454.6	11,074.3
AFS securities	6,312.9	132.6	2,125.7	7,615.4
Fixed financial assets (HTM & LR)	3,781.5	—	2,568.5	2,089.3
Equity investments	385.1	2,920.2	—	3,363.5
Loans and advances to customers	26,683.2	—	13,185.5	35,248.8
<i>of which: to Group companies</i>	<i>4,610.5</i>	—	—	—
Funding	(44,981.1)	(259.8)	(21,695.4)	(52,815.1)
Risk-weighted assets	40,287.2	3,293.5	10,958.0	54,551.4
No. of staff	938	—	2,567 *	3,377

\* Includes 128 staff employed by Banca Esperia not included in the Group total.

## Balance sheet

The main balance-sheet items, of which Mediobanca contributes over one-half, performed as follows during the period under review (comparative data as at 31 December 2011):

**Funding** – this item increased from €54,028.8m to €57,021.2m, boosted by a new tranche of the three-year ECB facility disbursed at end-February (€3.5bn), and by growth in the CheBanca! retail component (from €10,671.3m to €11,530.2m), only partly offset by the reduction in debt securities (from €32,422.8m to €31,045.2m); meanwhile bank debt and other funds raised from customers remained stable.

**Loans and advances to customers** – the 1.9% reduction in this item, from €37,833.5m to €37,133.4m, involved the corporate and investment banking segment in particular, which was down 3%; whereas retail and private banking was more or less stable, the slight reduction in mortgage lending being offset by consumer credit and private banking.

	31/12/11	31/3/12	(€m) Change (%)
Corporate and investment banking	23,580.3	22,871.3	-3.0
– of which: leasing	4,313.6	4,226.4	-2.0
Retail and private banking	14,253.2	14,262.1	+0.1
– of which: consumer credit	9,131.4	9,154.1	+0.3
mortgage lending	4,327.1	4,298.2	-0.7
private banking	794.7	809.8	+1.9
<b>TOTAL LOANS AND ADVANCES TO CUSTOMERS</b>	<b>37,833.5</b>	<b>37,133.4</b>	<b>-1.9</b>

Impaired assets (non-performing, sub-standard, restructured and overdue items) rose by 25.8%, from €694.7m to €873.6m, as a result of the new regulatory classification of overdue loans, which as from 1 January 2012 include accounts that are more than 90 days overdue (as opposed to 180 days previously). On a like-for-like basis such assets would reduce by around 2% (from €890.4m to €873.6m). The coverage rates therefore also change, with 44% coverage for consumer credit (70%), 46% for mortgage lending (45%), and 36% for corporate finance (36%). Asset quality remains good, with a slight increase in the percentage of total loans accounted for by impaired items in all customer segments: 0.94% for large corporates (0.93%), 5.1% in leasing (compared with 5.4% if the figure at 31/12 is restated on a like-for-like basis), 3.45% in consumer credit (3.44%), and 2.4% in mortgage lending (2.4%). The slight increase in non-performing items (0.65% of total loans, as compared with 0.63%) is concentrated in the real estate segment (mortgage lending and leasing).

**Equity investments** – these declined from €2,976.9m to €2,834.9m, reflecting the writedown to the Telco investment (€113.3m), and the negative trend in the valuation reserves (€49.7m of which in respect of Assicurazioni Generali). During the period under review gains of €21.1m were recorded, with all the investee companies contributing positively apart from Gemina (€1.7m loss). The net gain arising on listed equity investments rose to €272.7m (€174m), which is more or less wiped out at current prices.

	Percentage shareholding *	Book value	Market value as at 31/3/12	(€m) Surplus (shortfall)
LISTED EQUITY INVESTMENTS				
Assicurazioni Generali	13.24	2,061.2	2,398.9	337.7
RCS MediaGroup, <i>ordinary</i>	14.36	136.0	70.6	(65.4)
Pirelli & C. S.p.A.	4.49	117.7	195.5	77.8
Gemina	12.53	196.1	118.7	(77.4)
		<u>2,511.0</u>	<u>2,783.7</u>	<u>272.7</u>
OTHER EQUITY INVESTMENTS				
Telco	11.62	136.8		
Banca Esperia	50.0	85.1		
Burgo Group	22.13	76.8		
Athena Private Equity class A	24.27	24.2		
Fidia	25.0	1.0		
		<u>323.9</u>		
		<u>2,834.9</u>		

\* Percentage of entire share capital.

The Telco investment was adjusted to reflect the Group's pro rata share of its net equity (€136.8m), which factors in the writedown charged by the company to its Telecom Italia stake to reflect a net asset value of €1.5 per share (previously €1.8), meaning a charge of €113.3m was taken through the profit and loss account.

**Fixed financial assets** – this portfolio brings together the Group's holdings in securities held to maturity, worth €1,682.1m (€1,747.9m) and unlisted debt securities (recognized at cost), worth €605.7m (€664.7m). In the third quarter this portfolio included redemptions worth €118.1m, along with other net downward adjustments totalling €6.7m. The portfolio shows a concentration of Italian domestic issuers, and consists as to 15% of sovereign debt securities, as to 28% of corporate bonds, and as to 57% of bonds issued by banks, insurances and financial companies. Based on prices and holdings at the reporting date, the portfolio reflected an implicit loss of €10.6m (€112.7m at 31 December 2011).

**AFS securities** – this portfolio is made up of debt securities totalling €10,852.5m (€5,534.8m), equities worth €1,295.1m (€1,312.6m), and stock units in funds held by Compagnie Monégasque de Banque amounting to €13.7m (€12.2m). Some 76% of the bond portfolio consists of sovereign debt securities, 5% of corporate bonds, and the remainder of bonds issued by banks, insurances and financial companies. Movements during the three months included purchases totalling €5,959.3m (almost all of which in Italian government bonds), disposals and redemptions amounting to €1,001.1m (generating losses of €16.2m, due almost entirely to the Greek bond exchange agreement), downward adjustments of €7.5m to reflect amortized cost, and upward adjustments to reflect fair value totalling €383.2m (more than half of which due to the recovery by Italian government securities). Movements on the equity side consisted of purchases totalling €5.4m, disposals of €73.2m (generating a loss of €23.7m), writedowns of €3.5m, and upward adjustments to reflect fair value totalling €88.6m, €42.1m of which in respect of the investment in Autostrade Sud America.

	Percentage shareholding *	Book value at 31/3/12	Adjustments to fair value	Impairment recognized in P&L	Total AFS reserve
Sintonia S.A	6.50	336.3	—	—	—
UCI cashes		159.2	(81.3)	—	(110.0)
Delmi S.p.A.	6.0	60.2	—	(34.0)	—
Santé S.A.	9.99	82.4	—	(0.8)	—
Italmobiliare	9.5 – 5.47	36.6	(16.5)	—	2.0
Other listed shares		257.9	(23.5)	(16.0)	(22.3)
Other unlisted shares		362.5	41.9	(12.1)	102.1
<b>TOTAL SHARES</b>		<b>1,295.1</b>	<b>(79.4)</b>	<b>(62.9)</b>	<b>(28.2)</b>

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

The net valuation reserve for the portfolio as a whole improved by some €430m in the three months, from minus €595.7m to minus €167m; in particular the equity component showed an improvement, from minus €93m to minus €28.2m, as did Italian government securities, from minus €327.8m to minus €117.7m, and other bonds, from minus €175.7m to minus €22.5m. During the month of April, however, after the trend in spreads reversed unfavourably once again, the bond reserve declined once more to minus €212m.

**Treasury funds** – this item fell from €9,391.1m to €8,551.5m, and includes €652m (€1,598m) in cash and cash equivalents, €1,118m of which deposited with the European Central Bank, €4,056m (€3,498.9m) in fixed-income securities, €1,095.7m (€1,112.2m) in equities and fund stock units, €906.2m (€774.1m)

in downward adjustments to derivative contracts, and €3,654m (€3,956.1m) in net applications of short-term funding instruments, such as repos, bank deposits etc. Movements for the period and marking the portfolio (including derivatives) to market as at 31 March 2012 generated gains of €235.5m. Some 41% of the fixed-income securities consist of bonds issued by banks, insurances and financial companies, 42% of government securities, and the remainder of corporate bonds.

**Tangible and intangible assets** – these fell from €728.4m to €721.5m, as a result of amortization charges for the period. The heading also includes goodwill worth €365.9m and brands totalling €6.3m.

**Provisions** – this item comprises the provision for liabilities and charges, which stands at €157.1m, compared with €157.8m, and the staff severance indemnity provision, which amounts to €24.4m (€24.2m).

**Net equity** – net equity increased by €269.1m, from €6,049.9m to €6,319m, due to the increase in the Group's valuation reserves, which were up €316.2m, an increase only partly offset by the €49.4m reduction in the share attributable to investee companies. In detail, the negative AFS securities valuation reserve improved, from minus €427.1m to minus €91m, whereas the cash flow hedge reserve deteriorated, from minus €90.5m to minus €106.5m, as did the share attributable to the equity-accounted companies (from minus €211.2m to minus €254.1m). A small exchange rate difference attributable to Compagnie Monégasque de Banque (amounting to €3.7m as at 31 December 2011) was also booked to the profit and loss account, following the disposal of the bank's Swiss branch.



## Profit and loss account

**Net interest income** – this item rose by 1.7%, from €799.8m to €813.3m, reflecting the positive trend in retail and private banking, up 9.9% (from €484m to €532.1m), which saw net interest income generated by consumer credit grow 4.1%, in line with lendings, and that generated by CheBanca! grow approx. €30m despite the higher interest rates on deposits. Net interest income earned from corporate banking operations was down 9.1%, and continues to be affected by the increase in the cost of funding and the difficulties in passing this on to large/medium-sized borrowers.

**Net trading income** – income from trading activities stood at €235.5m (31/3/11: €178m), up €130.6m following positive contributions from both the fixed-income and equity sides, as spreads on sovereign debt fell and share prices climbed; indeed, fixed-income trading generated €91.2m in the third quarter and €213.5m in the nine months, and equity trading €39.4m and €22m respectively. The heading also includes dividends received in respect of AFS equities totalling €10.1m (€7.6m).

**Net fee and commission income** – this item fell by 4.9%, from €405.3m to €385.6m, due to the reduced contribution from corporate and investment banking (down from €249.9m to €225.3m), although this division did generate fees of €99.4m in the third quarter. Commissions earned from retail and private banking operations were stable at €190.5m, with the healthy performance in consumer credit, where there was 6% growth, offsetting the reduction in private banking (also 6%).

**Operating costs** – these were down 2.9%, from €613.1m to €595.1m, and consist of:

- labour costs amounting to €300.9m (€318.2m); these include €6m (€5.9m) in emoluments paid to directors, and €7.4m (€6.9m) in costs associated with stock options and performance shares.
- sundry costs and expenses amounting to €294.2m (€294.9m), including €32.8m (€31m) in depreciation and amortization, and administrative expenses totalling €259.8m (€263.8m), made up as follows:

	(€m)	
	9 mths to 31/3/11	9 mths to 31/3/12
Legal, tax and other professional services	34.6	26.5
Bad debt recovery	20.4	21.5
Marketing and communication	56.7	49.9
Rent and property maintenance charges	27.9	29.6
EDP	23.1	24.9
Financial information subscriptions	17.3	19.6
Banking services, collection and payment charges	15.2	16.4
Operating expenses	38.7	38.7
Other labour costs	17.0	16.1
Others	6.5	6.7
Direct and indirect taxes (net of withholding tax)	6.4	9.9
<b>TOTAL</b>	<b>263.8</b>	<b>259.8</b>

**Loan loss provisions** – the period under review showed a further reduction in the risk associated with retail financial services (down from €247.9m to €235.8m), which was entirely offset by the increase in corporate lending (up from €72.9m to €91m for the nine months and from €23.4 to €37m in the third quarter).

**Provisions for other financial assets** – in addition to the €113.3m provision in respect of Telco mentioned above, for the three months this item includes €2.2m due to automatic accounting mechanisms triggered for listed equities, and €1.4m to cover the long-term losses of value of unlisted shares.

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

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

### CORPORATE AND INVESTMENT BANKING (WHOLESALE AND LEASING)

	(€m)			
	9 months to 31/3/11	6 months to 31/12/11	9 months to 31/3/12	Y.o.Y. chg. (%)
<b>Profit-and-loss data</b>				
Net interest income	325.0	204.5	295.5	-9.1
Net trading income	168.8	107.5	237.1	+40.5
Net fee and commission income	249.9	125.9	225.3	-9.8
Equity-accounted companies	(3.6)	10.3	18.4	n.m.
<b>TOTAL INCOME</b>	<b>740.1</b>	<b>448.2</b>	<b>776.3</b>	<b>+4.9</b>
Labour costs	(182.4)	(107.5)	(159.0)	-12.8
Administrative expenses	(75.3)	(54.3)	(80.5)	+6.9
<b>OPERATING COSTS</b>	<b>(257.7)</b>	<b>(161.8)</b>	<b>(239.5)</b>	<b>-7.1</b>
Gains (losses) on AFS, HTM and L&R	(1.1)	(46.7)	(64.8)	n.m.
Loan loss provisions	(72.9)	(54.0)	(91.0)	+24.8
Provisions for financial assets	(15.0)	(175.4)	(177.6)	n.m.
<b>PROFIT BEFORE TAX</b>	<b>393.4</b>	<b>10.3</b>	<b>203.4</b>	<b>-48.3</b>
Income tax for the period	(151.2)	(45.9)	(114.7)	-24.1
Minority interest	(3.8)	(1.8)	(0.2)	n.m.
<b>NET PROFIT</b>	<b>238.4</b>	<b>(37.4)</b>	<b>88.5</b>	<b>-62.9</b>
Cost/income ratio (%)	34.8	36.1	30.9	

	30/6/11	31/12/11	31/3/12
<b>Balance-sheet data</b>			
Treasury funds	9,469.5	10,593.8	9,750.3
AFS securities	6,550.5	5,658.0	10,828.5
Fixed financial assets (HTM & LR)	4,001.1	4,101.1	3,975.5
Equity investments	385.6	384.2	390.6
Loans and advances to customers	27,623.9	29,182.8	27,835.9
<i>of which: to Group companies</i>	5,144.2	5,606.5	4,969.0
Funding	(44,908.2)	(47,851.9)	(50,191.6)

	(€m)		
<b>Corporate and investment banking 31 March 2012</b>	<b>Wholesale</b>	<b>Leasing</b>	<b>Total</b>
Net interest income	251.6	43.9	295.5
Net trading income	238.4	(1.3)	237.1
Net fee and commission income	220.4	4.9	225.3
Equity-accounted companies	18.4	—	18.4
<b>TOTAL INCOME</b>	<b>728.8</b>	<b>47.5</b>	<b>776.3</b>
Labour costs	(144.4)	(14.6)	(159.0)
Administrative expenses	(71.7)	(8.8)	(80.5)
<b>OPERATING COSTS</b>	<b>(216.1)</b>	<b>(23.4)</b>	<b>(239.5)</b>
Gains (losses) on AFS, HTM and L&R	(64.8)	—	(64.8)
Loan loss provisions	(68.9)	(22.1)	(91.0)
Provisions for financial assets	(177.6)	—	(177.6)
<b>PROFIT BEFORE TAX</b>	<b>201.4</b>	<b>2.0</b>	<b>203.4</b>
Income tax for the period	(111.4)	(3.3)	(114.7)
Minority interest	—	(0.2)	(0.2)
<b>NET PROFIT</b>	<b>90.0</b>	<b>(1.5)</b>	<b>88.5</b>
Cost/income ratio (%)	29.7	49.3	30.9
Other assets	24,849.2	95.7	24,944.9
Loans and advances to customers	23,609.5	4,226.4	27,835.9
<i>of which: to Group companies</i>	4,969.0	—	4,969.0
New loans	N/A	668.7	—
No. of staff	792	199	991

	(€m)		
<b>Corporate and investment banking 31 March 2011</b>	<b>Wholesale</b>	<b>Leasing</b>	<b>Total</b>
Net interest income	270.8	54.2	325.0
Net trading income	168.0	0.8	168.8
Net fee and commission income	246.7	3.2	249.9
Equity-accounted companies	(3.6)	—	(3.6)
<b>TOTAL INCOME</b>	<b>681.9</b>	<b>58.2</b>	<b>740.1</b>
Labour costs	(168.4)	(14.0)	(182.4)
Administrative expenses	(66.7)	(8.6)	(75.3)
<b>OPERATING COSTS</b>	<b>(235.1)</b>	<b>(22.6)</b>	<b>(257.7)</b>
Gains (losses) on AFS, HTM and L&R	(1.1)	—	(1.1)
Loan loss provisions	(53.2)	(19.7)	(72.9)
Provisions for financial assets	(15.0)	—	(15.0)
<b>PROFIT BEFORE TAX</b>	<b>377.5</b>	<b>15.9</b>	<b>393.4</b>
Income tax for the period	(144.2)	(7.0)	(151.2)
Minority interest	—	(3.8)	(3.8)
<b>NET PROFIT</b>	<b>233.3</b>	<b>5.1</b>	<b>238.4</b>
Cost/income ratio (%)	34.5	38.8	34.8
Other assets	21,341.8	52.8	21,394.6
Loans and advances to customers	22,281.8	4,401.4	26,683.2
<i>of which: to Group companies</i>	<i>4,610.5</i>	<i>—</i>	<i>4,610.5</i>
New loans	N/A	831.7	—
No. of staff	731	207	938

This division reported total income up 4.9% for the nine months, from €740.1m to €776.3m, on higher net trading income (up from €168.8m to €237.1m), with the equity-accounted companies returning to profit (€18.4m, compared with a €3.6m net loss last year). This offset the 9.1% reduction in net interest income, from €325m to €295.5m, and net fee and commission income (down 9.8%, from €249.9m to €225.3m), although the last item was boosted by an excellent performance in the third quarter (which saw €99.4m in fees earned). Operating costs declined by 7.1%, from €257.7m to €239.5m, due to the reduction in the variable component of labour costs.

Loan loss provisions of €91m were up from the €72.9m reported at the same stage last year, reflecting the deterioration in the economic scenario.

A total loss of €242.4m (€16.1m) on the securities portfolio was recorded, made up as follows: €129.8m in respect of Greek sovereign debt, upon completion of the restructuring; €46.9m on disposals (chiefly shares), €16m in automatic adjustments triggered for listed shares, and €45.6m in adjustments to holdings to unlisted investments (unchanged since end-December 2011).

A net profit of €88.5m for the nine months was recorded, the bottom line for this division thus returning to profit on the back of an impressive performance during the third quarter (€125.9m).

On the balance-sheet side, there was growth in funding, from €47.9bn to €50.2bn, and AFS bonds (from €4.5bn to €9.7bn), with loans and advances to customers and treasury assets declining slightly (from €23.6bn to €22.9bn and from €10.6bn to €9.7bn respectively).

## PRINCIPAL INVESTING

	(€m)			
	9 months to 31/3/11	6 months to 31/12/11	9 months to 31/3/12	Y.o.Y. chg. (%)
<b>Profit-and-loss data</b>				
Net interest income	(5.6)	(3.9)	(6.4)	+14.3
Equity-accounted companies	166.3	61.5	73.1	-56.0
<b>TOTAL INCOME</b>	<b>160.7</b>	<b>57.6</b>	<b>66.7</b>	<b>-58.5</b>
Labour costs	(4.1)	(2.8)	(4.2)	+2.4
Administrative expenses	(1.9)	(1.4)	(2.1)	+10.5
<b>OPERATING COSTS</b>	<b>(6.0)</b>	<b>(4.2)</b>	<b>(6.3)</b>	<b>+5.0</b>
Provisions for financial assets	(4.5)	(55.3)	(169.9)	n.m.
<b>PROFIT BEFORE TAX</b>	<b>150.2</b>	<b>(1.9)</b>	<b>(109.5)</b>	<b>n.m.</b>
Income tax for the period	3.6	4.4	2.3	-36.1
<b>NET PROFIT</b>	<b>153.8</b>	<b>2.5</b>	<b>(107.2)</b>	<b>n.m.</b>

	(€m)		
	30/6/11	31/12/11	31/3/12
AFS securities	134.1	137.8	142.7
Equity investments	2,712.5	2,511.2	2,359.2

This division reported a loss of €107.2m for the nine months, due to the writedowns charged to the Telco and RCS MediaGroup investments of €113.3m and €55.2m respectively, both of which were adjusted to reflect new net present values (€1.5 per share for Telecom Italia and €1.23 per share for RCS MediaGroup). The contribution from Assicurazioni Generali was also down, from €157.2m to €70.1m, with just €4.1m added in the last quarter, as against €52.1m in the equivalent period last year.

## RETAIL AND PRIVATE BANKING

	(€m)			
	9 months to 31/3/11	6 months to 31/12/11	9 months to 31/3/12	Y.o.Y. chg. (%)
<b>Profit-and-loss data</b>				
Net interest income	484.0	361.5	532.1	+9.9
Net trading income	11.5	4.0	7.7	-33.0
Net fee and commission income	186.0	128.0	190.5	+2.4
<b>TOTAL INCOME</b>	<b>681.5</b>	<b>493.5</b>	<b>730.3</b>	<b>+7.2</b>
Labour costs	(142.3)	(97.9)	(148.4)	+4.3
Administrative expenses	(238.1)	(157.2)	(232.9)	-2.2
<b>OPERATING COSTS</b>	<b>(380.4)</b>	<b>(255.1)</b>	<b>(381.3)</b>	<b>+0.2</b>
Gains (losses) on AFS, HTM and L&R	40.2	0.5	0.4	n.m.
Loan loss provisions	(247.9)	(157.5)	(235.0)	-5.2
Provisions for financial assets	(0.4)	(0.5)	(0.5)	+25.0
Other profits (losses)	—	45.5	46.9	n.m.
<b>PROFIT BEFORE TAX</b>	<b>93.0</b>	<b>126.4</b>	<b>160.8</b>	<b>+72.9</b>
Income tax for the period	(43.3)	(30.6)	(40.4)	-6.7
<b>NET PROFIT</b>	<b>49.7</b>	<b>95.8</b>	<b>120.4</b>	<b>n.m.</b>
	<b>30/6/11</b>	<b>31/12/11</b>	<b>31/3/12</b>	
<b>Balance-sheet data</b>				
Treasury funds	4,000.7	3,738.0	5,840.0	
AFS securities	1,762.0	1,443.2	1,660.0	
Fixed financial assets (HTM & LR)	3,191.7	3,671.1	2,702.1	
Loans and advances to customers	13,751.9	14,606.9	14,308.8	
Funding	(22,082.7)	(22,354.5)	(23,243.8)	



This division reported a profit of €120.4m in the nine months, more than double the €49.7m reported last year, with revenues up 7.2%, from €681.5m to €730.3m, costs stable at €380.4m (31/3/11: €381.3m) and loan loss provisions down 5.2% (from €247.9m to €235m). Revenues were boosted by higher net interest income (up 9.9%, from €484m to €532.1m), with net fee and commission income resilient at €190.5m (compared with €186m). The lack of gains on the AFS portfolio was offset by the gain realized on disposal of a non-core property by CMB.

Turning now to the individual sectors, consumer credit reported a net profit of €87.1m, up on the €58.1m posted at the same stage last year, as a result of higher net interest income (up from €390.7m to €406.6m) and fees and commissions (up from €126.7m to €133.9m), and despite a slight increase in costs (from €183m to €190.8m). Lendings remained stable in the third quarter at €9,154.1m (€9,131.4m), with the cost of risk still under control (loan loss provisions decreased from €228.5m to €222.7m).

CheBanca! showed a net loss of €30.1m for the nine months, in line with the €28m loss reported last year. Higher net interest income of €101.4m (€72.2m) offset the lack of gains on the AFS portfolio (€38.6m last year). Operating costs were down, from €135.9m to €129.1m, as were loan loss provisions (from €19m to €11.1m). As at end-March 2012 retail funding amounted to €11.5bn, up €0.9bn in the three months, with loans flat at €4.3bn.

Private banking showed a profit of €63.4m, boosted by the real estate gain realized by CMB (€44.3m). Total revenues for the nine months increased from €81.9m to €82.4m, on higher net interest income (up from €21.1m to €24.1m) and despite the reduction in fees and commissions (down from €23.2m to €22.4m for Banca Esperia, and from €26.2m to €24.4m for CMB). Assets under management on a discretionary/non-discretionary basis increased by 3.1% during the three months, and now stand at €13bn, €6.2bn of which for CMB and €6.8bn Banca Esperia.

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

	(€m)			
Retail & private banking 31 March 2012	Consumer credit	Retail banking	Private banking	Total
Net interest income	406.6	101.4	24.1	532.1
Net trading income	0.3	0.1	7.3	7.7
Net fee and commission income	133.9	5.6	51.0	190.5
<b>TOTAL INCOME</b>	<b>540.8</b>	<b>107.1</b>	<b>82.4</b>	<b>730.3</b>
Labour costs	(64.0)	(45.6)	(38.8)	(148.4)
Administrative expenses	(126.8)	(83.5)	(22.6)	(232.9)
<b>OPERATING COSTS</b>	<b>(190.8)</b>	<b>(129.1)</b>	<b>(61.4)</b>	<b>(381.3)</b>
Gains (losses) on AFS, HTM and L&R	—	0.4	—	0.4
Loan loss provisions	(222.7)	(11.1)	(1.2)	(235.0)
Provisions for financial assets	—	—	(0.5)	(0.5)
Other profits (losses)	—	—	46.9	46.9
<b>PROFIT BEFORE TAX</b>	<b>127.3</b>	<b>(32.7)</b>	<b>66.2</b>	<b>160.8</b>
Income tax for the period	(40.2)	2.6	(2.8)	(40.4)
<b>NET PROFIT</b>	<b>87.1</b>	<b>(30.1)</b>	<b>63.4</b>	<b>120.4</b>
Cost/income ratio (%)	35.3	n.m.	74.5	52.2
Other assets	437.9	7,936.2	1,828.0	10,202.1
Loans and advances to customers	9,154.1	4,298.2	856.5	14,308.8
New loans	3,670.2	466.6	—	4,136.8
No. of branches	157	44	—	201
No. of staff	1,385	934	336	2,655

	(€m)			
<b>Retail &amp; private banking 31 March 2011</b>	<b>Consumer credit</b>	<b>Retail banking</b>	<b>Private banking</b>	<b>Total</b>
Net interest income	390.7	72.2	21.1	484.0
Net trading income	0.2	4.6	6.7	11.5
Net fee and commission income	126.7	5.2	54.1	186.0
<b>TOTAL INCOME</b>	<b>517.6</b>	<b>82.0</b>	<b>81.9</b>	<b>681.5</b>
Labour costs	(61.0)	(41.0)	(40.3)	(142.3)
Administrative expenses	(122.0)	(94.9)	(21.2)	(238.1)
<b>OPERATING COSTS</b>	<b>(183.0)</b>	<b>(135.9)</b>	<b>(61.5)</b>	<b>(380.4)</b>
Gains (losses) on AFS, HTM and L&R	—	38.6	1.6	40.2
Loan loss provisions	(228.5)	(19.0)	(0.4)	(247.9)
Provisions for financial assets	—	—	(0.4)	(0.4)
<b>PROFIT BEFORE TAX</b>	<b>106.1</b>	<b>(34.3)</b>	<b>21.2</b>	<b>93.0</b>
Income tax for the period	(48.0)	6.3	(1.6)	(43.3)
<b>NET PROFIT</b>	<b>58.1</b>	<b>(28.0)</b>	<b>19.6</b>	<b>49.7</b>
Cost/income ratio (%)	35.4	n.m.	75.1	55.8
Other assets	477.2	7,199.6	1,472.0	9,148.8
Loans and advances to customers	8,642.4	3,825.7	717.4	13,185.5
New loans	3,443.8	627.6	—	4,071.4
No. of branches	146	43	—	189
No. of staff	1,320	901	346	2,567

	(€m)			
<b>Private banking 31 March 2012</b>	<b>CMB</b>	<b>Esperia</b>	<b>Others</b>	<b>Total</b>
Net interest income	20.6	3.1	0.4	24.1
Net trading income	7.0	0.2	0.1	7.3
Net fee and commission income	24.4	22.4	4.2	51.0
<b>TOTAL INCOME</b>	<b>52.0</b>	<b>25.7</b>	<b>4.7</b>	<b>82.4</b>
Labour costs	(20.4)	(15.9)	(2.5)	(38.8)
Administrative expenses	(13.6)	(8.1)	(0.9)	(22.6)
<b>OPERATING COSTS</b>	<b>(34.0)</b>	<b>(24.0)</b>	<b>(3.4)</b>	<b>(61.4)</b>
Gains (losses) on AFS, HTM and L&R	—	(0.2)	0.2	—
Loan loss provisions	(2.0)	0.8	—	(1.2)
Provisions for financial assets	(0.5)	—	—	(0.5)
Other profits (losses)	45.3	1.6	—	46.9
<b>PROFIT BEFORE TAX</b>	<b>60.8</b>	<b>3.9</b>	<b>1.5</b>	<b>66.2</b>
Income tax for the period	—	(2.3)	(0.5)	(2.8)
<b>NET PROFIT</b>	<b>60.8</b>	<b>1.6</b>	<b>1.0</b>	<b>63.4</b>
Cost/income ratio (%)	65.4	93.4	74.5	74.5
Asset under management	6,222.0	6,781.5	—	13,003.5
Securities held on a trustee basis	N/A	N/A	1,455.3	1,455.3

	(€m)			
<b>Private banking 31 March 2011</b>	<b>CMB</b>	<b>Esperia</b>	<b>Others</b>	<b>Total</b>
Net interest income	19.2	1.7	0.2	21.1
Net trading income	6.1	0.4	0.2	6.7
Net fee and commission income	26.2	23.2	4.7	54.1
<b>TOTAL INCOME</b>	<b>51.5</b>	<b>25.3</b>	<b>5.1</b>	<b>81.9</b>
Labour costs	(21.5)	(16.1)	(2.7)	(40.3)
Administrative expenses	(13.7)	(6.8)	(0.7)	(21.2)
<b>OPERATING COSTS</b>	<b>(35.2)</b>	<b>(22.9)</b>	<b>(3.4)</b>	<b>(61.5)</b>
Gains (losses) on AFS, HTM and L&R	2.1	(0.5)	—	1.6
Loan loss provisions	(0.4)	—	—	(0.4)
Provisions for financial assets	(0.4)	—	—	(0.4)
<b>PROFIT BEFORE TAX</b>	<b>17.6</b>	<b>1.9</b>	<b>1.7</b>	<b>21.2</b>
Income tax for the period	—	(1.1)	(0.5)	(1.6)
Minority interest	—	—	—	—
<b>NET PROFIT</b>	<b>17.6</b>	<b>0.8</b>	<b>1.2</b>	<b>19.6</b>
Cost/income ratio (%)	68.5	90.5	65.4	75.1
Asset under management	5,754.0	6,358.0	—	12,112.0
Securities held on a trustee basis	N/A	N/A	1,479.7	1,479.7

## Review of Group company performances

### MEDIOBANCA

In the nine months ended 31 March 2012, Mediobanca posted a net loss of €140.9m, compared with a €207.5m net profit last year, after writedowns to investments totalling €172.9m (€115.7m of which in respect of Telco, and €57.2m of RCS MediaGroup), losses on securities amounting to €235m (€17.1m), and €68.5m (€53.5m) in loan loss provisions. During the period under review total income rose slightly, from €655m to €663.9m, driven by higher net trading income (€234.6m, up from €170.5m last year, with €130.5m added in the third quarter alone), which was partly offset by the reduction in net interest income (from €240.7m to €212.5m) and fees and commissions (down from €234.3m to €216.2m). Operating costs declined from €241.9m to €223.1m, owing to the reduction in the variable labour cost component, whereas loan loss provisions rose by €28.8m in the third quarter, as a result of the difficult economic scenario.

With regard to the main balance-sheet items, funding was up in the third quarter, from €44.4bn to €47.6bn (due to the new tranche of the three-year ECB facility), as were AFS securities (up from €5.8bn to €11bn, the bond component exclusively), while there were reductions in treasury assets (from €11bn to €10.2bn) and loans and advances to customers (from €25.3bn to €24.1bn).

\* \* \*

## RESTATED PROFIT AND LOSS ACCOUNT

	(€m)			
	9 mths to 31/3/11	6 mths to 31/12/11	9 mths to 31/3/12	Y.o.Y. chg. (%)
Net interest income	240.7	150.9	212.5	-11.7
Net trading income	170.5	104.1	234.6	+37.6
Net fee and commission income	234.3	119.9	216.2	-7.7
Equity-accounted companies	9.5	—	0.6	n.m.
<b>TOTAL INCOME</b>	<b>655.0</b>	<b>374.9</b>	<b>663.9</b>	<b>+1.4</b>
Labour costs	(173.8)	(101.5)	(150.0)	-13.7
Administrative expenses	(68.1)	(49.4)	(73.1)	+7.3
<b>OPERATING COSTS</b>	<b>(241.9)</b>	<b>(150.9)</b>	<b>(223.1)</b>	<b>-7.8</b>
Gains (losses) on AFS, HTM and L&R	2.4	(38.0)	(56.1)	n.m.
Loan loss provisions	(53.5)	(39.7)	(68.5)	+28.0
Provisions for financial assets	(19.5)	(175.4)	(178.9)	n.m.
Impairment to equity investment	—	(57.2)	(172.9)	n.m.
Other profits (losses)	—	—	(0.3)	n.m.
<b>PROFIT BEFORE TAX</b>	<b>342.5</b>	<b>(86.3)</b>	<b>(35.9)</b>	<b>n.m.</b>
Income tax for the period	(135.0)	(38.0)	(105.0)	-22.2
<b>NET PROFIT</b>	<b>207.5</b>	<b>(124.3)</b>	<b>(140.9)</b>	<b>n.m.</b>

## RESTATED BALANCE SHEET

	(€m)		
	30/6/11	31/12/11	31/3/12
<b>Assets</b>			
Treasury funds	10,660.8	11,027.4	10,171.9
AFS securities	6,684.7	5,795.7	10,971.2
Fixed financial assets (HTM & LR)	4,001.1	4,101.1	3,975.5
Loans and advances to customers	22,891.8	25,287.6	24,112.8
Equity investments	2,671.0	2,637.3	3,170.2
Tangible and intangible assets	132.8	132.7	139.3
Other assets	660.9	470.9	460.9
Total assets	47,703.1	49,452.7	53,001.8
<b>Liabilities and net equity</b>			
Funding	41,843.9	44,421.3	47,573.8
Other liabilities	760.5	543.4	664.8
Provisions	160.0	159.3	157.8
Net equity	4,811.3	4,453.0	4,746.3
Profit for the period	127.4	(124.3)	(140.9)
Total liabilities and net equity	47,703.1	49,452.7	53,001.8

\* \* \*

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

- *Compass, Milan (consumer credit; 100%-owned by Mediobanca):* this company's accounts for the nine months show a profit of €74.8m (€47.4m), a result boosted by higher revenues (which were up from €480.3m to €497.8m) and lower loan loss provisions (down from €224.8 to €217.8m). Loans and advances to customers were slightly higher than at end-December 2011, at €8,497.6m (€8,481.8m), with new loans worth €3,461.1m (€3,310.1m) disbursed in the nine months.
- *Futuro, Milan (salary-backed finance; 100%-owned by Compass):* Futuro recorded a net profit of €5.8m (€3.9m) for the nine months, after revenues of €16.8m (€13.2m) and with loan loss provisions stable at €1.1m. Accounts outstanding at the reporting date had fallen since end-December 2011, from €818.4m to €812.4m.
- *CheBanca!, Milan (retail banking; 100%-owned by Mediobanca):* CheBanca! reported a net loss of €30.5m (€28.1m) for the nine months, with revenues up from €81.9m to €106.9m, despite income from securities reducing from €38.6m to virtually nil this year, and decreasing loan loss provisions (down from €18.9m to €11.1m). As at 31 March 2012 loans and advances to customers had risen since the year-end, from €4,385.7m to €4,399.2m, and customer deposits were up too, from €10.7bn to €11.5bn.



- *SelmaBipiemme Leasing*, Milan (leasing; 60%-owned by Mediobanca): this company posted a loss of €6.3m for the nine months, following a reduction in revenues (from €28.7m to €20.8m) in part due to the lack of dividends from Teleleasing (compared with €2.7m last year) and higher loan loss provisions (up from €13.1m to €13.8m); amounts on lease to clients at the reporting date were down on the figure reported at 31 December 2011, from €2,290.1m to €2,265.1m.
- *Palladio Leasing*, Vicenza (leasing; 95%-owned by SelmaBipiemme; 5% treasury shares): this company showed a net profit of €2.5m (€4.7m) for the nine months, with revenues declining, from €18.4m to €17.1m, and value adjustments up from €5.1m to €6.5m; amounts on lease to clients at the reporting date were basically stable versus the figure reported at 31 December 2011, at €1,652.1m (€1,665.7m).
- *Teleleasing in liquidation*, Milan (leasing; 80%-owned by SelmaBipiemme, 20%-owned by Telecom Italia): this company's results for the nine months show a net profit of €3.3m (€4.8m), with revenues down from €13.4m to €11.2m, and value adjustments increasing from €1.4m to €1.8m; amounts on lease to clients at the reporting date were down on the figure reported at 31 December 2011, from €436.1m to €413.5m. At an extraordinary general meeting held on 23 February 2012, the shareholders adopted a resolution to place the company in voluntary liquidation with effect from 1 March.
- *Compagnie Monégasque de Banque*, Monaco (100%-owned by Mediobanca): CMB posted a profit of €9.6m (€6.5m) in the first three months of its financial year, on revenues of €19.8m (€17.8m) which include management fees totalling €8.5m (€9.1m); assets under management on a discretionary/non-discretionary basis at the reporting date totalled €6.2bn (flat versus 31 December 2011, despite the sale of the Swiss branch).
- *Banca Esperia*, Milan (50%-owned by Mediobanca): this company reported a €2.7m (€0.3m) profit in the first three months, on revenues of €20.7m (€17.4m) which include management fees stable at €16.6m and assets under management on a discretionary/non-discretionary basis totalling €13.6bn (€12.8bn as at 31 December 2011).
- *Mediobanca International (Luxembourg) S.A.*, Luxembourg (wholesale bank 99%-owned by Mediobanca; 1%-owned by Compass): this company earned a net profit of €22.7m (€27.9m) in the nine months, on net interest income of €23.9m (€23.6m) and net fee and commission income linked to lending activity totalling €8.9m (€12.8m). In the third quarter loans and advances to customers fell 4%, from €4,724m to €4,534m.

\* \* \*

## **Outlook**

Despite the trend on spreads on sovereign debt reversing, estimates for the end of the financial year suggest that the Group's core business should hold up well compared to last year's performance, with revenues and costs both virtually flat, apart from trading activities which as always are hard to predict, and loan loss provisions up slightly, as a result of the difficult economic conditions referred to earlier. As in previous quarters, further adjustments to the value of securities and investments are likely, while the €90m gain on the disposal of the stake in Autostrade Sud America should also be booked.

Milan, 9 May 2012

THE BOARD OF DIRECTORS

# ACCOUNTING POLICIES



# ACCOUNTING POLICIES

## SECTION 1

### **Statement of conformity with IAS/IFRS**

The Mediobanca Group's financial statements for the period ended 31 March 2012 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Council and Commission on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks was governed by Bank of Italy circular no. 262 issued on 22 December 2005 (and its first update issued on 18 November 2009). This report has also been drawn up in accordance with the provisions of Article 153-ter of Italian Legislative Decree 58/98 (the Italian Consolidated Financial Act).

## SECTION 2

### **Area and method of consolidation**

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

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

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

During the quarter under review, Compagnie Monegasque de Banque sold its Swiss subsidiary CMB Banque Privée Suisse S.A., and the partial demerger by Compass of the direct control of SelmaBipiemme Leasing and CheBanca! to Mediobanca S.p.A. was completed.

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

	Registered office	Type of relationship <sup>1</sup>	Shareholding		% voting rights <sup>2</sup>
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 <i>Line-by-line</i>					
1. MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2. PROMINVESTMENT S.p.A. -in liquidation	Rome	1	A.1.1	100.0	100.0
3. PRUDENTIA FIDUCIARIA S.p.A.	Milan	1	A.1.1	100.0	100.0
4. SETECI - Società Consortile per l'Elaborazione, Trasmissione dati, Engineering e Consulenza Informatica S.c.p.A.	Milan	1	A.1.1	100.0	100.0
5. SPAFID S.p.A.	Milan	1	A.1.1	100.0	100.0
6. COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.0	100.0
7. C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.6	99.94	99.94
			A.1.7	0.06	0.06
8. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89	99.89
9. SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
10. CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.50	99.50
11. MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.6	99.0	99.0
			A.1.8	1.0	1.0
12. MOULINS 700 S.A.M.	Monte Carlo	1	A.1.7	99.90	99.90
13. MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.14	1.0	1.0
14. COMPASS S.p.A.	Milan	1	A.1.1	100.0	100.0
15. CHEBANCA! S.p.A.	Milan	1	A.1.1 *	100.0	100.0
16. COFACTOR S.p.A.	Milan	1	A.1.14	100.0	100.0
17. SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.1 *	60.0	60.0
18. PALLADIO LEASING S.p.A.	Vicenza	1	A.1.17	95.0	100.0
			A.1.18	5.0	
19. TELELEASING S.p.A. in liquidation	Milan	1	A.1.17	80.0	80.0
20. SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.0	100.0
21. RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.0	100.0
22. CREDITTECH S.p.A.	Milan	1	A.1.14	100.0	100.0
23. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
24. CONSORTIUM S.r.l.	Milan	1	A.1.1	100.0	100.0
25. QUARZO S.r.l.	Milan	1	A.1.14	90.0	90.0
26. QUARZO LEASE S.r.l.	Milan	1	A.1.17	90.0	90.0
27. FUTURO S.p.A.	Milan	1	A.1.14	100.0	100.0
28. JUMP S.r.l.	Milan	4	A.1.14	—	—
29. MEDIOBANCA COVERED BOND S.r.l.	Milan	1	A.1.15	90.0	90.0
30. COMPASS RE (Luxembourg) S.A.	Luxembourg	1	A.1.14	100.0	100.0
31. MEDIOBANCA INTERNATIONAL IMMOBILIERE S.A.r.l.	Luxembourg	1	A.1.13	100.0	100.0

### Legend

#### <sup>1</sup> Type of relationship:

1 = majority of voting rights in ordinary AGMs.

2 = dominant influence in ordinary AGMs.

3 = agreements with other shareholders.

4 = other forms of control.

5 = unity of direction as defined in Article 26, paragraph 1 of Italian Legislative Decree 87/92.

6 = unity of direction as defined in Article 26, paragraph 2 of Italian Legislative Decree 87/92.

7 = joint control.

#### <sup>2</sup> Effective and potential voting rights in ordinary AGMs.

\* As a result of the partial demerger by Compass under a deed executed on 23 March 2012, effective in accounting terms from 1 July 2011 and in legal terms from 1 April 2012.

## SECTION 3

### **Significant accounting policies**

#### **Financial assets held for trading**

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

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

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

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

#### **AFS securities**

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

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

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

### **Financial assets held to maturity**

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

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

Assets are tested for impairment at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case



of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to the profit and loss account up to the value of amortized cost.

## **Loans and receivables**

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

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

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

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated

collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

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

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

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

## **Leasing**

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

## Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

## **Equity investments**

This heading consists of investments in:

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

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

## **Property, plant and equipment**

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

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

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

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

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

### **Intangible assets**

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

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

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

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

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

## **Derecognition of assets**

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

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

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

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

## **Payables, debt securities in issue and subordinated liabilities**

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

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

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

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

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

### **Trading liabilities**

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

### **Staff severance indemnity provision**

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

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

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

## **Provisions for liabilities and charges**

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

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

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

## **Foreign currency transactions**

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

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

## **Tax assets and liabilities**

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



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

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

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

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

### **Stock options and performance shares**

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

### **Treasury shares**

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

### **Dividends and commissions**

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

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

## **Related parties (IAS 24)**

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

- a) individuals or entities which directly or indirectly:
  - 1. are subject to joint control by Mediobanca;
  - 2. hold an interest in Mediobanca which allows them to exert a significant influence over Mediobanca: significant influence is presumed to exist in cases where an individual or entity holds an interest of more than 5% in the share capital of Mediobanca, along with the entitlement to appoint at least one member of the Board of Directors;
- b) associate companies and entities controlled by them;
- c) management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;
- d) entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);
- e) close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or subject to significant influence by such individuals;
- f) pension funds for employees of the parent company or any other entity related to it.

# **CONSOLIDATED FINANCIAL STATEMENTS**



## Consolidated balance sheet (IAS/IFRS-compliant) \*

(€m)

Assets	IAS-compliant 31/3/12	IAS-compliant 31/12/11	IAS-compliant 31/3/11
10. Cash and cash equivalents	204.4	1,154.7	31.6
20. Financial assets held for trading	13,920.4	14,157.2	15,098.6
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	12,161.3	6,859.6	7,615.4
50. Financial assets held to maturity	1,682.2	1,747.9	1,414.4
60. Due from banks	3,968.8	5,599.4	5,209.2
<i>of which:</i>			
<i>other trading items</i>	2,366.8	3,621.3	4,376.3
<i>securities</i>	—	—	—
<i>other items</i>	2.6	1.0	49.2
70. Due from customers	40,564.4	40,644.7	41,056.4
<i>of which:</i>			
<i>other trading items</i>	4,288.4	3,943.4	5,692.7
<i>securities</i>	605.7	664.7	674.8
<i>other items</i>	72.5	80.4	133.3
80. Hedging derivatives	1,396.3	1,402.1	1,345.1
<i>of which:</i>			
<i>funding hedge derivatives</i>	1,396.2	1,402.1	1,338.9
<i>lending hedge derivatives</i>	48.0	—	0.2
90. Value adjustments to financial assets subject to general hedging	—	—	—
100. Equity investments	2,834.9	2,976.9	3,363.5
110. Total reinsurers' share of technical reserves	—	—	—
120. Property, plant and equipment	294.0	297.4	317.4
130. Intangible assets	427.6	431.1	436.7
<i>of which:</i>			
<i>goodwill</i>	365.9	365.9	365.9
140. Tax assets	930.5	1,003.1	806.1
<i>a) current</i>	235.4	243.1	225.3
<i>b) advance</i>	695.1	760.0	580.8
150. Other non-current and Group assets being sold	—	—	—
160. Other assets	220.5	194.0	210.2
<i>of which:</i>			
<i>other trading items</i>	15.3	9.0	29.6
<b>TOTAL ASSETS</b>	<b>78,605.3</b>	<b>76,468.1</b>	<b>76,904.6</b>

\* Figures in €m.

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

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

	(€m)		
Liabilities and net equity	IAS-compliant 31/3/12	IAS-compliant 31/12/11	IAS-compliant 31/3/11
10. Due to banks	12,394.6	9,365.4	9,252.9
<i>of which:</i>			
<i>other trading items</i>	1,214.0	1,210.8	3,868.9
<i>other liabilities</i>	1.4	7.1	26.2
20. Due to customers	16,161.2	15,431.5	15,049.4
<i>of which:</i>			
<i>other trading items</i>	1,354.9	1,460.6	2,092.1
<i>other liabilities</i>	9.6	9.9	9.8
30. Debt securities	32,157.7	33,516.6	35,202.8
40. Trading liabilities	9,674.9	10,320.2	8,192.8
50. Liabilities recognized at fair value	—	—	—
60. Hedging derivatives	374.9	426.6	738.8
<i>of which:</i>			
<i>funding hedge derivatives</i>	283.7	308.3	645.9
<i>lending hedge derivatives</i>	43.4	72.3	47.2
70. Value adjustments to financial liabilities subject to general hedging	—	—	—
80. Tax liabilities	530.3	430.7	572.0
<i>a) current</i>	214.4	133.3	246.5
<i>b) deferred</i>	315.9	297.4	325.5
90. Liabilities in respect of Group assets being sold	—	—	—
100. Other liabilities	507.3	491.3	568.3
<i>of which:</i>			
<i>other trading items</i>	—	0.1	43.5
<i>loan loss provisions</i>	25.3	26.6	0.6
110. Staff severance indemnity provision	24.4	24.2	25.9
120. Provisions	157.1	157.8	156.9
<i>a) post-employment and similar benefits</i>	—	—	—
<i>b) other provisions</i>	157.1	157.8	156.9
130. Technical reserves	88.3	78.0	39.7
140. Valuation reserves	(438.2)	(711.6)	32.7
170. Reserves	4,420.2	4,424.6	4,202.6
180. Share premium reserve	2,120.1	2,120.1	2,120.1
190. Share capital	430.6	430.6	430.6
200. Treasury shares	(213.8)	(213.8)	(213.8)
210. Net equity attributable to minorities	110.8	112.5	114.0
220. Profit (loss) for the year	104.9	63.4	418.9
<b>TOTAL LIABILITIES AND NET EQUITY</b>	<b>78,605.3</b>	<b>76,468.1</b>	<b>76,904.6</b>

## Consolidated profit and loss account (IAS/IFRS-compliant) \*

(€m)

Profit and loss account	9 mths to 31/3/12	6 mths to 31/12/11	9 mths to 31/3/11
10. Interest and similar income	2,287.6	1,552.3	2,053.1
20. Interest expense and similar charges	(1,467.7)	(993.8)	(1,200.0)
<b>30. Net interest income</b>	<b>819.9</b>	<b>558.5</b>	<b>853.1</b>
40. Fee and commission income	346.2	207.0	378.0
50. Fee and commission expense	(30.0)	(18.0)	(36.3)
<b>60. Net fee and commission income</b>	<b>316.2</b>	<b>189.0</b>	<b>341.7</b>
70. Dividends and similar income	43.8	35.9	48.8
80. Net trading income	155.5	43.6	46.4
90. Net hedging income (expense)	6.1	4.4	(2.1)
100. Gain (loss) on disposal of:	(23.4)	(13.2)	51.1
<i>a) loans and receivables</i>	1.2	—	0.7
<i>b) AFS securities</i>	(55.4)	(38.0)	14.6
<i>c) financial assets held to maturity</i>	(1.8)	0.2	(3.3)
<i>d) other financial liabilities</i>	32.6	24.6	39.1
<b>120. Total income</b>	<b>1,318.1</b>	<b>818.2</b>	<b>1,339.0</b>
130. Adjustments for impairment to:	(506.2)	(388.2)	(340.9)
<i>a) loans and receivables</i>	(300.6)	(189.5)	(301.2)
<i>b) AFS securities</i>	(177.9)	(174.4)	(12.6)
<i>c) financial assets held to maturity</i>	(1.0)	(1.5)	(6.9)
<i>d) other financial liabilities</i>	(26.7)	(22.8)	(20.2)
<b>140. Net income from financial operations</b>	<b>811.9</b>	<b>430.0</b>	<b>998.1</b>
150. Net premium income	15.4	9.4	6.9
160. Income less expense from insurance operations	(6.3)	(3.6)	(2.9)
170. Net income from financial and insurance operations	821.0	435.8	1,002.1
180. Administrative expenses:	(593.1)	(399.1)	(620.8)
<i>a) personnel costs</i>	(300.9)	(201.3)	(318.2)
<i>b) other administrative expenses</i>	(292.2)	(197.8)	(302.6)
190. Net transfers to provisions for liabilities and charges	(1.6)	(1.4)	(0.1)
200. Net adjustments to property, plant and equipment	(13.5)	(8.5)	(13.0)
210. Net adjustments to intangible assets	(19.3)	(13.1)	(18.0)
<i>of which: goodwill</i>	—	—	—
220. Other operating income (expenses)	93.6	62.5	98.5
<b>230. Operating costs</b>	<b>(533.9)</b>	<b>(359.6)</b>	<b>(553.4)</b>
240. Profit (loss) from equity-accounted companies	(74.6)	16.6	163.6
270. Gain (loss) on disposal of investments	44.1	43.8	—
<b>280. Profit (loss) before tax on ordinary activities</b>	<b>256.6</b>	<b>136.6</b>	<b>612.3</b>
290. Income tax on ordinary activities for the year	(151.5)	(71.4)	(189.6)
<b>300. Profit (loss) after tax on ordinary activities</b>	<b>105.1</b>	<b>65.2</b>	<b>422.7</b>
<b>320. Profit (loss) for the year</b>	<b>105.1</b>	<b>65.2</b>	<b>422.7</b>
330. Profit (loss) for the year attributable to minorities	(0.2)	(1.8)	(3.8)
<b>340. Net profit (loss) for the year attributable to Mediobanca</b>	<b>104.9</b>	<b>63.4</b>	<b>418.9</b>

\* Figures in €m.

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

- *Net interest income* includes the result of hedging activity, funding and lending, amounting to minus €6.1m, €4.4m and minus €2.2m, and the negative margins on swaps reported under Heading 80 (€12.9m, €8.1m and €50.9m), net of interest on securities lending totalling minus €0.1m, €0.3m and €0.2m respectively, accounted for as *Net trading income*;
- Amounts reported under Heading 220 have been treated as *Net fee and commission income*, save for redemptions/amounts recovered totalling €32.4m, €22.9m and €38.9m respectively which net operating costs; all amounts shown under headings 150 and 160 have been accounted for as *Net fee and commission income*;
- *Net trading income* also includes the amounts shown under Headings 70 and 80 and the gains (losses) on financial liabilities reported under Heading 100, net of or in addition to the other items already referred to and the commissions received and paid in respect of securities lending transactions;
- *Provisions for other financial assets* comprise AFS and HTM assets shown here under Heading 130, along with the net adjustments to the investments in Telco (€113.3m) and RCS MediaGroup (€55.2m) shown under Heading 240.

**DECLARATION BY HEAD OF COMPANY  
FINANCIAL REPORTING**







## **Declaration by Head of Company Financial Reporting**

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As required by Article 154-*bis*, para. 2 of Italian Legislative Decree 58/98, the undersigned hereby declares that the accounting information contained in this quarterly review of operations conforms to the documents, account ledgers and book entries kept by the company.

*Head of Company Financial Reporting*  
Massimo Bertolini

Mercurio GP - Milan