MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,608,088.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Annual Accounts and Reports as at 30 June 2019

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The 2018-19 financial year reflected a particularly adverse operating environment for financial intermediaries. The global growth estimates being revised downwards during the first half-year triggered an abrupt price correction for all the principal asset classes near the end of 2018. Prices then returned to near normal in the first months of 2019, helped by the monetary policies implemented, which, however, drove a further significant reduction in interest rates and impacted on the profitability of the higher liquidity/quality assets. However, this market scenario did not hamper Mediobanca's path to growth. The Group delivered a 6% rise in operating profit from banking activities, on a 4.4% increase in revenues, with the cost/income ratio stable at 46% and the cost of risk at an all-time low of 52 bps. Net profit for the twelve months totalled €823m, lower than last year (30/6/18: €863.9m), due solely to the absence of gains on disposals of AFS equities which last year added €98.3m (mostly regarding the sale of the Atlantia stake). The Group's capital position remains solid, with the Common Equity Tier 1 ratio above 14%, despite reflecting the share buyback in progress and the Messier Maris & Associés acquisition. The twelve months under review were characterized by intense commercial activity: total assets increased from €72.3bn to €78.2bn, on strong growth in customer loans (up 7.9%) and an impressive performance in total financial assets (TFAs) in Wealth Management, which were up 6% to €67.9bn.

The 4.4% increase in revenues, from €2,419.3m to €2,524.7m, regarded basically all segments, as follows:

– Net interest income rose by 2.7% (from €1,359.4m to €1,395.6m), on higher lending volumes (up 7.9%) with the cost of funding down from 90 bps to 80 bps, despite the spread on Italian government securities remaining at high levels; conversely, interest rates remaining negative penalized treasury assets, which were mostly invested in short-term applications. All business lines reflected increasing contributions for the twelve months: Consumer Banking up 3.5%, Corporate and Investment Banking up 2.5%, and Wealth Management up 2%;

– Net treasury income increased from €157.4m to €196.7m, on a healthy contribution from Capital Market Solutions totalling €130.4m (€82.3m), assisted by clients requesting more sophisticated solutions to counter market volatility and negative interest rates; by contrast, the proprietary portfolio's contribution (banking and trading book) decreased from €40.8m to €34.6m, reflecting the exposure of some trades to the lower interest rates;

– Net fees declined slightly, from €622.2m to €611.2m (down 1.8%), due to the lower contribution from capital markets activities (down from €65.8m to €28.9m), net of which growth would have been 4.1%, with good performances in particular by Wealth Management (up 8.6%, from €258.7m to €280.9m) and M&A advisory business (up 35.3%, from €64.7m to €87.5m);

– The equity-accounted companies contribution to net equity, virtually all of which is attributable to Assicurazioni Generali, grew from €280.3m to €321.2m.

Operating costs rose from €1,114.9m to €1,161.9m, an increase of 4.2%, with the cost/income ratio unchanged at 46%. Labour costs rose by 4.3%, chiefly in Wealth Management (up 10.3%), including the consolidation of RAM and enhancement of the commercial networks in the Private and Affluent segments (with the addition of 48 bankers); administrative expenses were up 4.1%, reflecting the commercial network expansion (with 23 new CheBanca! POS and 18 new Compass agencies opened), the increase in IT spending (linked to the new platforms, including the new Treasury application). and the intense project activity (introduction of IFRS 9, MiFID II, and Brexit).

Loan loss provisions decreased by 10%, from €247.2m to €222.6m, and with lending volumes increasing, reflect a cost of risk for the Group of 52 bps (a significant reduction on the 62 bps recorded last year and the 124 bps at end-June 2016); in Wholesale Banking net writebacks of €62.7m were credited, reflecting ongoing improvement in the valuation of certain UTP positions. The cost of risk in Consumer Banking recorded its best ever performance, at 185 bps (199 bps last year), as did CheBanca! (16 bps, versus 21 bps), which also reflects the sale of a small portfolio of legacy bad debts.

Results for the twelve months were impacted by contributions to the resolution and deposit guarantee funds totalling €53.5m (€46.3m), €26.8m of which in ordinary transfers to the Single Resolution Fund (€26.3m), €11.2m to the deposit guarantee scheme (DGS) (€5.4m), and €15.5m in extraordinary contributions (€14.6m), €6.4m of which in respect of the voluntary contribution for Carige (the investment having been written off on prudential grounds), and

€9.1m required by the Italian resolution authority. The heading "Other items" also includes other minor items totalling €0.5m.

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The 2018-19 financial year brings the time horizon covered by the three-year, 2016-19 strategic plan to a close. The Mediobanca Group has reached the plan objectives comfortably, on the back of our distinctive business model which is focused on three highly-specialized segments – Wealth Management, Consumer Banking and Corporate & Investment Banking – growth in which is underpinned by long-term upward trends, and our financial solidity. These factors have enabled the Mediobanca Group to focus on growth and have put us in an excellent position to enhance distribution, both organically and via acquisitions.

Over the three years of the plan, revenues have grown at an average annual compound rate ("3Y CAGR") of 7% and have reached €2.5bn, as follows::

- Fees have grown by 11% (3Y CAGR), in particular those generated by capital-light businesses such as wealth management and advisory. The Wealth Management division is now the leading contributor to fee income at Group level, with a share of over 40%;
- Net interest income has confirmed its positive long-term growth trend, reflecting an increase of 5% (3Y CAGR), despite the ongoing negative interest rate scenario and the deterioration in the macroeconomic backdrop, due to the Consumer Banking segment which has generated higher volumes in sustainable margins.

Gross operating profit has significantly exceeded expectations (3Y CAGR: +16%, vs +10% in the plan) and stands at over €1.1bn (vs target of €1bn). Crucial factors in this outperformance have been maintaining high asset quality, which has enabled a substantial reduction in the cost of risk (to 52 bps, vs 105 bps in the plan) and operating efficiency (cost/income ratio stable at 46%).

ROTE[1] has increased by 3 percentage points, reaching the plan target of 10% despite the absence of gains on disposals, and with a much higher capital base (CET1 ratio above 14%, approx. 230 bps higher than the plan target).

[1] ROTE: net profit/average tangible net equity (KT). KT= net equity less goodwill less other intangible assets.

Helped by the high earnings generation capacity and capital absorption optimization, the CET1 ratio has increased from 12.1% to 14.1% over the three years, having basically financed organic growth, acquisitions and increased shareholder remuneration. In the three-year period, approx. €2.5bn in earnings have been generated; and risk-weighted assets (RWAs) have reduced by some €10bn (or 20%), following introduction of the AIRB models (large corporate loan book in CIB and residential mortgage portfolio for CheBanca!), optimization of market risk and extension of credit risk mitigation (CRM) in Private Banking; while the Group's risk density (RWAs/total assets) declined from 73% to 59% (below the 64% target).

The factors cited above have enabled us to finance substantial organic growth in our business (the loan book has grown by €9bn over the three years) plus acquisitions (Banca Esperia, RAM, MMA), and also increase the payout ratio from 38% to 50% (vs plan target of 40%), as well as launching a new buyback scheme to involve a total of up to 4.5% of the share capital (including treasury shares used).

The divisional performances for the year were as follows:

– Wealth Management has been transformed in the past three years, on the back of organic growth, implementation of two significant merger projects (former Barclays' Italian operations merged into CheBanca!, Banca Esperia merged into Mediobanca and renamed Mediobanca Private Banking) and one acquisition (RAM). This process has enabled the Group's Wealth Management platform to gain scale (the franchise has almost trebled and now has 900 bankers) and visibility in its reference markets, standing out as a highly specialized player able to provide its clients and managers with innovative product and sale solutions. The division's contribution to the consolidated results is now significant: Wealth Management is the biggest contributor to the Group's net fees (44%), and generates over 20% of its revenues and some 10% of its net profits. The gradual expansion in size drove growth in revenues over the three years of the plan (3Y CAGR: +18%), with AUM up 31%. The division posted a net profit of €71.2m in the twelve months, up 2.9% on last year, following revenues of €547.3m and operating costs amounting to €434m. The Affluent/CheBanca! component contributed a net profit of €31.5m (€27.7m), on revenues of €297.1m, costs of €236.3m, and loan loss provisions totalling €13.7m. Meanwhile, the contribution from

Private Banking (including RAM for the full twelve months) decreased from €41.5m to €39.7m, on revenues of €250.2m (up 7.2% year-on-year) and costs totalling €197.7m. The ROAC for the division was 16%, with capital absorbed in the region of €408m (RWAs €4.5bn);

– Consumer Banking delivered record results, confirming its leadership position in the consumer credit segment by positioning and profitability. The division's ranking as one of the top three sector players was confirmed, with a market share of 11.5% and new loans for the year of over €7bn (up 5%). Its distribution is among the most extensive and diversified in Italy, further enhanced in the direct channel with the opening of 18 branches in the period, for a total of around 200 POS (172 proprietary branches and 27 agencies). The division delivered a net profit for the twelve months of €336.4m, up 6.7% on last year (€315.3m), confirming its position as the Group's chief source of income. Revenues broke through the €1bn mark for the first time during the year, up 3.1%, from €996.2m to €1,026.9m, and account for 40% of the Group's top line (as well as around two-thirds of its net interest income), beating the targets set in the strategic plan (3Y CAGR: +6%). The cost/income ratio was unchanged at 28.6%, despite reflecting the structural increase in overheads due to expanding the distribution network (18 new POS added). The cost of risk reached its lowest-ever level (185 bps), with loan loss provisions declining from €241.9m to €237.8m (30/6/18: €360.4m). The ROAC for the division was 30%, with capital absorbed in the region of €1,130m (RWAs €12.6bn) on loans which grew in the three-year period at a CAGR of 6%;

– Corporate and Investment Banking strengthened its positioning, with revenues diversified and reduced capital absorption. The division's leadership position in Italy was confirmed, with improved client coverage, for both large caps (organizational model reshaped) and mid-caps (dual Investment Banking – Private Banking coverage), and a product mix featuring an increased contribution from capital-light products. In 4Q geographical distribution was strengthened on the back of the partnership with MMA. France is now the CIB division's third core market, alongside Italy and Spain. The Specialty Finance segment too gained visibility: MB Facta is now ranked seventh in Italy for turnover, while MBCredit Solutions features regularly in auctions for sales of unsecured receivables, with an NPL portfolio with a nominal value of over €5bn and a net value of some €370m. The division posted a net profit of €265.8m, largely unchanged versus last year (€264.5m), on revenues of €627.1m (25% of the consolidated total), costs of €269.3m, and net writebacks totalling €36.2m (representing the balance between €62.7m in writebacks credited in respect of certain UTP positions in Wholesale Banking, and €26.5m in provisions for the rest of the portfolio, including factoring and NPLs acquired). The contribution from Specialty Finance increased versus last year, with net profit up from €30.7m to €38.5m for both businesses, factoring and NPLs, whereas the bottom line earned by Wholesale Banking declined from €233.8m to €227.3m, reflecting a 56% reduction in capital market fees only in part offset by those generated from M&A advisory and CMS revenues (up 35.3% and 65.1% respectively). The ROAC for the division was 15%, with capital absorbed in the region of €1,805m (RWAs €20.1bn);

– Principal Investing reflected a stable portfolio over the three years of the plan worth approx. €4bn, following disposals of equities of around €500m and new investments in seed capital for the asset management companies of over €400m. The Assicurazioni Generali investment remains stable at 13%, with profit up to €320m (3Y CAGR +8%). The division reported a net profit of €314.2m for the twelve months, down from the €373.8m reported last year due to the absence of gains on disposals of AFS assets[2] (30/6/18: €96.3m, chiefly Atlantia) and despite the higher income generated by the Assicurazioni Generali stake (up from €279.9m to €320m). The ROAC for the division was 15% (vs 19% in 2016), despite the higher capital absorbed by the Assicurazioni Generali investment as a result of the stricter concentration limit.

– Holding Functions: liquidity and funding indicators remain at comfortable levels, with the cost of funding under control. In the three years the Group's central functions have gradually been optimized, allowing the intense project activities and regulatory measures to be absorbed. A net loss of €167.5m was posted for the twelve months, slightly more than last year (€158.9m), on higher contributions to the resolution funds totalling €53.5m (€46.3m). Conversely, treasury operations reduced their liability position due to gains on disposals of banking book securities totalling €45m (€13.1m), which absorbed the effect of the negative interest rates on the substantial liquidity position. Leasing operations delivered a net profit of €3.2m (€4.8m); RWAs for the division amounted to €3.5bn.

[2] The introduction of IFRS 9 has impacted on this division's figures principally in two ways: holdings in equity (formerly accounted for as available for sale, or AFS) are no longer recognized through profit and loss, whereas funds, including private equity and seed capital, are recognized through profit and loss, at fair value.

During the year under review, IFRS 9 on accounting for financial instruments came into force.[3] The transition to the new standard has resulted in an approx. €80m reduction in net equity, due chiefly to the introduction of the new impairment model, the impact of which on regulatory capital will be spread over the next five years. The Bank of Italy's recommended format for financial statements also changes with IFRS coming into force, leading to minor changes in the way the Group presents its restated accounts.

Total assets increased from €72.3bn to €78.2bn, on higher lending volumes and treasury balances (represented gross), performing as follows:

- Customer loans rose from €41.1bn to €44.4bn, with all segments contributing positively, in particular Wholesale Banking (up 11.2%, to €15.6bn; representing 35% of the stock), Consumer Banking (up 5.6% to €13.2bn; 30%), and CheBanca! mortgage lending (up 11% to €9bn; 20%);
- Funding increased from €48.9bn to €51.4bn, reflecting the growth in CheBanca! deposits (from €14.2bn to €15bn; approx. 30% of the stock) and Private Banking (from €4.9bn to €7.4bn; 14%). This offset the reduction in debt security funding, which totalled €18.5bn, after new issues worth €3.1bn against redemptions and buybacks totalling €3.8bn. Overall the cost of funding reduced from 90 bps to 80 bps, following the redemption of certain expensive issues and increased use of secured transactions, including a securitization of consumer banking receivables for €600m, a covered bond for €750m, plus over €500m in bilateral bank loans guaranteed by receivables from lending;
- Banking book securities (which bring together bonds accounted for as Hold to Collect and Hold to Collect and Sell) declined from €7.7bn to €6.7bn, following sales and non-renewals due to market movements in the final months on spreads and interest rates; in particular, EU government securities held for regulatory liquidity ratio purposes reduced from €5.4bn to €4.6bn; €2.2bn of these are Italian government securities with limited duration (approx. 3 years);
- Net treasury funds rose from €4.8bn to €5.3bn, with a view to preserving a substantial liquidity position in a scenario of market uncertainty, replacing part of the banking book securities; the book value (representing trading assets and treasury loans) increased from €16.6bn to €19.9bn, due to the increased operations in equities matched by derivatives entered into with clients.

[3] For further details and full disclosure on the effects of first-time adoption of IFRS 9, which replaces IAS 39, please refer to the document entitled "Summary of IFRS 9 accounting standard adoption" published on the Group's website at www.mediobanca.com.

Total financial assets in Wealth Management, or TFAs, rose in the twelve months from €63.9bn to €67.9bn, on €4.8bn in net new money (NNM). AUM and AUA increased from €37.1bn to €39bn, with NNM of €1.7bn, and a substantially neutral market effect, having recovered the December outflow in 3Q; direct funding rose from €19.1bn to €22.4bn, confirming clients' preference for liquidity in this market phase; while assets under custody decreased from €7.6bn to €6.5bn. The Affluent segment (CheBanca!) reported net TFAs of €25.4bn, €15bn of which in deposits (NNM €2.6bn); Mediobanca Private Banking and the product factories reported TFAs of €21.2bn, €4bn of which in deposits (NNM €2.3bn); Compagnie Monégasque de Banque reported an increase from €10bn to €10.5bn, €3.4bn of which in deposits, while RAM and Cairn reported TFAs of €3.1bn and €4bn respectively (NNM: €0.9bn outflow for the former, and €0.7bn inflow for the latter).

The capital ratios – calculated by applying the CRR/CRR II rules, weighting the Assicurazioni Generali investment at 370%, and factoring in the proposed dividend (€0.47 per share) as well as the buyback in progress, comfortably exceeded both the original targets and the regulatory limits. The Common Equity Tier 1 ratio stood at 14.09%, down slightly compared to last year (14.24%) due to the buyback (which accounted for 65 bps, after uses of treasury shares made during the year) and the recent acquisition of Messier Maris & Associés (15 bps, considering that the upfront price was paid for in Mediobanca shares), which more than offset the capital generated from current operations (consisting of the difference between retained earnings, growth in RWAs and fine-tuning of the buffers required for deductions) and the 40 bps deriving from introduction of AIRB models for the CheBanca! mortgage loan book (with an average weighting of under 20%). The fully loaded ratio, i.e. without the Danish Compromise, that is, with the Assicurazioni Generali deducted in full, and with full application of the IFRS 9 effect, is 12.83% (30/6/18: 13.15%). The total capital ratio declined from 18.11% to 17.46% (16.46% fully loaded).

* * *

The Group's progress towards the targets set in the 2016-19 strategic plan continued during the year under review, with the following developments particularly worthy of note:

– As part of the drive to strengthen Corporate and Investment Banking activities in the capital-light businesses and towards countries offering potential cross-border synergies, on 11 April 2019 a long-term strategic partnership was announced between Mediobanca and Messier Maris & Associés, a French company specializing in corporate finance and M&A services. Mediobanca acquired a 66% stake in the company financed entirely with treasury shares. The company is fully consolidated as from this year;

- With a view to achieving long-term growth in consumer credit operations in markets with high potential, in August 2018 Compass reached an agreement with Trinugraha (the consortium which currently owns 45.7% of the share capital) to acquire 19.9% of PT BFI Finance Indonesia Tbk ("BFI Finance").[4] Twelve months since the agreement was signed, certain contractual formalities required in order to launch the local authorization process and receive clearance from the ECB, which are prerequisites to closing, are still pending (these are expected to be obtained by March 2020);
- Francesco Grosoli was appointed as the new CEO of Compagnie Monégasque de Banque, replacing Werner Peyer who has taken up the position of non-executive Deputy Chairman;
- Launch of a share buyback scheme[5] involving a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 30 June 2019 Mediobanca had a total of 15.3 million treasury shares (or 1.7% of its share capital), following purchases of 20.1 million treasury shares and uses of 13.4 million;
- Continuation of the roll-out plan for the Group's internal PD and LGD models for use in calculating the capital requirements to cover credit risk, with authorization received for the CheBanca! mortgage lending asset;
- Confirmation of the existing prudential treatment for the Assicurazioni Generali investment (known as the "Danish Compromise" under Article 471 of the recently-approved CRR II) until year-end 2024;
- On 5 February 2019, Mediobanca received the results of the supervisory review and evaluation process from the supervisory authority (the "SREP 2018 Decision"). The authority has asked Mediobanca to maintain, as from March 2019, a CET 1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2

[4] BFI Finance, set up in 1982 and listed on the Jakarta stock market since 1990 with a market capitalization of approx. €625m, is one of the leading independent Indonesian consumer credit companies, with an extensive distribution network (over 350 outlets, major partnership agreements in force with car dealers and independent agents, and telemarketing systems).

[5] Authorized by its shareholders at the ordinary Annual General Meeting held on 27 October 2018, and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) no. 575/2013 (the "CRR") on 23 October 2018.

("P2R") requirement of 1.25%, unchanged from last year, bearing out the Group's asset quality and the adequacy of its risk management. The decision reflects the results of the Group's stress test, which confirmed our solidity even in negative scenarios (the impact on CET1 fully loaded is 182 bps, one of the lowest levels among EU banks);

– During 3Q, the Bank of Italy, at the proposal of the Single Resolution Board ("SRB") pursuant to the BRRD, informed the Group that its MREL limit was 15.48% of its total eligible liabilities, equal to 21.43% of RWAs. This requirement is compulsory as from 1 January 2019, but given that Mediobanca is not subject to the subordination requirement, the effective MREL ratio is comfortably above the minimum set;

– Among the Group's CSR initiatives: the CheBanca! Academy of Woodworking has been opened, in conjunction with the *Fondazione Cometa*. The initiative aims to offer work opportunities to young people who are unemployed and/or have personal difficulties; and the INSIEME/TOGETHER project has continued, which promotes sport for young people in the most vulnerable categories of society who are at risk of social exclusion, in certain disadvantaged suburban areas of Milan.

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Developments in capital markets

Recourse by companies to the Italian capital market showed a substantial reduction in the twelve months ended 30 June 2019 of €8bn, or 73%, to just €3bn. The value of public tender offers also declined, from €3.1bn to €2.6bn, with dividends totalling €20.2bn (30/6/18: €20bn). The net outflow of funds to companies totalled €19.9bn (€12.2bn), meaning the aggregate balance for the past ten years reflects a net outflow of €89bn, approx. 18% of the stock market capitalization at end-June 2019:

(€m)

		12 mths to 30/6/17		12 mths to 30/6/18		12 mths to 30/6/19
Issues and placements of:						
convertible ordinary and saving shares		14.806		10.893		2.952
non-convertible preference and saving shares		—		—		—
convertible and cum warrant bond		1		—		—
Total		14.807		10.893		2.952
*of which, for rights issues *:*						
par value	*457*		*331*		*100*	
share premiums	*13.020*	*13.477*	*1.511*	*1.842*	*869*	*969*
Dividends distribution		17.627		19.974		20.243
Public tender offers		2.198		3.096		2.647
Balance		**(5.018)**		**(12.177)**		**(19.938)**

* Excluding IPOs and other public offers, offers restricted to employees, and offers without option rights

Fund raising is no longer concentrated primarily at banks, as had been the case in eight out of the last ten years, but at industrial groups instead, which accounted for more than nine-tenths of the rights issues carried out during the period. Public tender offers recovered slightly at €677m (€582m). Issues reserved to employees, generally as part of stock option schemes, increased substantially, from €59m to €1,141m, due primarily to issues made by one leading banking group in particular, while the number of companies involved in fact decreased, from ten to seven. The most recent convertible issues for significant amounts date back to 2010-11.

Dividends increased, albeit marginally, for the fifth year running, up approx. 1%, from €20bn to €20.2bn, the highest amount since 2008-9, with the payout ratio up to 54% (compared with 46% the previous year). The amounts distributed by segment – and the respective percentages – were similar to those for last year as well: the banks paid out a total of €5.5bn (27.4% of the total dividends paid by listed companies), the industrials €12.1bn (59.8%), and the insurances €2.6bn (12.8%). Some 36% of listed companies failed to pay dividends, although in the aggregate such companies account for barely 4% of the total market capitalization (compared with 6% last year). Public tender offers resulted in eight companies being delisted (versus seven in FY 2017-18).

The net 2018 aggregate results posted by Italian companies listed at end-June 2019 reflect combined earnings of €32bn, compared with €33.8bn in 2017. The reduction in net profit earned by the banking groups (which posted a bottom line of €10bn, compared with €13.8bn last year, at a ROE of 6.8%, as against 9% in 2017), was in part mitigated by further recovery in the industrial groups' net profits (from €18.2bn to €19.3bn, at a ROE of 10.1%), while the insurance companies built on the previous twelve months' result with net profit rising from €1.8bn to €2.8bn.

Contributing factors to the banks' performance included an increase in overheads, which accounted for €0.3bn, a marked deterioration in net writebacks (€7.5bn) and in net gains on disposals and buybacks (€3.7bn), only in part offset by the reductions in loan loss provisions (down €4.7bn) and labour costs (€1.9bn), the growth in net revenues (which contributed €0.6bn) and the reduced taxation (€0.5bn). In 2018, weakening regulatory capital (which was 7.3% lower) drove a decrease in the total capital ratio, from 17.1% to 16.1%, despite the 2% reduction in risk-weighted assets. Leverage, expressed in terms of the ratio between total assets and tangible net equity, in turn increased from 15.5x to 16.7x (compared with an average for the leading European banking groups of 19.1x, up from 18.9 in 2017).

The insurance companies' profits recovered from €1.8bn to €2.8bn in 2018 (ROE up from 5.9% to 10.2%). The €3.3bn reduction in claims-related expenses, the €1.2bn increase in sundry insurance revenues, plus improvement in non-insurance revenues adding €1.3bn, were in part offset by the contraction in underwriting income (€4.4bn) plus the rising tax burden (up €0.4bn).

Industrial groups posted further growth in operating profit, from €18.2bn to €19.3bn, with ROE up from 9.5% to 10.1%. The €7.1bn increase in value added, higher depreciation charges on tangible assets (€0.4bn) and net interest expense (€2bn) and the reduction in net ordinary expenses (€0.2bn), were only in part offset by the higher cost of labour (€0.7bn), the higher long-term depreciation/amortization charges (€0.6bn), the increase in writedowns to goodwill (€2.4bn) and net writedowns (€0.4bn), lower net gains on disposals (€2.2bn), the increase in the tax burden (€2bn) and higher minority interest (€0.3bn).

Profits earned by companies listed on the STAR segment also rose further, from €1.4bn to €1.6bn (ROE up from 11.8% to 12.6%). The net profits earned by companies listed on the AIM also recovered, up from €42m to €178m (ROE up from 1.5% to 4.3%).

The 18% growth in net debt, against a more modest, 3% increase in net equity for the industrial companies, drove an increase in the debt/equity compared to 2017, from 94% to 107%.

The Mediobanca share price index retreated slightly, by 3% (but climbed 2% in the total return version); like last year, the increases posted by the industrial companies (up 4%) and insurers (up 18%) were offset by the pronounced, 21% reduction reported by the banks. Since end-June there has been a slight recovery in stock market prices, which put on 1% in the period to 30 August 2019). The average daily value of stocks traded on the MTA in the twelve months ended 30 June 2019 showed an 18% reduction on the previous year, from €2.6bn to €2.1bn per session. The free float remained close to its all-time highs, at 62% (61%), while the turnover ratio fell from 12.3% to 11.5%), the lowest levels seen in the past twenty years; volatility, meanwhile, increased slightly, from 1.4% to 1.6%.

In the twelve months ended 1 April 2019 the changes in share prices which affected all Western markets were generally, with the exception of the United States and Switzerland, reflected in the changes recorded in the dividend yield and also in the price/earnings ratios, as follows:

	% Dividend/ price ratio		% Earnings/ price ratio	
	2017	2018	2017	2018
Benelux **	3.2	2.7	5.7	5.4
France *	2.7	2.8	5.5	4.3
Germany *	2.4	2.6	5.6	6.4
Italy *	2.9	3.4	6.2	6.2
United Kingdom *	3.7	3	6.1	5.6
United States *	2.1	2.2	4.3	4.7
Switzerland **	3.1	3.1	4	4.5

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

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

NB: Median indicators based on share prices at 1 April 2019. The changes in prices on the principal stock markets between 1 April 2018 and 1 April 2019 were as follows (indexes used are in brackets): Belgium down 4.5% (BAS), Netherlands up 4.6% (AEX), France up 2.6% (SBF 250), Germany down 6.8% (CDAX), Italy down 4.6% (Mediobanca MTA), United Kingdom up 2.7% (FTSE All-Share), United States up 11.1% (S&P 500), Switzerland up 9.1%.

Assets managed by mutual funds incorporated under Italian law (including funds of funds, closed and hedge funds) saw a reduction in assets under management, from €254.8bn at end-June 2018 to €243.4bn, reflected in net outflows of €13bn, mitigated by the operating profit for the twelve months (€1.6bn). Roundtrip funds also showed an increase in equity, with subscriptions outweighing redemptions by €4.4bn, and operating profit in a similar amount (€4.3bn); as at end-June 2019 total assets managed by such funds had increased in the twelve months, from €316.3bn to €325bn.

The aggregate market capitalization of listed companies at 30 June 2019 totalled €495bn, compared with €533bn twelve months previously, with the free float declining from €325bn to €306bn; the €10bn reduction, net of rights issues and changes to the stock market composition, is largely due to changes in market prices.

* * *

The Italian consumer credit market continued its upward trend in the first six months of 2019, albeit more slowly than in previous years. New loans in the period ended 30 June 2019 totalled €33.5bn, 5.1% higher than in the same period last year.

Various factors contributed to this result, chiefly attributable to the positive trend in household consumption, albeit slower than in the past.

During the period under review the fastest growth was in vehicle credit (up 8.2% on the first six months of last year) and other special purpose loans (up 14.1%), while the growth was slower in other segments such as personal loans (up 4.2%), credit cards (up 3.9%), and salary/pension-backed finance (up 3.2%).

	2015		2016		2017		2018		1H 2019	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	11,805	22.6	13,687	22.6	8,619	14.7	5,861	9.9	3,232	9.7
Personal loans	17,570	33.6	20,137	33.2	22,441	38.2	24,499	41.1	14,076	42.1
Specific purpose loans	3,931	7.5	4,075	6.7	3,782	6.4	4,778	8.0	2,486	7.4
Credit cards	14,474	27.7	17,472	28.8	18,759	32	19,064	32.0	10,608	31.7
Salary-backed finance	4,484	8.6	5,221	8.6	5,103	8.7	5,339	9.0	3,049	9.1
	52,264	100.0	60,592	100.0	58,705	100.0	59,541	100.0	33,451	100.0

In 2018, the Italian real estate market continued its recovery of recent years, with the number of properties sold rising to 578,000, up more than 6.7% on 2017. This trend was confirmed in 1Q 2019, with an increase of 8.8%. The mortgage lending market for house purchases by households, with new loans of €50.5bn, reflects practically the same growth rate as that in the number of transactions (up 6.5%).

The Italian leasing market in 2018 saw the positive trend recorded in 2017 continue. Overall 725,000 new leases were executed, an increase of 2.8%, for a total of €29.8bn, up 5.3% on 2017. In the first six months of 2019 the market continued to grow, with more than 381,000 new contracts (down 7% year-on-year) and approx. €14.3bn financed (down 9.8%).

New loans	2016		2017		2018		1H 2019	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicles	11,809	50.1	13,371	50.2	15,722	52.8	7,767	54.3
Core goods	7,640	32.4	8,993	33.8	9,426	31.7	4,419	30.9
Property	3,809	16.1	3,742	14.0	4,110	13.8	1,854	13.0
Yachts	328	1.4	522	2.0	516	1.7	253	1.8
	23,586	100.0	26,628	100.0	29,774	100.0	14,293	100.0

Source: Dataforce data processed by Assilea.

* * *

Consolidated profit-and-loss/balance-sheet data °

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30/6/18 (*)	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss data	*IAS39*	*IFRS9*	
Net interest income	1,359.4	1,395.6	2.7
Net treasury income	157.4	196.7	25.0
Net fee and commission income	622.2	611.2	-1.8
Equity-accounted companies	280.3	321.2	14.6
Total income	**2,419.3**	**2,524.7**	**4.4**
Labour costs	(557.8)	(581.7)	4.3
Administrative expenses	(557.1)	(580.2)	4.1
Operating costs	**(1,114.9)**	**(1,161.9)**	**4.2**
Gains (losses) on disposal of equity holdings	98.3	—	n.m.
Loan loss provisions	(247.2)	(222.6)	-10.0
Provisions for other financial assets	(1.3)	(2.1)	61.5
Other income (losses)	(58.4)	(54.0)	-7.5
Profit before tax	**1,095.8**	**1,084.1**	**-1.1**
Income tax for the period	(228.1)	(256.5)	12.5
Minority interest	(3.8)	(4.6)	21.1
Net profit	**863.9**	**823.0**	**-4.7**
Gross operating profit from banking activities	**767.0**	**812.9**	**6.0**

° For a description of the method by which the data have been restated, see also the section entitled "Significant accounting policies".

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

CONSOLIDATED BALANCE SHEET

(€m)

	IAS39 30/6/18	IFRS9 1/7/18	30/6/19
Assets			
Financial assets held for trading	8,204.9	8,008.5	9,765.7
Treasury financial assets	8,358.2	8,358.1	10,170.2
Banking book securities	7,744.7	7,943.7	6,695.9
Customer loans	41,127.9	41,019.1	44,393.7
Equity Investments	3,983.1	3,983.0	3,980.3
Tangible and intangible assets	1,027.7	1,027.7	1,187.6
Other assets	1,854.0	1,892.2	2,051.3
Total assets	**72,300.5**	**72,232.3**	**78,244,7**
Liabilities and net equity			
Funding	48,893.2	48,855.7	51,393.2
Treasury financial liabilities	5,290.4	5,290.3	6,565.6
Financial liabilities held for trading	6,462.4	6,462.4	8,027.8
Other liabilities	1,709.3	1,749.5	2,168.9
Provisions	213.0	227.1	190.3
Net equity	8,780.4	8,700.6	8,986.2
Minority interests	87.9	82.8	89.7
Profit for the period	863.9	863.9	823.0
Total liabilities and net equity	**72,300.5**	**72,232.3**	**78,244.7**
Tier 1 capital	*6,746.6*	*6,743.6*	*6,524.4*
Regulatory capital	*8,575.3*	*8,572.3*	*8,085.6*
Risk-weighted assets	*47,362.7*	*47,362.4*	*46,309.9*
Tier 1 capital/risk-weightes assets	*14.24%*	*14.24%*	*14.09%*
Regulatory capita/risk-weighted assets	*18.11%*	*18.10%*	*17.46%*
No. of shares in issue (million)	*886.6*	*886.6*	*887.2*

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

(€m)

30 June 2019 IFRS9	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	1,395.6
Net treasury income	6.2	—	126.8	18.3	45.0	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	611.2
Equity-accounted companies	—	—	—	321.2	—	321.2
Total income	**547.3**	**1.026.9**	**627.1**	**332.4**	**5.3**	**2,524.7**
Labour costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**(1,161.9)**
Gains (losses) on disposal of equity holdings	—	—	—	—	—	—
Loan loss provisions	(11.8)	(237.8)	36.2	—	(9.0)	(222.6)
Provisions for other financial assets	0.3	—	0.9	(3.3)	0.1	(2.1)
Other income (losses)	0.6	—	—	—	(54.8)	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(256.5)
Minority interests	(2.5)	—	—	—	(2.1)	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**823.0**
Cost/Income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*46.0*
Balance-sheet data						
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Risk-weighted assets	4,533.8	12,564.1	20,065.8	5,641.6	3,504.7	46,309.9
No. of staff	1,936	1,427	621	11	810	4,805

Notes:

1) Divisions comprise:
- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
  - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris & Associés);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CB): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Wealth Management (WM): recently set up division, bringing together all asset management services offered to the following client segments:
  - Affluent & Premier, addressed by CheBanca!;
  - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Asset Management & Alternative, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
  - Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.) with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €2.9m).

(€m)

30 June 2018 IAS39	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	255.2	868.8	266.1	(7.2)	(37.5)	1,359.4
Net treasury income	12.1	—	110.5	21.9	13.1	157.4
Net fee and commission income	258.7	127.4	254.4	—	15.5	622.2
Equity-accounted companies	—	—	—	280.3	—	280.3
Total income	**526.0**	**996.2**	**631.0**	**295.–**	**(8.9)**	**2,419.3**
Labour costs	(201.1)	(96.1)	(137.4)	(3.8)	(118.2)	(557.8)
Administrative expenses	(215.7)	(188.4)	(118.5)	(1.0)	(55.1)	(557.1)
Operating costs	**(416.8)**	**(284.5)**	**(255.9)**	**(4.8)**	**(173.3)**	**(1,114.9)**
Gains (losses) on disposal of equity holdings	2.0	—	—	96.3	—	98.3
Loan loss provisions	(16.4)	(241.9)	19.0	(1.8)	(7.5)	(248.5)
Other income (losses)	(0.6)	(6.6)	(2.0)	—	(49.3)	(58.4)
Profit before tax	**94.2**	**463.2**	**392.1**	**384.7**	**(239.0)**	**1,095.8**
Income tax for the period	(24.4)	(147.9)	(127.6)	(10.9)	83.3	(228.1)
Minority interests	(0.6)	—	—	—	(3.2)	(3.8)
Net profit	**69.2**	**315.3**	**264.5**	**373.8**	**(158.9)**	**863.9**
Cost/Income ratio (%)	*79.2*	*28.6*	*40.6*	*n.m.*	*n.m.*	*46.1*
Balance-sheet data						
Loans and advances to customers	10,359.2	12.517.8	16,134.2	—	2,116.7	41,127.9
Risk-weighted assets	5,757.2	11,822.0	19,510.9	6,256.6	4,016.0	47,362.7
No. of staff	1,888	1,429	587	12	801	4.717

Balance sheet

The Group's total assets increased by 8.2%, from €72.3bn to €78.2bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54.7%, showed the following trends for the twelve months under review (comparative data as at 30 June 2018 prior to IFRS 9 FTA).[6]

Funding – funding increased from €48.9bn to €51.4bn, reflecting the increase in deposits in Private Banking (up from €4.9bn to €7.4bn) and CheBanca! retail operations (up from €14.2bn to €15bn), which offset the slight reduction in debt security funding. New issuers worth approx. €3.1bn were made during the twelve months (around fifteen deals, including a securitization of consumer banking receivables for €600m and a covered bond for €750m), against redemptions and buybacks on the market totalling €3.8bn. Diversification of funding channels and instruments, in a particularly challenging market scenario in the mid-part of the year especially, enabled the average cost of funding to be reduced from 90 bps to 80 bps.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,179.4	39%	19,185.3	39%	18,531.3	36%	-3.4%
CheBanca! retail funding	14,163.0	29%	14,163.0	29%	15,032.0	29%	6.1%
Private Banking deposits	4,933.7	10%	4,933.4	10%	7,417.6	14%	50.3%
Interbank funding (+CD/CP)	5,031.5	11%	5,031.2	11%	5,484.4	11%	9.0%
LTRO	4,336.5	9%	4,336.5	9%	4,322.4	9%	-0.3%
Other funding	1,249.1	2%	1,206.3	2%	605.5	1%	-51.5%
Total funding	**48,893.2**	**100%**	**48,855.7**	**100%**	**51,393.2**	**100%**	**5.1%**

Loans and advances to customers – rose by 7.9%, from €41.1bn to €44.4bn, with all segments contributing positively: CIB posted an increase of 10.7% in lendings (to €17.9bn), with positive contributions from Wholesale Banking (up 11.2% to €15.6bn, on new loans totalling €5.8bn (down 21.2%) and redemptions of €4.3bn) and Specialty Finance (up 7.8 % to €2.3bn), factoring increasing by 4.7% to €1.9bn (turnover up from €5.2bn to €6.5bn) and MBCredit Solutions up 28% to €369m (following the acquisitions of NPLs made in the retail and SME unsecured segments for a nominal amount of €1.5bn, against a €117.9m outlay). Wealth Management delivered a 9.6% increase to €11.4bn, with positive

[6] For further details and full disclosure on the effects of first-time adoption of IFRS 9, which replaces IAS 39, please refer to the document entitled "Summary of IFRS 9 accounting standard adoption" published on the Group's website at www.mediobanca.com.

contributions from both CheBanca! mortgage loans (up 11% to €9bn and new loans up 11.8% to €1.8bn) and private banking clients (up 4.4% to €2.4bn). Consumer Banking was up 5.6%, from €12.5bn to €13.2bn. Leasing continues to gradually decrease, with leases down 8%, to €2bn.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Wholesale Banking	13,996.9	34%	14,002.0	34%	15,560.8	36%	11.2%
Specialty Finance	2,137.3	5%	2,128.5	5%	2,304.5	5%	7.8%
Consumer Banking	12,517.8	30%	12,469.8	30%	13,223.0	30%	5.6%
Retail Banking	8,107.1	20%	8,067.5	20%	9,001.9	20%	11.0%
Private Banking	2,252.1	6%	2,251.8	6%	2,351.9	5%	4.4%
Leasing	2,116.7	5%	2,099.5	5%	1,951.6	4%	-7.8%
Total loans and advances to customers	**41,127.9**	**100%**	**41,019.1**	**100%**	**44,393.7**	**100%**	**7.9%**

Gross NPLs reduced by 8%, from €1,943.1m to €1,782.3m, in particular in CheBanca! mortgage lending (down 46.4%, from €332.1m to €178m, following the sale of the former Micos Banca bad debts) and Wholesale Banking (down 2.9%, from €648m to €628.9m); they also reduced in relative terms, to 3.9% of total loans (from 4.6% last year). Net NPLs too reduced both in absolute terms (from €842.1m to €806m) and relative terms (from 2.1% of the total loan book last year to 1.8%), with a coverage ratio of 54.8% (56.7%). Net bad loans halved compared to last year, totalling €79.8m (€141.5m) and representing 0.18% of total loans (0.35% as at 30 June 2018) with a coverage ratio of 79.7% (73.3%); this item does not include NPLs acquired by MBCredit Solutions totalling €368.6m (€287.9m). The figures also do not include the bad debts originated by Micos Banca and the French branch (business discontinued at end-2009). During the year the process for disposing of these debts was launched: in February 2019, the entire French loan book was sold (88 loans, with a gross book value of €14.8m), while in June agreement was reached for sale of the Italian portfolio (1,601 loans, with a gross book value of €136.8m), booked as "Non-current assets held for sale and discontinued operations" pursuant to IFRS 5 at a net value of €22.2m, and the deal was finalized after the year under review had ended.

	30/6/18 IAS 39		1/7/18 IFRS 9		30/6/19 IFRS 9	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Wholesale Banking	341.7	47.3%	345.3	47.0%	384.4	38.9%
Specialty Finance	10.4	72.7%	10.2	72.8%	10.3	76.1%
Consumer Banking	186.0	73.4%	184.8	73.5%	189.0	74.4%
Retail Banking	155.1	53.3%	136.1	59.0%	102.5	42.4%
Private Banking	8.7	56.0%	9.0	56.0%	8.0	61.0%
Leasing	140.2	32.2%	124.7	39.7%	111.8	35.9%
Total net non-performing loans	**842.1**	**56.7%**	**810.1**	**58.5%**	**806.0**	**54.8%**
– of which: bad loans	*141.5*		*115.4*		*79.8*	
As % of total loans and advances	*2.1%*		*2.0%*		*1.8%*	
As % of gross total loans and advances	**4.6%**		**4.4%**		**3.9%**	

(€m)

	30/6/19			
	Stage 1	Stage 2	Stage 3	Total
Wholesale Banking	14,487.2	689.2	384.4	15,560.8
Specialty Finance	1,836.4	89.2	378.9	2,304.5
Consumer Banking	11,897.9	1,136.1	189.0	13,223.0
Retail Banking	8,323.7	575.7	102.5	9,001.9
Private Banking	2,278.0	65.9	8.0	2,351.9
Leasing	1,719.7	120.1	111.8	1,951.6
Total loans and advances to customers	**40,542.9**	**2,676.2**	**1,174.6**	**44,393.7**
As % of total	91.3%	6.0%	2.7%	100%
Total loans and advances to customers (excluding NPLs purchased by MBCredit Solutions)	**40,542.9**	**2,676.2**	**806.0**	**44,025.1**
As % of total	92.1%	6.1%	1.8%	**100%**

Investment holdings – as from this financial year, this heading brings together investments covered by IAS 28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) that must be recognized at fair value through profit and loss. Investments in associates (up from €3,210.8m to €3,259.8m) consist almost entirely of the Assicurazioni Generali investment, the value of which rose from €3,171.4m to €3,219.3m, on profits of €320m (adjusted to reflect the €182.4m dividend collected), and lower valuation reserves of €89.7m. The Group's stake in the Istituto Europeo di Oncologia reflected a value of €40.5m (€39.4m), as a result of a pro rata increase in the Institute's profits (€1.2m). Equities (listed and unlisted) reduced from €260.5m to €138.6m, following sales of equities totalling €145.3m (yielding gains of €3.7m taken directly through other comprehensive income) and downward adjustments to reflect fair value at the period-end totalling €4.2m (also taken through OCI). Movements in seed capital reflect net investments of €74.6m, and net gains of €3.3m (taken through profit and loss); while other funds, including private equity, declined slightly, from €177.3m to €168.4m, after losses charged to earnings of €3.1m (covered by €4.9m in dividends) and net redemptions totalling €5.8m.

(€m)

	30/6/18		1/7/18		30/6/19	
	Book value	**AFS reserve**	**Book value**	**HTC&S reserve**	**Book value**	**HTC&S reserve**
IAS28 investments	3,210.8	—	3,210.8	—	3,259.8	—
Listed shares	239.3	51.3	239.3	51.3	102.6	52.6
Other unlisted shares	21.6	5.8	21.6	5.8	36.0	12.2
Seed capital	334.2	7.1	334.2	—	413.5	—
Private equity	71.5	23.2	71.5	—	66.1	—
Other funds	105.7	6.8	105.6	—	102.3	—
Total equity holdings	**3,983.1**	**94.2**	**3,983.0**	**57.1**	**3,980.3**	**64.8**

The Group's stake in Assicurazioni Generali (representing 12.92% of the company's share capital) is booked at a value which is below the stock market price as at 28 June 2019 (€3,356.9m) and current prices (€3,356.9m).

(€m)

	% share capital	**30/6/18**	**30/6/19**
Assicurazioni Generali	12.92	3,171.4	3,219.3
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	39.4	40.5
Total IAS28 investments		**3,210.8**	**3,259.8**

Banking book bonds – this heading comprises both debt securities recognized at cost and those measured at fair value through other comprehensive income (OCI), plus those bonds which under IFRS 9 must be measured at fair value through profit and loss.

	30/6/18		1/7/18		30/6/19	
	(€m)	**%**	**(€m)**	**%**	**(€m)**	**%**
Hold to Collect	4,949.7	64%	3,443.2	43%	2,892.0	43%
Hold to Collect & Sell	2,795.0	36%	4,442.7	56%	3,748.2	56%
Other (mandatorily measured at FV)	—	n.a.	57.8	1%	55.7	1%
Total banking book securities	**7,744.7**	**100%**	**7,943.7**	**100%**	**6,695.9**	**100%**

The portfolio shows a value of €6.7bn, following purchases of €5.7bn and sales and redemptions totalling €7bn which includes some profit-taking; the OCI reserve was positive, at €36.2m (30/6/18: €64.4m), despite reflecting €58.3bn in sales for the period, and upward adjustments at the period-end totalling €25.6m.

Government securities total €4.6bn (or 69% of the total portfolio), almost half of which (€2.2bn) is Italian sovereign debt with a duration of three years, and an OCI reserve in positive territory at €4.8m.

Hold-to-collect securities recognized at cost reflect unrealized gains of €52m (€20m as at 30 June 2018).

	30/6/18			1/7/18			30/6/19		
	Book value		AFS reserve	Book value		OCI reserve	Book value		OCI reserve
	AFS	HTM - LR		HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,132.1	1,612.9	19.6	1,296.5	1,456.9	25.2	1,088.6	1,161.3	4.8
Foreign government bonds	739.3	1,931.2	14.5	848.3	1,821.6	13.5	644.9	1,701.8	5.0
Bond issued by financial institutions	580.1	949.7	14.3	800.0	849.3	12.5	864.2	663.3	15.6
Corporate bonds	343.5	455.9	16.0	498.4	314.9	11.6	294.3	221.8	10.8
Total banking book securities	**2,795.0**	**4,949.7**	**64.4**	**3,443.2**	**4,442.7**	**62.8**	**2,892.0**	**3,748.2**	**36.2**

Net treasury funds – these rose from €4,810.3m to €5,342.5m, with a view to preserving a substantial liquidity provision in a period of strong volatility and uncertainty on the Italian domestic market in particular. The heading comprises equity holdings worth €2,620.4m (€1,658.3m), hedged by derivatives, the valuation of which contributes €955.7m to the overall total, cash and liquid assets of €1,510.2m (€1,969.2m), and other net deposits (including repos) totalling €2,094.4m (€1,098.5m).

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Financial assets held for trading	8,204.9	8,008.5	9,765.7	19.0 %
Treasury financial assets	8,358.2	8,358.0	10,170.2	21.7%
Financial liabilities held for trading	(6,462.4)	(6,462.4)	(8,027.8)	24.2%
Treasury financial liabilities	(5,290.4)	(5,290.4)	(6,565.6)	24.1%
Net treasury assets	**4,810.3**	**4,613.7**	**5,342.5**	**11.1%**

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
				(€m)
Loan trading	25.0	25.0	6.9	-72.4%
Derivative contract valuations	(253.4)	(253.4)	(955.7)	n.m.
Equities	1,658.3	1,658.3	2,620.4	58.0%
Bond securities	312.7	116.1	66.3	-78.8%
Financial instruments held for trading	**1,742.6**	**1,546.0**	**1,737.9**	**-0.3%**

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
				(€m)
Cash and banks	1,969.2	1,969.2	1,510.2	-23.3%
REPOs	(605.1)	(605.1)	2,140.3	n.m.
Financial assets deposits	426.9	426.9	61.0	-85.7%
Stock lending	1,276.7	1.276.7	(106.9)	n.m.
Other net treasury assets	**3,067.7**	**3,067.7**	**3,604.6**	**17.5%**

Tangible and intangible assets – this item increased from €1,027.7m to €1,187.6m, due chiefly to goodwill being recorded in connection with the Messier Maris & Associés[7] acquisition for €149m, plus the "Messier Maris" brand previously booked to the company's own accounts in an amount of €17m. During the twelve months under review, the purchase price allocation process for the RAM acquisition made in February 2018 was completed, resulting in identification of a brand (considered as having an indefinite lifetime with an estimated fair value of €37.7m) and an AUM management contract (with a fair value of €2.4m, to be amortized over five years), which, net of the deferred tax, is balanced by the lower goodwill attributable (€155m, net of exchange rate adjustments). It should also be noted that the sale of Spafid's Market Connect business to Norwegian listed company Infront generated a reduction in the goodwill, from €12.8m to €9m. There were also depreciation and amortization charges totalling €44.2m, and acquisitions of other tangible assets amounting to €10m.

Following a careful internal assessment process, no items showed any evidence of impairment.

[7] The acquisition of Messier Maris was finalized on 10 April 2019. Under the terms of the agreement, a 66.4% stake was acquired and a put-and-call agreement entered into, which will allow the Bank to increase its interest to 100% if exercised. Under IFRS 3 the buyer has twelve months in which to complete the purchase price allocation process, hence the valuation of goodwill used here is provisional.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Land and properties	262.3	26%	256.7	22%	-2.1%
- of which: core	*184.9*	*18%*	*181.8*	*15%*	*-1.7%*
Other tangible assets	25.5	2%	29.1	3%	14.1%
Goodwill	649.8	63%	772.4	65%	18.9%
Other intangible assets	90.1	9%	129.4	10%	43.6%
Total tangible and intangible assets	**1,027.7**	**100%**	**1,187.6**	**100%**	**15.6%**

(€m)

Transaction	30/6/18	30/6/19
Compass-Linea	365.9	365.9
Spafid	12.8	9.0
Cairn Capital	41.9	41.4
Banca Esperia Private Banking	52.1	52.1
RAM	177.0	155.0
MMA	—	149.0
Total goodwill	**649.7**	**772.4**

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

			30/6/19
	Squ. m	Book value (€m)	Book value per squ.m (€ 000)
Milan:			
– Piazzetta Enrico Cuccia n. 1 *	9,318	14.8	1.6
– Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari n. 6 *	13,390	62.7	4.7
– Foro Buonaparte n. 10 *	2,926	8.7	3.0
– Via Siusi n. 1-7	22,608	24.9	1.1
Rome **	1,790	8.1	4.5
Vicenza	4,239	5.0	1.2
Luxembourg	442	3.8	8.6
Monaco	4,576	52.4	11.5
Other minor properties	3,611	1.4	0.4
Total	**62,900**	**181.8**	

* After updating the related plans.

** The Piazza di Spagna property, carried at a book value of €24.9m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties were worth €74.9m (30/6/18: €77.4m), following depreciation of €1.9m and €9.1m in assets collected under leasing agreements being restated as "Tangible asset inventories" (in accordance with IAS 2); no new properties were acquired or sold during the period.

Provisions – as from this year, this heading includes provisions set aside to meet commitments to disburse funds and financial guarantees issued, in a total amount of €10.5m. Provisions for risks and charges decreased from €185.5m to €150.1m, and regard Mediobanca as to €96.2m (€95.8m), CheBanca! as to €32.9m (€59m), and SelmaBipiemme as to €10.3m (€9.4m). Withdrawals from provisions totalling €40.3m were made during the period, chiefly by CheBanca! (€26.4m), as part of restructuring following the Barclays acquisition, and by Compass (€6.6m) from the redundancy provision; new transfers to provisions totalled €4.9m, €2.8m of which regards leasing.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given *	N/A	N/A	10.5	6%	N/A
Provisions for risks and charges	185.5	87%	150.1	79%	-19.1%
Staff severance indemnity provision	27.5	13%	29.7	16%	8.0%
of which: staff severance provision discount	*2.2*	—	*3.7*	—	*68.2%*
Total provision	**213.0**	**100%**	**190.3**	**100%**	**-10.7%**

* Following the fifth update to Bank of Italy circular 262/2005, total amounts set aside in respect of commitments to disburse funds and guarantees issued, which previously were accounted for as "Other liabilities", are now treated as "Provisions for risks and charges".

Net equity – net equity increased from €9,644.3m to €9,809.2m, reflecting profit for the period (€823m), most of which was absorbed by the negative movements in other components, as follows:

– Distribution of the dividend for FY 2017-18 (€411.2m);

– First-time adoption (FTA)[8] of the new reporting standards on financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15), impacting negatively on net equity by €80.9m and €4m respectively;

– Launch of the share buyback scheme approved by shareholders at the annual general meeting held on 27 October 2018, with 20.1 million shares acquired for an outlay of €162.5m[9] and 13.4 million shares used, 11.6 million of which to acquire Messier Maris & Associés and 1.8 million in connection with the performance share schemes; including the shares already owned at 30 June 2018, a total of 15.3 million treasury shares are now held, equal to 1.7% of the Group's share capital;

– The lower valuation reserves (which were from €764.3m to €597.5m) reflect the reduction in financial assets measured at FVOCI (down €15.9m),

[8] See Part A of the Notes to the Accounts for further details.

[9] A further 99,500 shares have been purchased since the reporting date (for €0.9m).

application of the equity method to the Assicurazioni Generali investment (from €663.7m to €560.6m), and the increase in the negative cash flow hedge reserve (from €15.7m to €45m, due to market rate and volume trends).

The Group's share capital increased from €443.3m to €443.6m, following the exercise of 642,500 stock options with a total value of €4.2m, including the share premium; a total of 1,827,063 performance shares were also awarded during the period under review, from the treasury shares already owned by the Bank.

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Share capital	443.3	443.3	443.6	0.1%
Other reserves	7,572.8	7,510.8	7,945.1	4.9%
Valuation reserves	764.3	746.5	597.5	-21.8%
- of which: OCI	*121.5*	*100.5*	*84.6*	*-30.4%*
cash flow hedge	*(15.7)*	*(12.5)*	*(45.0)*	*n.m.*
equity investments	*663.7*	*663.7*	*560.6*	*-15.5%*
Profit for the period	863.9	863.9	823.0	-4.7%
Total Group net equity	**9,644.3**	**9,564.5**	**9,809.2**	**1.7%**

The OCI reserve involves equities as to €64.8m, and bonds and other securities as to €36.2m (€4.8m of which Italian government securities), net of the tax effect of €16.4m.

(€m)

	30/6/18 IAS 39	1/7/18 IFRS 9	30/6/19 IFRS 9	Chg.
Equity shares	94.2	56.3	64.8	-31.2%
Bonds	64.3	70.7	36.2	-43.7%
of which: Italian government bonds	*19.6*	*25.2*	*4.8*	*-75.6%*
Tax effect	(37.0)	(26.5)	(16.4)	-55.4%
Total OCI reserve	**121.5**	**100.5**	**84.6**	**-30.4%**

Profit and loss account

Net interest income – net interest income rose by 2.7%, from €1,359.4m to €1,395.6m. reflecting good performances by all business lines, in particular Consumer Banking (up 3.5%, on higher volumes with profitability largely resilient) which contributes nearly two-thirds of the total. The performance of Specialty Finance was especially impressive, posting growth of 22.9% split equally between factoring and NPL portfolio management. The 4.5% reduction in net interest income earned by Wholesale Banking (down from €198.5m to €189.6m) reflects repositioning in favour of higher-rated clients in a scenario of strongly reducing spreads. The liability run on treasury operations increased slightly, from €82.9m to €87.4m, despite the improved cost of funding (down from 90 bps to 80 bps), due to the effect of the negative market interest rates on the substantial short-term liquidity position.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Consumer Banking	868.8	898.8	3.5%
Wealth Management	255.2	260.2	2.0%
Corporate and Investment Banking	266.1	272.7	2.5%
Holding Functions and other (including intercompany)	(30.7)	(36.1)	17.6%
Net interest income	**1,359.4**	**1,395.6**	**2.7%**

Net treasury income – net treasury income increased from €157.4m to €196.7m, due to the higher contribution from Capital Market Solutions activity which totalled €130.4m (€82.3m) and higher revenues from the portfolio managed by the centralized Group treasury of €45.2m (€13.6m); these were only partly offset by the proprietary trading portfolio, which delivered a negative result due to the market instability seen in the second half of the financial year.

Dividends on OCI equities and other income from funds declined from €22.1m to €18.5m. The fixed-income segment increased from €79.6m to €120.2m, chiefly due to the banking book contribution of €60.1m (€14.7m), while the equity segment was basically stable at €58m (€55.7m).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Dividends	22.1	18.5	-16.3%
Fixed income trading profit	79.6	120.2	51.0%
of which: banking book	*14.7*	*60.1*	*n.m.*
Equity trading profit	55.7	58.0	4.1%
Net treasury	**157.4**	**196.7**	**25.0%**

Net fee and commission income – net fees declined from €622.2m to €611.2m, reflecting the performance in capital market activities, which, in line with the market, halved from €65.8m to €28.9m. Net of this fees would have increased by 4%, due principally to growth in Wealth Management (up 8.6%, from €258.7m to €280.9m) and Corporate Finance (up 35.3%, from €64.7m to €87.5m), with Consumer Banking and Specialty Finance basically stable. Wealth Management now contributes 46% of the Group's fee income, despite a reduction in performance fees (from €12m to €2.9m), helped by the consolidation of RAM which added €19.7m (being consolidated for twelve rather than four months as last year) and by growth in CheBanca! management fees (up 7.5%), Mediobanca Private Banking (up 1%) and CMB (up 2%). Fee income earned from Wholesale Banking operations decreased from €207.3m to €178.6m, reflecting the trends in capital market and lending activities, despite the performance of Corporate Finance which as from this quarter includes MMA, contributing €5.3m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Wealth Management	258.7	280.9	8.6%
Wholesale Banking	207.3	178.6	-13.8%
Consumer Banking	127.4	128.1	0.5%
Specialty Finance	47.1	49.0	4.0%
Holding Functions and other (including intercompany)	(18.3)	(25.4)	38.8%
Net fee and commission income	**622.2**	**611.2**	**-1.8%**

Equity-accounted companies – the €321.2m profit reported by the equity-accounted companies (€280.3m) reflects the higher contribution by Assicurazioni Generali, which increased from €279.9m to €320m, plus the marginal contribution from the IEO of €1.2m (€0.4m).

Operating costs – operating costs rose by 4.2%, from €1,114.9m to €1,161.9m, due chiefly to the increased scope of consolidation (RAM added €13m and MMA €5.4m), and were split equally between labour costs (up 4.3%, or 1.9% on a like-for-like basis) and administrative expenses (up 4.1% and 3% respectively). Ordinary growth of 2.6% was concentrated in Consumer Banking, with 18 new Compass agencies and higher credit recovery expenses, due to higher volumes, and in Wealth Management (with the addition of 48 new bankers and 23 new CheBanca!, POS, plus costs linked to the FAs network expansion and strengthening). Administrative expenses reflect growth of 17% in IT costs due to regulatory projects (MiFID II, IFRS 9, AIRB) and work required to develop the business platforms (Group Treasury, CRM and e-commerce) and to increase digitalization at branch offices.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Labour costs	557.8	581.7	4.3%
of which: directors	*8.0*	*9.8*	*22.5%*
stock option and performance share schemes	*7.8*	*12.0*	*53.8%*
Sundry operating costs and expenses	557.1	580.2	4.1%
of which: depreciation and amortizations	*43.9*	*43.0*	*-2.1%*
administrative expenses	*512.1*	*533.0*	*4.1%*
Operating costs	**1,114.9**	**1,161.9**	**4.2%**

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Legal, tax and professional services	16.8	10.5	-37.5%
Other consultancy expenses	45.7	48.8	6.8%
Credit recovery activities	50.4	55.6	10.3%
Marketing and communication	47.7	42.3	-11.3%
Rent and property maintenance	52.6	53.2	1.1%
EDP	107.6	125.9	17.0%
Financial information subscriptions	37.6	41.0	9.0%
Bank services, collection and payment commissions	19.7	21.6	9.6%
Operating expenses	65.6	63.6	-3.0%
Other labour costs	23.5	22.5	-4.3%
Other costs	25.0	25.8	3.2%
Direct and indirect taxes	19.9	22.2	11.6%
Total administrative expenses	**512.1**	**533.0**	**4.1%**

Gains (losses) on investment holdings – in the financial statements as at 30 June 2018, this heading included gains and losses realized on disposal of AFS equities amounting to €98.3m, which as from this year no longer pass through profit and loss.

Loan loss provisions – these decreased by 10%, from €247.2m to €222.6m, and reflect a cost of risk at an all-time low of 52 bps (62 bps). In Wholesale Banking net writebacks of €62.7m were credited (€44m), following a reduction in provisioning (due in part to collections) for certain UTP positions which reflect ongoing earnings and financial improvement. Provisioning for Consumer Banking decreased slightly from €241.9m to €237.8m, which, given the higher volumes, drove the cost of risk down to 185 bps (versus 199 bps last year). Wealth Management reduced its impact on profit and loss from €16.4m to €11.8m (with the cost of risk reducing from 16 bps to 11 bps), on the back of a widespread improvement in the mortgage loan book and business with collateralized clients.

Conversely, there were increases in Specialty Finance (from €25.7m to €26.5m) for the higher NPLs acquired, and leasing (from €7.3m to €8.6m).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Wholesale Banking	(44.0)	(62.7)	42.5%
Specialty Finance	25.7	26.5	3.1%
Consumer Banking	241.9	237.8	-1.7%
Wealth Management	16.4	11.8	-28.0%
Holding Functions	7.2	9.2	27.8%
Loan loss provisions	**247.2**	**222.6**	**-10.0%**
Cost of risk (bps)	**62**	**52**	**-16.1%**

Provisions for other financial assets – under IFRS 9, the impairment process applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the "Hold to collect" model) and to all bonds recognized at fair value through other comprehensive income (the "Hold to collect and sell" model). For the twelve months under review, application of these models impacted on earnings in an amount of €1.3m. This heading also reflects the valuations of other mandatory financial assets (other than loans), totalling €0.8m.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Hold-to-Collect securities	(3.4)	0.5	n.m.
Hold-to-Collect & Sell securities	4.7	0.8	-83.0%
Others	—	0.8	n.m.
Total	**1.3**	**2.1**	**61.5%**

Income tax – income tax for the twelve months totalled €256.5m, at an effective tax rate of 23.7%, slightly higher than last year's figures of €228.1m and 20.82% respectively, due to the reduced percentage of PEX income and the effect of intercompany dividends.

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

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

WEALTH MANAGEMENT

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

– Affluent & Premier (CheBanca!);

– Private & High Net Worth Individuals (Mediobanca Private Banking, Mediobanca SGR and Spafid in Italy, Compagnie Monégasque de Banque in the Principality of Monaco; Cairn Capital, alternative asset management in London; Mediobanca Management Company in Luxembourg; and RAM Active Investments in Geneva).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	255.2	260.2	2.0
Net trading income	12.1	6.2	-48.8
Net fee and commission income	258.7	280.9	8.6
Total income	**526.0**	**547.3**	**4.0**
Labour costs	(201.1)	(221.8)	10.3
Administrative expenses	(215.7)	(212.2)	-1.6
Operating costs	**(416.8)**	**(434.0)**	**4.1**
Gains (losses) on disposal of equity holdings	2.0	—	n.m.
Loan loss provisions	(16.4)	(11.8)	-28.0
Provisions for other financial assets	—	0.3	n.m.
Other income (losses)	(0.6)	0.6	n.m.
Profit before tax	**94.2**	**102.4**	**8.7**
Income tax for the period	(24.4)	(28.7)	17.6
Minority interest	(0.6)	(2.5)	n.m.
Net profit	**69.2**	**71.2**	**2.9**
Cost/Income ratio (%)	*79.2*	*79.3*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	10,359.2	11.353.8
Loans	1,594.0	1.782.6
No. of staff	1,888	1,936
Risk-weighted assets	5,757.2	4,533.8

	30/6/18	30/6/19
AUM/AUA	37,108.2	38,964.2
AUC	7,646.8	6,461.5
Direct funding	19,096.5	22,449.5
Total assets under management, advice and custody	**63,851.5**	**67,875.2**

CHEBANCA!

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	212.0	210.6	-0.7
Net treasury income	0.8	0.8	n.m.
Net fee and commission income	79.7	85.7	7.5
Total income	**292.5**	**297.1**	**1.6**
Labour costs	(102.6)	(105.8)	3.1
Administrative expenses	(132.7)	(130.5)	-1.7
Operating costs	**(235.3)**	**(236.3)**	**0.4**
Loan loss provisions	(16.5)	(13.7)	-17.0
Profit before tax	**40.7**	**47.1**	**15.7**
Income tax for the period	(13.0)	(15.6)	20.0
Net profit	**27.7**	**31.5**	**13.7**
Cost/Income ratio (%)	*80.4*	*79.5*	

Over the three years of the plan, CheBanca! has definitively evolved from deposit-gatherer to asset-gatherer, becoming a key player in the Italian wealth management industry in the affluent-premier client segment. This achievement has been accompanied by a major transformation in terms of scale: CheBanca! today has a network of 780 advisors, five times the figures reported at end-June 2016: 445 relationship managers (29 added in twelve months, 275 since 2016) now work alongside 335 FAs (compared with none three years ago). It also has a wide and strongly increasing client base (865,000 clients, versus 807,000 at end-June 2018, and 570,000 at end-June 2016) with banking activity strongly concentrated in remote channels (97% of money transfers, 95% of tied deposit accounts through digital channels; 95% of payments/withdrawals via ATM). The "open-guided" investment platform has been enriched by the addition of new funds such as Mediobanca Global Multiasset (MGM), Mediobanca Long Short Sector Rotation, and Mediobanca Defensive Portfolio, as well as placement of the Mediobanca High Yield Credit Portfolio 2025 fund as part of the co-operation with Mediobanca SGR. In June 2019 the bank's first artificial intelligence application was launched, a chatbot to respond to chats from clients and non-clients, which in its first month of operation answered 56% of client requests autonomously.

Net profit was up 13.7% in the twelve months, to €31.5m, on revenues of €297.1m (an increase of 1.6%), operating costs basically flat (up just 0.4%), and loan loss provisions declining.

The increase in revenues, from €292.5m to €297.1m, reflects the healthy performance in fee income which offset the reduction in net interest income. The main income items performed as follows:

– Net interest income was down 0.7%, from €212m to €210.6m, helped by an 11% increase in mortgage lending volumes, but at the same time adversely affected by lower returns (due chiefly to early repayments) and a slight increase in the cost of funding (from 41 bps to 43 bps following promotional offers);

– Fees were up 7.5%, from €79.7m to €85.7m, reflecting 16% growth in asset management fees, from €52.9m to €61.1m including fees paid back to FAs, with over 90% recurring; bank commissions increased from €28.2m to €30.9m, while acquisition costs rose from €1.4m to €6.3m following the arrival of 109 new FAs.

Labour costs rose grew from €102.6m to €105.8m, in line with the distribution structure enhancement (with 29 new bankers added, mostly concentrated in 2H), almost entirely compensated by the reduction in administrative expenses to €130.5m (€132.7m) which also absorbed the franchise development (a total of 23 new branches were opened during the period).

Loan loss provisions were down 17%, from €16.5m to €13.7m, helped by lower new NPLs plus the risk parameters being adapted to the new internal models, and also reflect the net losses deriving from the disposal of bad debts generated by the former Micos Banca; the cost of risk fell from 21 bps to 16 bps.

	30/6/18	**30/6/19**
AUM/AUA	8,435.1	10,333.8
Direct funding	14,163.0	15,032.1
Total assets under management	**22,598.1**	**25,365.9**

Total financial assets (“TFAs”) rose by 12.2% to €25.4bn, €15bn of which in deposits (up 6.1%) and €10.3bn in AUM/AUA (up 22.5%). Net New Money (“NNM”) totalled €2.6bn, €0.9bn of which direct and €1.7bn in AUM/AUA, with a growing trend in the two half-years (€1bn in 1H, €1.6bn in 2H). AUM and AUA totalled €1.9bn, reflecting the market effect (€133m) and deposit conversion (€364m). Growth in volumes derives from balanced contribution from the main distribution channels, namely the proprietary network (TFAs €22.2bn) and FAs (TFAs €3.1bn, €2bn of which is in AUM/AUA). Current accounts totalled €8.8bn (up 17%, almost 60% of total direct funding), whereas deposit accounts decreased by 6% to €6.2bn.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	8,107.1	9,001.9
New loans	1,594.0	1,782.6
No. of branches	111	110
No. of staff	1,321	1,364
Risk-weighted assets	3,713.8	2,581.5

Mortgage loans climbed from €8.1bn to €9bn, on new mortgage loans of €1.8bn (up 11.8% on the €1.6bn reported last year) and early repayments declining slightly to €604.5m. Asset quality remained at excellent levels: gross NPLs declined from €332.1m to €178m, accounting for 2% of total loans (versus 4%); net NPLs declined from €155.1m to €102.5m and account for 1.1% of net total loans, with a coverage ratio of 42.4% compared with 53.3% last year. Net NPLs totalled €39.9m (0.4% of the total net loan book), with a coverage ratio of 56.9% (60.9%). These figures reflect the bad loans attributable to the French branch (business discontinued at end-2009), which were sold, and the former Micos Banca loans in the process of being sold. In February the entire French loan book was sold (consisting of 88 loans with a gross book value of €14.8m), while in June 2019 agreement was reached to sell the Italian portfolio (1,601 loans with a gross book value of €136.8m) which has been booked as "Non-current assets held for sale and discontinued operations" pursuant to IFRS 5 at their estimated realizable value (€22.2m).

PRIVATE BANKING

This division comprises Mediobanca Private Banking, Compagnie Monégasque de Banque, Spafid, Mediobanca SGR, Mediobanca Management Company, Cairn Capital and RAM Active Investments (Alternative AM).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	43.2	49.6	14.8
Net treasury income	11.3	5.4	-52.2
Net fee and commission income	179.0	195.2	9.1
Total income	**233.5**	**250.2**	**7.2**
Labour costs	(98.5)	(116.0)	17.8
Administrative expenses	(83.0)	(81.7)	-1.6
Operating costs	**(181.5)**	**(197.7)**	**8.9**
Gains (losses) on disposal of equity holdings	2.0	—	n.m.
Loan loss provisions	0.1	1.9	n.m.
Provisions for other financial assets	—	0.3	n.m.
Other income (losses)	(0.6)	0.6	n.m.
Profit before tax	**53.5**	**55.3**	**3.4**
Income tax for the period	(11.4)	(13.1)	14.9
Minority interests	(0.6)	(2.5)	n.m.
Net profit	**41.5**	**39.7**	**-4.3**
Cost/Income ratio (%)	*77.7*	*79.0*	

Private Banking delivered a gross operating profit of €55.3m, up 3.4% on last year. The change in contributions from the different companies drove an increase in the tax burden and minority interest, reducing the division's net profit from €41.5m to €39.7m.

Revenues were up 7.2%, from €233.5m to €250.2m, due in particular to 9.1% growth in fees (up 9.1%, €179m to €195.2m), boosted by the enlarged scope of operations[10] (which added €15m), partially offset by the reduction in performance fees (from €9.5m to €1.9m);[11] net of these items growth of 6% would have been reported (from €135.1m to €143.3m), an impressive result if the market scenario and clients' scarce propensity to invest are considered.

[10] RAM's figures refer to the full twelve months rather than four last year, resulting in a €20.3m increase, from €15.4m to €35.7m, whereas from 1 January 2019 the figures for Spafid refer exclusively to financial services (which added approx. €5m in twelve months), as the corporate services business performed by Spafid Connect has been transferred to the Holding Functions division following the sale of the Market Connect business unit to Norwegian listed company Infront.

[11] Net of RAM.

Growth in net interest income (up 14.8%, from €43.2m to €49.6m), linked to the profitability of deposits in USD held by CMB clients, offset the reduction in net treasury income (from €11.3m to €5.4m) again attributable to CMB, due to lower profits on the banking book and broking with clients.

Operating costs rose by 8.9%, from €181.5m to €197.7m, reflecting 17.8% growth in labour costs (from €98.5m to €116m) relating to RAM coming fully onstream (adding €9.4m) and to enhancement of structures and the distribution network; in particular, four bankers joined Mediobanca Private Banking, five joined Mediobanca SGR, and a new management team was installed at CMB. By contrast, administrative expenses decreased from €83m to €81.7m, despite the increase due to RAM (which added €3.9m).

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,252.1	2,351.9
No. of staff	567	572
Risk-weighted assets	2,043.4	1,952.3

	30/6/18	30/6/19
AUM/AUA	28,673.1	28,630.4
AUC	7,646.8	6,461.5
Direct funding	4,933.5	7,417.4
Total assets under management	**41,253.4**	**42,509.3**

TFAs grew from €41.3bn to €42.5bn in the twelve months, of which €7.4bn in deposits (€4.9bn), €28.6bn in AUM and AUA (€28.7bn), and €6.5bn in assets under custody (€7.6bn). Net new money in the twelve months amounted to €2.2bn, with positive contributions from Mediobanca Private Banking (up €2.3bn) and Cairn (up €730m) offsetting the outflows recorded by RAM (€914m) concentrated in 2H. These results reflect a weak 4Q (with net outflows of €855m), the closure of certain low-margin mandates (€330m in institutional mandates and €340m in AUC), and outflows recorded by RAM (€480m), only in part offset by the contribution of Private Banking (up €260m).

By individual unit, CMB contributed a net profit of €27.5m, on revenues of €95.6m (€95m), costs of €62.5m (€59.5m), and tax of €6.1m (€5.7m); TFAs amounted to €10.bn, €3.4bn of which related to deposits and Net New Money for the 12 months equal to €308m. Mediobanca Private Banking and the asset management companies delivered a net profit of €11.2m, with revenues increasing (from €85.7m to €88.5m), despite lower performance fees of €1.7m (€4.7m), with costs largely unchanged at €73m (€71.7m); TFAs totalled €21.2bn, €4bn of which in deposits (NNM €2.3bn, €2.1bn of which cash and liquid assets). RAM reported a profit of €7.9m (net of minority interest totalling €2.4m), on revenues of €35.7m and costs of €21.5m; TFAs decreased from €4.1bn to €3.1bn, reflecting the outflows mentioned above. Cairn Capital contributed revenues of €16.3m (€18.2m), which reflects the absence of performance fees (€2.3m) and reduced advisory business of €1.3m (€2.6m), with costs rising from €19.5m to €22.3m due to a retention scheme. TFAs totalled €4bn (NNM €730m, €365m of which in CLOs). Spafid reported revenues of €14.1m and a bottom line at breakeven following the transfer of the remaining Spafid Connect activities (corporate services) to the Holding Functions.

CONSUMER BANKING

This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance (Compass Banca and Futuro). The division also includes Compass RE, which reinsures risks linked to insurance policies sold to clients.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	868.8	898.8	3.5
Net fee and commission income	127.4	128.1	0.5
Total income	**996.2**	**1.026.9**	**3.1**
Labour costs	(96.1)	(99.4)	3.4
Administrative expenses	(188.4)	(194.1)	3.0
Operating costs	**(284.5)**	**(293.5)**	**3.2**
Loan loss provisions	(241.9)	(237.8)	-1.7
Other income (losses)	(6.6)	—	n.m.
Profit before tax	**463.2**	**495.6**	**7.0**
Income tax for the period	(147.9)	(159.2)	7.6
Net profit	**315.3**	**336.4**	**6.7**
Cost/Income ratio (%)	*28.6*	*28.6*	

The division delivered a net profit of €336.4m in the twelve months, up 6.7% on last year (€315.3m), after revenues of €1,026.9m (up 3.1%), costs of €293.5m (up 3.2%) and loan loss provisions totalling €237.8m (down 1.7%).

Revenues beat their all-time high, breaking through the €1bn mark for the first time, and now account for over 40% of the Group's top line. The main income sources performed as follows:

- Net interest income grew from €868.8m to €898.8m (up 3.5%), due to higher average volumes (up 6.1%) with margins largely resilient;
- Net fee income was unchanged at €128.1m (€127.4m), with the higher *rappel* fees paid to partners (up 8%) offset by the healthy performances in consumer credit product distribution and management.

Costs were up 3.2%, due to enhancement of the distribution network (a total of eighteen new POS were opened during the period, both proprietary branches and agencies) and IT projects supporting the business and for regulatory reasons (chiefly AIRB models).

Loan loss provisions decreased from €241.9m to €237.8m (down 1.7%), with the annualized cost of risk improving to 185bps (vs 199bps last year) without affecting the coverage levels.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	12,517.8	13,223.0
New loans	7,025.1	7,350.0
No. of branches	181	199
No. of staff	1,429	1,.427
Risk-weighted assets	11,822.0	12,564.1

Net loans increased from €12.5bn to €13.2bn, with new loans for the twelve months rising from €7bn to €7.4bn (up 4.6%); personal loans account for approx. 57% of the stock, while salary-backed finance amounts to just over €2bn (up 3%). Gross NPLs increased from €698.5m to €737.7m in absolute terms, but still account for 5.2% of the total loan book (unchanged); net NPLs totalled €189m (1.4% of total loans), at a coverage ratio of 74.4% (73.4%). Net bad debts amounted to €13.7m, representing just 0.1% of total loans (also unchanged) and reflecting a coverage ratio of 94.3% (93.9%). The coverage ratio for performing loans has increased since the introduction of IFRS 9 from 2.65% to 3.02%, with stage 2 items accounting for 8.6% of the total loan book (covered as to 20.7%).

CORPORATE AND INVESTMENT BANKING

This division provides services to customers in the following areas:

– Wholesale Banking: CIB client business (lending, capital market activities and advisory services) and proprietary trading, performed by Mediobanca, Mediobanca International, Mediobanca Securities and Messier Maris & Associés;

– Specialty Finance, factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. %
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	266.1	272.7	2.5
Net treasury income	110.5	126.8	14.8
Net fee and commission income	254.4	227.6	-10.5
Total income	**631.0**	**627.1**	**-0.6**
Labour costs	(137.4)	(139.4)	1.5
Administrative expenses	(118.5)	(129.9)	9.6
Operating costs	**(255.9)**	**(269.3)**	**5.2**
Loan loss provisions	18.3	36.2	n.m.
Provisions for other financial assets	0.7	0.9	28.6
Other income (losses)	(2.0)	—	n.m.
Profit before tax	**392.1**	**394.9**	**0.7**
Income tax for the period	(127.6)	(129.1)	1.2
Net profit	**264.5**	**265.8**	**0.5**
Cost/Income ratio (%)	*40.6*	*42.9*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	16,134.2	17,865.3
New loans	12,686.0	12,374.1
No. of staff	587	621
Risk-weighted assets	19,510.9	20,065.8

WHOLESALE BANKING

			(€m)
	12 mths ended 30/6/18	**12 mths ended 30/6/19**	**Chg. (%)**
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	198.5	189.6	-4.5
Net treasury income	110.5	126.7	14.7
Net fee and commission income	207.3	178.6	-13.8
Total income	**516.3**	**494.9**	**-4.1**
Labour costs	(121.0)	(122.8)	1.5
Administrative expenses	(91.4)	(97.4)	6.6
Operating costs	**(212.4)**	**(220.2)**	**3.7**
Loan loss provisions	44.0	62.7	42.5
Provisions for other financial assets	0.7	0.5	-28.6
Other income (losses)	(2.0)	—	n.m.
Profit before tax	**346.6**	**337.9**	**-2.5**
Income tax for the period	(112.8)	(110.6)	-2.0
Net profit	**233.8**	**227.3**	**-2.8**
Cost/Income ratio (%)	*41.1*	*44.5*	

A net profit of €227.3m was earned from Wholesale Banking operations for the twelve months, largely unchanged from last year but with differing contributions: outstanding performances from client activity (corporate finance up 35%; CMS up 42%), compared with a substantial reduction in capital markets (down 56%) and proprietary trading, which were affected by the trend in spreads and market interest rates; while lending showed a reduction which was still better than expected.

In this scenario, revenues were down 4.1%, from €516.3m to €494.9m, and reflect the following performances:

– Net interest income decreased by 4.5%, from €198.5m to €189.6m, on growth in the loan book versus clients of higher standing (but yielding lower margins);

– Net treasury income climbed 14.7%, from €110.5m to €126.7m, driven by CMS client activity which added €130.4m (€82.3m) and was only in part offset by a reduced contribution from the proprietary trading book which showed a net loss of €11m at the year-end (versus €27m last year);

– Net fee and commission income fell by 13.8%, from €207.3m to €178.6m, with the excellent performance by advisory and M&A business (up from €64.7m to €87.5m) offset by lower capital market fees of €28.9m (€65.8m).

Conversely, operating costs were up from €212.4m to €220.2m, €5.4m of which in respect of MMA) as a result of the intense project activity chiefly in IT (infrastructure platform improvement) and regulation (MiFID II, AIRB models, IFRS 9 introduction and Brexit).

Loans loss provisions reflect writebacks of €62.7m, chiefly as a result of certain unlikely-to-pay positions being revised in view of more positive operating performances by the businesses concerned, which in some cases led to repayments exceeding expectations compared to the restructuring plans agreed.

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	13,996.9	15,560.8
New loans	7,331.7	5,777.3
No. of staff	344	365
Risk-weighted assets	17,362.9	17,579.2

Loans and advances to customers rose from €14bn to €15.6bn, on new loans of €5.8bn, only in part offset by redemptions totalling €4.3bn, €1.8bn of which were early redemptions.

	30/6/18		30/6/19		Chg.
	(€m)	%	(€m)	%	
Italy	6,629.4	47%	7,884.0	51%	18.9%
France	1,202.8	9%	1,558.9	10%	29.6%
Spain	1,404.7	10%	941.2	6%	-33.0%
Germany	899.7	6%	904.8	6%	0.6%
U.K.	1,171.4	8%	1,131.3	7%	-3.4%
Other non resident	2,688.9	20%	3,140.6	20%	16.8%
Total loans and advances to customers	**13,996.9**	**100%**	**15,560.8**	**100%**	**11.2%**

Gross NPLs decreased in absolute terms, from €648m to €628.9m, and in relative terms, to 4% of the total loan book (4.5%); in addition to the collections referred to previously, a new unlikely-to-pay position was recorded with a nominal value of €50m. Net NPLs increased from €341.7m to €384.4m, but were unchanged in relative terms at 2.5% of the total loan book, with the coverage ratio decreasing from 47.3% to 38.9% as a result of the writebacks mentioned above.

A brief description of the main trends in the investment banking market and the results achieved by the Group is provided below:

- The European investment banking market reflects an increase in M&A activity, in Italy and Spain in particular which are two of the Bank's core markets. This drove an increase in fee income from advisory business, from €64.7m to €87.5m. In particular, the financial institutions segment covered over twenty deals (Intrum Justitia, Dovalure, Eurobank, Crédit Agricole, etc.), with an average fee of over €1.5m. Among the other industries the following deals were also significant: TMT (Mediaset, Vivendi, Cellnex, etc.); Transportation & Infrastructure (Abertis, Atlantia, etc.); industrial and automotive (Prysmian, Saes Getters, etc.); and real estate (Parco Leonardo, Fabrica Immobiliare, etc.). Ongoing coverage of the financial sponsors sector also resulted in an increasing number of deals involving private equity, in Italy (Basalt Infrastructure, BC Partners, Peninsula, etc.) and Spain (Victoria Capital Partners, Ardian, etc.). Meanwhile, the growing focus on the Italian mid-corp sector translated to a total of twenty deals closed, including Bain Capital Credit, 21 Investimenti, Ardian and Zephyro.

Newly-acquired MMA contributes to the above figures. Established in 2010, the company is a French operator of primary standing and is mainly focused on M&A activities for mid-cap to large corporates and a wide range of financial sponsors. The company employs some 40 staff, and in the 2018 calendar year generated turnover of approx. €50m, completing around thirty mandates.

- Debt capital market (DCM) activity grew in some of the main European countries (Italy and Spain), but the Bank was involved fewer transactions (around fifty, as opposed to sixty last year), with an equivalent reduction in the fees generated from them (from €24.9m to €18.6m;
- Equity capital market (ECM) activities showed a substantial downturn (over 50% in Italy, France, Spain and Germany); this trend was reflected in a sharp reduction in fees from this activity (from €40.9m to €10.3m), with involvement in only eight deals (compared with twenty last year), the largest of which was the Nexi IPO;
- The EMEA debt market showed an overall increase of 15% in the period (9% for the Italian domestic market); against this backdrop, lending fees reduced from €50.7m to €43.3m;

– The other segments (equity sales, markets and other income) generated €18.8m in revenues (€26.1m). This item includes fees credited back internal to the Group in return for placement of Wholesale Banking products to Wealth Management clients.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg.
Capital Market	65.8	28.9	-56.0%
Lending	50.7	43.3	-14.6%
Advisory M&A	64.7	87.5	35.3%
Markets, sales and other gains	26.1	18.8	-27.9%
Net fee and commission income	**207.3**	**178.6**	**-13.8%**

SPECIALTY FINANCE

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	67.6	83.1	22.9
Net treasury income	—	0.1	n.m.
Net fee and commission income	47.1	49.0	4.0
Total income	**114.7**	**132.2**	**15.3**
Labour costs	(16.4)	(16.6)	1.2
Administrative expenses	(27.1)	(32.5)	19.9
Operating costs	**(43.5)**	**(49.1)**	**12.9**
Loan loss provisions	(25.7)	(26.5)	3.1
Provisions for other financial assets	—	0.4	n.m.
Profit before tax	**45.5**	**57.0**	**25.3**
Income tax for the period	(14.8)	(18.5)	25.0
Net profit	**30.7**	**38.5**	**25.4**
Cost/Income ratio (%)	*37.9*	*37.1*	

Specialty Finance delivered a 25.4% increase in net profit, from €30.7m to €38.5m, split equally between MBCredit Solutions (up from €16.2m to €18.3m) and MBFacta (up from €14.5m to €20.2m).

The 15.3% increase in revenues, from €114.7m to €132.2m, chiefly reflects the rise in net interest income (which was up 22.9%, from €67.6m to €83.1m), with fees and commission income more stable (up 4%, from €47.1m to €49m). MBFACTA contributed €52.4m (up 22%), €47.7m of which by way of net interest income (an increase of 21.6%); while MBCredit Solutions contributed €79.8m (up 11.5%), split between net interest income (€35.4m) and fee and commission income (€44.4m, €26.9m of which due to higher amounts collected on the NPL portfolio). At the same time, operating costs also increased, by 12.9% (from €43.5m to €49.1m), chiefly due to higher credit recovery expenses in connection with the NPL portfolios of €14.7m (€11.6m).

Loan loss provisions were virtually unchanged, up from €25.7m to €26.5m, with €14.9m attributable to factoring (€15.2m) and €11.6m to the NPLs portfolios (€10.5m).

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,137.3	2,304.5
New loans	5,353.9	6,596.8
No. of staff	243	256
Risk-weighted assets	2,148.0	2,486.6

The 7.8% increase in loans and advances to customers, from €2,137.3m to €2,304.5m, involved all segments: ordinary factoring (up from €1,449.8m to €1,520,8m); instalment factoring (up from €399.6m to €415.1m), and the NPL portfolios acquired (up from €287.9m to €368.6m). Gross NPLs in factoring business rose by 10.3%, from €37.4m to €41.3m, but were stable in relative terms at 2.1% of total loans; net NPLs meanwhile were flat at €10.3m.

The NPL portfolio is still concentrated in the retail unsecured segment (83.1%), and non-recourse acquisitions were made for a total of €117.9m in the twelve months (nominal value €1.5bn).

PRINCIPAL INVESTING

The Principal Investing (PI) division administers the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali in particular.

(€m)

	30/6/18	30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Other incomes	14.7	11.2	-23.8
Equity-accounted companies	280.3	321.2	14.6
Total income	**295.0**	**332.4**	**12.7**
Labour costs	(3.8)	(3.9)	2.6
Administrative expenses	(1.0)	(1.2)	20.0
Operating costs	**(4.8)**	**(5.1)**	**6.3**
Gains (losses) on disposal of equity holdings	96.3	—	n.m.
Net loss provisions	(1.8)	(3.3)	83.3
Profit before tax	**384.7**	**324.0**	**-15.8**
Income tax for the period	(10.9)	(9.8)	-10.1
Net profit	**373.8**	**314.2**	**-15.9**

Revenues from Principal Investing increased during the twelve months, from €295m to €332.4m, largely due to the higher contribution from Assicurazioni Generali (up from €279.9m to €320m). Net profit came in at €314.2m, compared with €373.8m last year which, however, was boosted by a gain on disposal of €96.3m.[12] Net losses of €3.3m on investment funds were recorded for the twelve months (compared with a loss of €1.8m last year).

	30/6/18	30/6/19
Balance-sheet data		
Banking book equity securities	718.5	656.7
IAS28 investments	3,210.8	3,259.8
Risk-weighted assets	6,256.6	5,641.6

The book value of the Assicurazioni Generali investment rose from €3,171.4m to €3,219.3m, after profits of €320m, adjusted for the dividend collected (€182.4m), and the €89.7m reduction in valuation reserves.

[12] With the introduction of IFRS 9, gains (losses) on disposals of investment securities held in the banking book (formerly "Available For Sale") no longer pass through profit and loss but are recognized directly in other comprehensive income. Conversely, the fair value of funds (including private equity and seed capital) is now taken through profit and loss.

As for banking book securities, holdings in funds increased from €459.8m to €520.4m, following net investments in seed capital of €62.7m and net redemptions for other funds totalling €1.6m, plus downward adjustments to reflect fair value in an amount of €1.9m; holdings in equities decreased from €258.7m to €136.3m, after sales of €145.3m, the gains on which (€3.7m) were taken through net equity along with the valuations at end-June 2019 (which together added €4.2m).

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The centralized Holding Functions division houses the Group's the leasing operations, its Treasury and ALM activities (with the objective of optimizing management of the funding and liquidity process at consolidated level), and all costs relating to central Group functions. Since 1 January 2019 they have also included the corporate services provided by Spafid Connect, following the sale of the Market Connect business unit.

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	(37.5)	(47.1)	-25.6
Net trading income	13.1	45.0	n.m.
Net fee and commission income	15.5	7.4	-52.3
Total income	**(8.9)**	**5.3**	**n.m.**
Labour costs	(118.2)	(117.1)	-0.9
Administrative expenses	(55.1)	(60.5)	9.8
Operating costs	**(173.3)**	**(177.6)**	**2.5**
Gains (losses) on disposal of equity holdings	—	—	n.m.
Loan loss provisions	(7.2)	(9.0)	25.0
Provisions for other financial assets	(0.3)	0.1	n.m.
Other income (losses)	(49.3)	(54.8)	-11.2
Profit before tax	**(239.0)**	**(236.0)**	**1.3**
Income tax for the period	83.3	70.6	-15.2
Minority interest	(3.2)	(2.1)	34.4
Net profit	**(158.9)**	**(167.5)**	**-5.4**

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2.116.7	1.951.6
Banking book securities	6.487.2	5.550.5
No. of staff	801	810
Risk-weighted assets	4.016.0	3.504.7

The pre-tax loss incurred by the Holding Functions division was slightly lower than the one last year, at €236m (€239m), reflecting higher trading income of €45m (€13.1m) which drove an improvement in the net result from treasury management (loss of €54.7m, compared with €66m last year), penalized by the substantial liquidity position held in a negative interest rate scenario. Operating costs rose by 2.5% (from €173.3m to €177.6m), on higher contributions from treasury, leasing and corporate services, with central structures virtually unchanged despite the high levels of regulatory project activity (MiFID II, Insurance Distribution Directive, Securities Finance Transactions Regulation, PSD 2, AML and Data Privacy); the impact of mandatory and voluntary contributions to resolution schemes on P&L increased from €46.3m to €53.5m, €6.4m of which due to the Carige subordinated bond subscribed for at end-2018 being written off on prudential grounds. The net loss increased from €158.9m to €167.5m, due solely to the higher tax burden as a result of the effects of distributing intercompany dividends.

The various segments performed as follows:

- Group Treasury and ALM delivered a net loss of €54.7m, better than the €66m loss posted last year, due to higher treasury income of €45.1m (€13.6m) which offset the increase in net interest expense (from €82.9m to €87.4m) as a result of holding a substantial liquidity position in a negative interest rate scenario, only in part mitigated by the reduction in the cost of funding due to use of diversified forms of funding (retail and secured) and the redemption of certain particularly expensive bond issues, and despite the particularly difficult market conditions caused by the sovereign debt spread trend;
- Leasing delivered a net profit of €3.2m, down from €4.8m last year, on an 11.9% reduction in revenues (to €42.3m) in line with the trend in average volumes (down 7%). Operating costs were basically unchanged at €27m (€26.3m), despite including charges due to project activities in connection with changes to regulations; loan loss provisions totalled €8.6m, slightly higher than last year (€7.3m). Leases outstanding declined from €2,116.7m to €1,951.6m, with new business virtually unchanged at €433m. Gross NPLs declined from €206.6m to €174.3m, and represent 8.6% (9.4%) of the total portfolio; net NPLs fell by 20.3%, from €140.2m to €111.8m, with a coverage ratio of 35.9% (32.2%). Bad debts totalled €24.1m (€33.1m), and represent 1.2% (1.6%) of the total portfolio, with a coverage ratio of 46.8% (47.4%).

(€m)

	12 mths ended 30/6/18	12 mths ended 30/6/19	Chg. (%)
Profit-and-loss	**IAS39**	**IFRS 9**	
Net interest income	45.2	39.9	-11.7
Net treasury income	0.2	0.1	-50.0
Net fee and commission income	2.6	2.3	-11.5
Total income	**48.0**	**42.3**	**-11.9**
Labour costs	(13.8)	(12.7)	-8.0
Administrative expenses	(12.5)	(14.3)	14.4
Operating costs	**(26.3)**	**(27.0)**	**2.7**
Loan loss provisions	(7.3)	(8.6)	17.8
Other income (losses)	(2.9)	(0.1)	n.m.
Profit before tax	**11.5**	**6.6**	**-42.6**
Income tax for the period	(3.5)	(1.3)	-62.9
Risultato di pertinenza di terzi	(3.2)	(2.1)	-34.4
Net profit	**4.8**	**3.2**	**-33.3**
Cost Income ratio (%)	*54.8*	*63.8*	

	30/6/18	30/6/19
Balance-sheet data		
Loans and advances to customers	2,116,7	1,951,6
New loans	423,0	433,0
No. of staff	142	129
Risk-weighted assets	1,879,0	1,727,4

* * *

The financial highlights for the other Group companies in the twelve months under review are shown below:

(€m)

Company	**Percentage shareholding**	**Business line**	**Total assets**	**Loans and advances to customers**	**Total net equity** [1]	**No. of staff**
Mediobanca Securities (data in USDm)	100%	*Wholesale Banking*	7.0	—	5.5	4
Mediobanca Funding Luxembourg	100%	*Wholesale Banking*	11.0	10.0	0.8	—
Messier Maris et Associés S.C.A. ***	100%	*Wholesale Banking*	29.8	—	14.9	37
Messier Maris et Associés L.L.C. (data in USDm) ***	100%	*Wholesale Banking*	0.2	—	(0.8)	—
Mediobanca International	100%	*Wholesale Banking / Holding Functions*	7,888.6	5,147.1	338.2	17
MBFACTA	100%	*Specialty Finance*	2,003.2	1,936.1	132.8	30
MBCredit Solutions	100%	*Specialty Finance*	416.8	369.1	132.0	224
Compass Banca	100%	*Consumer Banking*	13,650.7	12,185.2	1,635.5	1.358
Futuro	100%	*Consumer Banking*	1,717.3	1,636.4	122.7	71
Quarzo S.r.l.	90%	*Consumer Banking*	0.4	—	—	—
Quarzo CQS S.r.l.	90%	*Consumer Banking*	0.5	—	—	—
Compass RE	100%	*Consumer Banking*	391.5	—	134.6	1
CheBanca!	100%	*Affluent & Premier*	21,542.8	9,001.9	328.2	1.363
Mediobanca Covered Bond	90%	*Affluent & Premier*	0.6	—	0.1	—
Compagnie Monégasque de Banque	100%	*Private Banking*	4,297.1	1,195.6	777.3	229
Spafid	100%	*Private Banking*	56.9	—	49.4	48
Spafid Family Office SIM	100%	*Private Banking*	1.3	—	0.7	2
Cairn Capital Group Limited (data in GBPm) *	100%	*Private Banking*	12.2	—	8.8	54
CMB Wealth Management UK (in liquidation) (data in GBPm)	100%	*Private Banking*	0.1	—	—	—
RAM Active Investments (data in CHFm) **	89.3%	*Private Banking*	28.4	—	13.5	38
RAM Active Investments (Luxembourg) (data in CHFm)	100%	*Private Banking*	12.7	—	2.3	6
Compagnie Monégasque de Gestion	100%	*Private Banking*	5.5	—	—	9
Spafid Trust S.r.l.	100%	*Private Banking*	1.6	—	1.3	3
Mediobanca SGR S.p.A.	100%	*Private Banking*	37.9	—	24.3	47
Mediobanca Management Company S.A.	100%	*Private Banking*	11.9	—	5.8	6
Mediobanca International Immobilière	100%	*Holding Functions*	1.8	—	1.7	—
SelmaBipiemme Leasing	60%	*Holding Functions*	2,110.0	1,951.6	204.2	129
Prominvestment (under liquidation - under arrangement with creditors)	100%	*Holding Functions*	0.4	—	(0.4)	—
Mediobanca Innovation Services	100%	*Holding Functions*	100.2	—	37.5	120
Ricerche e Studi	100%	*Holding Functions*	1.1	—	—	14
Spafid Connect	100%	*Holding Functions*	18.4	—	18.1	9

[1] Does not include profit for the period.

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

*** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

(€m)

Company	Percentage shareholding	Business line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	*Wholesale Banking*	2.8	(2.4)	—	0.2
Mediobanca Funding Luxembourg	100%	*Wholesale Banking*	0.5	(0.5)	—	—
Messier Maris et Associés S.C.A. ***	100%	*Wholesale Banking*	5.3	(5.0)	—	0.3
Messier Maris et Associés L.L.C. (data in USDm) ***	100%	*Wholesale Banking*	—	(0.4)	—	(0.4)
Mediobanca International	100%	*Wholesale Banking / Holding Functions*	18.0	(8.5)	(2.6)	3.2
MBFACTA	100%	*Specialty Finance*	52.4	(9.4)	(14.9)	18.9
MBCredit Solutions	100%	*Specialty Finance*	81.0	(40.9)	(11.6)	19.6
Compass Banca	100%	*Consumer Banking*	926.0	(275.7)	(234.9)	274.3
Futuro	100%	*Consumer Banking*	51.2	(16.8)	(3.4)	20.9
Quarzo S.r.l.	90%	*Consumer Banking*	0.2	(0.2)	—	—
Quarzo CQS S.r.l.	90%	*Consumer Banking*	—	—	—	—
Compass RE	100%	*Consumer Banking*	49.5	(0.8)	—	37.7
CheBanca!	100%	*Affluent & Premier*	297.1	(236.3)	(16.6)	17.2
Mediobanca Covered Bond	90%	*Affluent & Premier*	0.1	(0.1)	—	—
Compagnie Monégasque de Banque	100%	*Private Banking*	92.3	(58.5)	0.4	28.9
Spafid	100%	*Private Banking*	9.5	(9.2)	(0.3)	—
Spafid Family Office SIM	100%	*Private Banking*	1.7	(1.4)	—	0.2
Cairn Capital Group Limited (data in GBPm) *	100%	*Private Banking*	14.4	(19.7)	—	(4.2)
CMB Wealth Management UK (in liquidation) (data in GBPm)	100%	*Private Banking*	0.1	—	—	0.1
RAM Active Investments (data in CHFm) **	89.3%	*Private Banking*	36.2	(21.8)	—	10.7
RAM Active Investments (Luxembourg) (data in CHFm)	100%	*Private Banking*	4.3	(2.6)	—	1.3
Compagnie Monégasque de Gestion	100%	*Private Banking*	5.2	(2.7)	—	1.7
Spafid Trust S.r.l.	100%	*Private Banking*	0.8	(0.7)	—	0.1
Mediobanca SGR S.p.A.	100%	*Private Banking*	20.5	(13.9)	—	4.5
Mediobanca Management Company S.A.	100%	*Private Banking*	4.3	(2.7)	—	0.9
Mediobanca International Immobilière	100%	*Holding Functions*	0.2	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	*Holding Functions*	42.3	(27.0)	(8.6)	5.3
Prominvestment (under liquidation - under arrangement with creditors)	100%	*Holding Functions*	—	(0.2)	—	(0.2)
Mediobanca Innovation Services	100%	*Holding Functions*	0.1	0.1	—	—
Ricerche e Studi	100%	*Holding Functions*	2.2	(2.2)	—	—
Spafid Connect	100%	*Holding Functions*	4.0	(8.4)	(0.1)	(3.7)

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

*** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 113.

Finally, it should be noted that:

– On 30 April 2019, Compagnie Monégasque de Banque approved its consolidated financial statements for 2018, which reflect a net profit of €12.3m. The reduction compared to last year (€16.6m) is chiefly due to lower revenues of €93.9m (€99.4m), which reflect the reduction in fees (from €61.2m to €58.3m, in particular performance fees on funds managed), the reduction in trading income from €19.7m to €3.6m, due chiefly to growth by the proprietary portfolio, only partly offset by the increase in net interest income, from €24.3m to €37.7m due to the increased profitability of USD assets, Costs were basically unchanged, at €59m (€58.3m), despite the investments in the new IT system, almost all of which was offset by lower amortization charges on acquisitions. Customer loans rose in the twelve months, from €1,201.5m to €1,250.2m, while deposits at other banks declined slightly, from €2,328.5m to €2,307.4m, on client funding down from €3,350.6m to €3,257m (absorbed by the reduction in treasury applications). Net AUM/AUA (including direct funding) were unchanged at €10bn.

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2019 between companies forming part of the Mediobanca Group and related parties, and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in terms of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company affected by this provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

In addition to the customary information on financial risks (credit, market, liquidity and operational risks), the notes to the accounts contain a description of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP process now required by the regulations in force.

In particular, this involves concentration risk in the Group's Corporate Finance activities towards the leading Italian industrial groups, its presence in Consumer Banking and Affluent & Premier businesses on the domestic market, and its exposure to market volatility in respect of its securities portfolio in the Wholesale Banking, Principal Investing and Holding Functions divisions.

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

Consolidated non-financial statement

The Group publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures. This information is intended to facilitate understanding of the Group's activities, performance, results and impact generated.

The Consolidated Non-Financial Disclosure is published annually (www.mediobanca.com, "Sustainability"), and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally-recognized standards in non-financial reporting.

Research

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

Rating

The leading agencies all revised their rating for the republic of Italy in the summer months of 2018, impacting on the nation's banking system as a whole. As for other banks with the same rating, in September 2018 Fitch cut Mediobanca's outlook from "stable" to "negative", while affirming its long-term ratings at BBB, following the same rating action on Italian sovereign debt; in October 2018, S&P cut Mediobanca's outlook from "stable" to "negative", maintaining the rating at "BBB" after the outlook for Italy was similarly downgraded; and the end of the same month, despite downgrading the republic of Italy from baa2 to baa3, Moody's confirmed Mediobanca's long-term rating at baa1, i.e. two notches higher than sovereign debt, with stable outlook.

Outlook

The performance for the next financial year should be in line with this one, although it will once again be affected by the low interest rate scenario and uncertainty over the trends in financial markets, the Italian market in particular. Net interest income should grow moderately, on higher lendings, a stable cost of funding and basically flat returns on assets. The development of the Wealth Management platform and expansion of the Corporate and Investment Banking scope of operations should lead to an increase in fee income. The cost trend will be impacted by the enhancement of the commercial structures and additional ICT investments linked to business development and regulatory requirements. The cost of risk should remain at favourable levels, albeit slightly higher than this year.

Reconciliation of shareholders' equity and net profit

(€ 000)

	Shareholders' equity	Net profit (loss)
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,800,635	385,109
Net surplus over book value for consolidated companies	14,822	436,654
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(5,082)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	4,175,827	1,262
Dividends received during the period	—	—
Total	**8,986,202**	**823,025**

Milan, 19 September 2019

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

DECLARATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2019.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2019 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT frameworks).

3. It is further hereby declared that

   3.1 the consolidated financial statements:
   – has been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
   – corresponds to the data recorded in the company's books and account ledgers;
   – is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

   3.2 the review of operations contains reliable analysis of the Group's operating performance and results, and of the situation of Mediobanca S.p.A. and the group of companies comprised within its area of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

Milan, 19 September 2019

Chief Executive Officer	Head of Company Financial Reporting
Alberto Nagel	*Emanuele Flappini*

EXTERNAL AUDITORS' REPORT

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Mediobanca SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediobanca Group (the Group), which comprise the consolidated balance sheet as of 30 June 2019, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flow statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Mediobanca SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
First-time adoption of IFRS 9 – "Financial Instruments"	
Notes to the accounts: *Part A – Accounting policies, Section 2, paragraph "Transition to IFRS 9 on financial instruments"* Starting from 1 July 2018 Mediobanca Group (the "Group") has adopted IFRS 9 – Financial Instruments which introduced new rules for the classification and measurement of financial instruments, the measurement of related impairment losses, and hedge accounting as compared to the IAS 39 applied by the Group up to 30 June 2018. The adoption of the new financial reporting standard entailed a reduction of the Group's net equity on 1 July 2018 for Euro 80.9 million, after the related tax effect. The new classification and measurement rules for financial assets are based on an entity's business model for managing the financial assets (Business Model) and on the characteristics of the related contractual cash flows (Solely Payments of Principal and Interest, "SPPI"); at the same time, for financial assets other than those carried at fair value through profit or loss, and for off-balance sheet exposures (guarantees and commitments), the new standard has replaced the impairment model of IAS 39 based on the Incurred Loss with an impairment model based on the Expected Credit Loss ("ECL"). As a consequence. by introducing significant changes in classification and measurement requirements, IFRS 9 has caused significant operating impacts, requiring the use of new models, more information, parameters and assumptions, thus determining a higher degree of complexity in estimation processes. With reference to Hedge Accounting, the standard rewrote the rules for designating a hedging relationship and verifying its effectiveness, with the aim to align the accounting presentation with	Since the Group adopted IFRS 9 starting from 1 July 2018, our audit procedures were applied to the opening balances on that date, to verify the transition from IAS 39 to IFRS 9. Our procedures involved, among other things, assessing the compliance of the accounting decisions made for the transition to the new financial reporting standard and the disclosures provided. In detail, to address this key audit matter we performed the following main activities, including the support of experts belonging to the PwC network: • Understanding and performing critical analysis of the policies, procedures and solutions adopted by the Group with reference to relevant aspects (definition of the business model, analysis of contractual cash flows and measurement methods) to assess their compliance with the new standard, together with an analysis of the results of the validation activities performed by the Group's competent internal functions; • Verification of the completeness and accuracy of the new accounting categories based on the *business model* defined and the results of the analysis of contractual cash flows (the "SPPI test"); • Verification of the SPPI test for a sample of financial assets; • Understanding and verifying of the appropriateness of the policies, procedures and methods used to measure the Significant Increase in Credit Risk ("SICR"), for the Staging allocation both for performing loans (stage 1 and 2) and non-performing loans (stage 3), and for determining

the entity's risk management activities and to strengthen disclosure of the risk management activities performed by the reporting entity. Starting from 1 July 2018, Mediobanca Group has opted to adopt the new requirements for general hedge accounting (opt-in), which did not generate a significant impact on the Group's net equity as of 1 July 2018.

For the reasons set out above, we focused on the first-time application of IFRS 9 as a key audit matter in relation to the consolidated financial statements of Mediobanca Group as of 30 June 2019.

the ECL, also in regards to the matters connected with the application of multiple economic scenarios and the use of forward-looking information;

- Performed verification of the completeness and accuracy of the data bases used for the calculation of the ECL, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Performed, for non-performing loans (Stage 3), analysis and verification of the reasonableness of the assumptions underlying the recovery scenarios hypothesised (sale and internal recovery), the related probabilities assigned and the consequent estimated future cash flows
- Performed analysis of the completeness and appropriateness of disclosures in the consolidated financial statements.

Valuation of loans to customers carried at amortised cost

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 4 and Section 12
Part C – Notes to the consolidated profit and loss account, Section 8
Part E – Information on risks and related hedging policies – 1.1 Credit risks

As of 30 June 2019 loans to customers were equal to Euro 46,216 million, corresponding to 95% of line item "40 b) Financial assets at amortized cost – Due from customers", equal to Euro 48,638 million and corresponding to 59% of total assets in the consolidated financial statements.

Financial line "Assets classified as held for sale", equal to Euro 22.2 million, relates to a portfolio of

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. Also having regard our procedures on the first-time application of IFRS 9, these activities were performed also with the support of experts belonging to the PwC network.

In detail, to address this key audit matter we performed the following main activities:

- Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software applications used;

non-performing loans of the subsidiary Chebanca! SpA that was sold after the closing date.

Net losses on loans to customers posted in the year amounted to Euro 213 million.

We paid special attention to the measurement of the above assets in the course of our audit considering the materiality of the balance as well as the measurement processes and methods that require complex estimations of a number of variables.

Estimation processes use significant assumptions, aside from the verification of the SICR and Staging allocation, also when determining the hypotheses and inputs to the ECL models and, for assets measured individually (Stage 3), when determining the alternative recovery scenarios hypothesised (sale or internal recovery), the related probabilities assigned, the estimated future cash flows, the timing of those cash flows, and the realisable value of any collateral.

- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of credit and tests of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and methods used to measure the SICR, for the Staging allocation and for determining the ECL;
- Verification of the correct application of the measurement methods defined for performing loans (Stage 1 and Stage 2), of the completeness and accuracy of the data bases used in the ECL calculation, the calculation formulas, and the correct determination of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification of individual non-performing loans (Stage 3) based on the available information on the debtor's status and other available evidence, including from external sources, and the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collateral securing those exposures and the estimated timing of recovery;
- Analysis of the appropriateness and completeness of disclosures.

Measurement of financial instruments at fair value (securities and derivatives) not quoted in active markets

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 2, Section 3 and Section 5; Liabilities, Section 2, Section 3 and Section 4
Part C – Notes to the consolidated profit and loss account, Section 4, Section 5 and Section 7
Part E – Information on risks and related hedging policies – 1.2 Market risks

As part of our audit we paid special attention to the analysis of the valuation models of financial instruments not quoted in active markets and measured at fair value.
Certain types of securities and derivative financial instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, to address this key audit matter we performed the following main activities:

- Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software applications used;
- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of financial instruments with fair value hierarchy levels 2 and 3 and tests of the operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and models used by the Group to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness the qualitative and quantitative assumptions made and inputs used; those analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the consolidated financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

Responsibilities of the Directors and the Statutory Audit Committee for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the

European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Mediobanca SpA or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 27 October 2012, the shareholders of Mediobanca SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 30 June 2013 to 30 June 2021.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Mediobanca Group as of 30 June 2019,

including their consistency with the relevant consolidated financial statements and their compliance with the law.
We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Mediobanca Group as of 30 June 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediobanca SpA as of 30 June 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Mediobanca SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 1 October 2019

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

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

CONSOLIDATED
FINANCIAL STATEMENTS

Consolidated Balance Sheet *

(€ '000)

Assets	**30/6/19**	**30/6/18**
	IFRS9	IAS39
10. Cash and cash equivalents	738,362	1,238,001
20. Financial assets at fair value with impact taken to profit and loss	10,622,973	
a) Financial assets held for trading	*9,765,653*	
b) Financial assets designated at fair value	*51,976*	
c) Other financial assets mandatorily at fair value	*805,344*	
Financial assets held for trading (formerly heading 20 under IAS 39)		8,204,911
Financial assets available-for-sale (formerly heading 40 under IAS 39)		5,721,877
30. Financial assets at fair value with impact taken to comprehensive income	3,886,771	
40. Financial assets at amortized cost	56,599,859	
a) Due from banks	*7,961,932*	
b) Due from customers	*48,637,927*	
Financial assets held-to-maturity (formerly heading 50 under IAS 39)		2,595,747
Due from banks (formerly heading 60 under IAS 39)		7,552,958
Due from customers (formerly heading 70 under IAS 39)		40,977,889
50. Hedging derivatives	412,234	225,814
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,259,777	3,210,839
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	285,849	287,809
100. Intangible assets	901,758	739,864
of which:		
goodwill	*772,427*	*649,781*
110. Tax assets	806,033	816,484
a) current	*146,550*	*181,771*
b) deferred	*659,483*	*634,713*
120. Assets classified as held for sale	22,168	—
130. Other assets	708,945	728,329
Total assets	**78,244,729**	**72,300,522**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IA S39, are not fully comparable.

(€ '000)

Liabilities and net equity	30/6/19	30/6/18
	IFRS9	IAS39
10. Financial liabilities at amortized cost	57,936,936	
a) Due to banks	*13,870,858*	
b) Due to customers	*23,987,882*	
c) Debt securities in issue	*20,078,196*	
Due to banks (formerly heading 10 under IAS 39)		12,263,459
Due to customers (formerly heading 20 under IAS 39)		21,320,043
Debt securities in issue (formerly heading 30 under IAS 39)		20,608,518
20. Trading financial liabilities	8,027,751	
Trading liabilities (formerly heading 40 under IAS 39)		6,462,404
30. Financial liabilities designated at fair value	55,859	—
40. Hedging derivatives	414,241	233,086
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	600,938	531,587
a) current	*281,766*	*191,999*
b) deferred	*319,172*	*339,588*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	948,958	760,375
90. Staff severance indemnity provision	27,808	27,510
100. Provisions	162,515	185,482
a) commitments and financial guarantees	*10,536*	—
b) post-employment and similar benefits	*1,840*	—
c) other provisions	*150,139*	*185,482*
110. Insurance reserves	170,838	175,853
120. Valuation reserves	597,504	764,255
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	5,891,473	5,490,450
160. Share premium reserve	2,195,606	2,191,743
170. Share capital	443,608	443,275
180. Treasury share (-)	(141,989)	(109,338)
190. Minority interests (+/-)	89,658	87,900
200. Profit/(loss) for the period (+/-)	823,025	863,920
Total liabilities and net equity	**78,244,729**	**72,300,522**

Consolidated Profit and Loss Account *

(€ '000)

Items	30/6/19	30/6/18
	IFRS9	IAS39
10. Interest and similar income	1,885,990	1,896,801
of which: interest income calculated according to the effective interest method	*1,618,642*	
20. Interest expense and similar charges	(481,792)	(530,760)
30. Net interest income	**1,404,198**	**1,366,041**
40. Fee and commission income	584,923	590,649
50. Fee and commission expense	(144,455)	(134,315)
60. Net fee and commission income	**440,468**	**456,334**
70. Dividends and similar income	105,803	84,323
80. Net trading income	(12,148)	
Net trading income (formerly heading 80 under IAS 39)		38,662
90. Net hedging income (expense)	5,426	2,857
100. Gain (loss) on disposal/repurchase:	79,359	
a) financial assets measured at amortized cost	*2,365*	
b) financial assets valued at fair value with impact taken to comprehensive income	*66,799*	
c) financial liabilities	*10,195*	
Gain (loss) on disposal/repurchase: (formerly heading 100 under IAS 39)		105,057
a) loans and advances		*(9,363)*
b) AFS securities		*123,066*
c) financial assets held to maturity		*(919)*
d) financial liabilities		*(7,727)*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	16,399	
a) financial assets and liabilities designated at fair value	*(28)*	
b) other financial assets mandatorily valued at fair value	*16,427*	
120. Total income	**2,039,505**	**2,053,274**
130. Net writeoffs (writebacks) for credit risk:	(210,291)	
a) financial assets measured at amortized cost	*(209,512)*	
b) financial assets valued at fair value with impact taken to comprehensive income	*(779)*	
Adjustments for impairment to: (formerly heading 130 under IAS 39)		(212,134)
a) loans and advances		*(209,231)*
b) AFS securities		*(4,658)*
c) financial assets held to maturity		*3,264*
d) other financial assets		*(1,509)*
140. Gains (losses) from contractual modifications without derecognition	(199)	
150. Net income from financial operations	**1,829,015**	**1,841,140**
160. Premiums earned (net)	59,173	57,867
170. Other income (net) from insurance activities	(12,715)	(8,989)
180. Net profit from financial and insurance activities	**1,875,473**	**1,890,018**
190. Administrative expenses:	(1,233,763)	(1,172,200)
a) personnel coss	*(581,141)*	*(557,824)*
b) other administrative expenses	*(652,622)*	*(614,376)*
200. Net transfers to provisions:	(23)	(26,677)
a) commitments and financial guarantees	*3,707*	
b) other sums set aside (net)	*(3,730)*	*(26,677)*
210. Net adjustments to tangible assets	(13,890)	(15,952)
220. Net adjustments to intangible assets	(30,274)	(27,928)
230. Other operating income (expense)	163,891	167,819
240. Operating costs	**(1,114,059)**	**(1,074,938)**
250. Gain (loss) on equity investments	321,157	280,291
260. Net result from fair value valuation of tangible and intangible assets	—	—
270. Goodwill writeoffs	—	—
280. Gain (loss) on disposal of investments	166	475
290. Profit (loss) on ordinary activity before tax	**1,082,737**	**1,095,846**
300. Income tax for the year on ordinary activities	(256,529)	(228,120)
310. Profit (loss) on ordinary activities after tax	**826,208**	**867,726**
320. Gain (loss) of ceded operating assets, net of tax	—	—
330. Net profit (loss) for the period	**826,208**	**867,726**
340. Net profit (loss) for the period attributabe to minorities	(3,183)	(3,806)
350. Net profit (loss) for the period attributable to Mediobanca	**823,025**	**863,920**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

Consolidated Comprehensive Profit and Loss Account *

(€ '000)

		30/6/19	30/6/18
		IFRS9	IAS39
10.	Profit (Loss) for the period	826,208	867,726
	Other income items net of tax without passing through profit and loss	**(11,923)**	**(1,085)**
20.	Equity securities designated at fair value with impact taken to comprehensive income	10,928	—
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	—	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(1,106)	(351)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	(21,745)	(734)
	Other income items net of tax passing through profit and loss	**(133,288)**	**(105,407)**
100.	Foreign investments hedges	(3,838)	—
110.	Exchange rate differences	3,706	(2,752)
120.	Cash flow hedges	(28,582)	29,254
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(23,179)	(197,816) [1]
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	(81,395)	65,907
170.	**Total other income items, net of tax**	**(145,211)**	**(106,492)**
180.	**Comprehensive income (Heading 10 + 170)**	**680,997**	**761,234**
190.	**Consolidated comprehensive income attributable to minorities**	**3,337**	**4,446**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**677,660**	**756,788**

* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

[1] This heading shows the change in item 100 "Financial assets available-for-sale" pursuant to Bank of Italy Circular 262/2005 fourth amendment.

Statement of Changes to Consolidated Net Equity

(€ '000)

	Total Group net equity at 30/6/2018	Modification of start-of-period amounts [1]	Amounts at 01/07/2018	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/19	Net equity attributable to the group at 30/6/19	Net equity attributable to the minorities at 30/6/19
						Changes to reserves	Transactions involving net equity						Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/19			
				Reserves	Dividends and other fund applications		New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]					
Share capital:	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—	460,237	443,608	16,629
a) ordinary shares	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—	460,237	443,608	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,193,591	—	2,193,591	—	—	—	3,863	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	5,559,032	(67,091)	5,491,941	867,726	(411,230)	23,672	(12)	(22,006)	—	—	—	12,205	—	—	5,962,296	5,891,473	70,823
a) retained earnings	5,412,494	(67,091)	5,345,403	867,726	(411,230)	20,019	(12)	—	—	—	—	—	—	—	5,821,906	5,751,710	70,196
b) others	146,538	—	146,538	—	—	3,653	—	(22,006)	—	—	—	12,205	—	—	140,390	139,763	627
Valuation reserves	761,276	(17,733)	743,543	—	—	(3,653)	—	—	—	—	—	—	—	(145,211)	594,679	597,504	(2,825)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(109,338)	—	(109,338)	—	—	—	—	(32,651)	—	—	—	—	—	—	(141,989)	(141,989)	—
Profit (loss) for the period	867,726	—	867,726	(867,726)	—	—	—	—	—	—	—	—	—	826,208	826,208	823,025	3,183
Total net equity	9,732,205	(84,824)	9,647,381	—	(411,230)	20,005	4,184	(54,657)	—	—	—	12,205	—	680,997	9,898,885	X	X
Net equity attributable to the group	9,644,305	(79,773)	9,564,532	—	(411,230)	16,533	4,184	(54,657)	—	—	—	12,205	—	677,660	X	9,809,227	X
Net equity attributable to minorities	87,900	(5,051)	82,849	—	—	3,472	—	—	—	—	—	—	—	3,337	X	X	89,658

[1] Includes the effects of reclassification and revaluations of financial assets and liabilities in consequence of IFRS9 accounting standard first time adoption and effects of IFRS15 first time adoption, as described in dedicated paragraphs of Part A of Consolidated Accounts.

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

Statement of Changes to Consolidated Net Equity

(€ '000)

	Total Group net equity at 30/6/2017	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/06/18	Net equity attributable to the group at 30/6/18	Net equity attributable to the minorities at 30/6/18
					Transactions involving net equity										
		Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/18			
Share capital:	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
a) ordinary shares	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,189,428	—	—	—	4,163 [2]	—	—	—	—	—	—	—	2,193,591	2,191,743	1,848
Reserves:	5,132,771	742,249	(320,226)	(6,308)	(769)	(272)	—	—	—	11,587	—	—	5,559,032	5,490,450	68,582
a) retained earnings	4,998,175	742,249	(320,226)	(6,935)	(769)	—	—	—	—	—	—	—	5,412,494	5,344,539	67,955
b) others	134,596	—	—	627	—	(272)	—	—	—	11,587	—	—	146,538	145,911	627
Valuation reserves	867,768	—	—	—	—	—	—	—	—	—	—	(106,492)	761,276	764,255	(2,979)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	88,099	272	—	—	—	—	—	—	(109,338)	(109,338)	—
Profit (loss) for the period	742,249	(742,249)	—	—	—	—	—	—	—	—	—	867,726	867,726	863,920	3,806
Total net equity	9,191,662	—	(320,226)	(6,308)	94,256	—	—	—	—	11,587	—	761,234	9,732,205	X	X
Net equity attributable to the group	9,108,929	—	(320,226)	(6,935)	94,162	—	—	—	—	11,587	—	756,788	X	9,644,305	X
Net equity attributable to minorities	82,733	—	—	627	94	—	—	—	—	—	—	4,446	X	X	87,900

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

[2] Includes the negative difference between the market price and the book value of treasury shares used for the acquisition of the RAM AI equity interest, equal to €18.8m.

Consolidated Cash Flow Statement Direct Method

(€ '000)

	Amount	
	30/6/19	30/6/18
A. Cash flows from operating activity	**IFRS9**	**IAS39**
1. Operating activity	**195,892**	**12,770**
- interest received	1,723,804	3,634,612
- interest paid	(678,589)	(2,526,513)
- dividends and similar income	94,091	77,882
- net fees and commission income	153,751	185,855
- cash payments to employees	(444,184)	(401,909)
- net premium income	57,263	76,483
- other premium from insurance activity	(129,294)	(149,360)
- other expenses paid	(768,217)	134,094
- other income received	411,928	(886,010)
- income taxes paid	(224,661)	(132,364)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(197,097)**	**5,259,240**
- financial assets held for trading	(813,289)	
- financial assets valued at fair value	—	
- financial assets mandatorily valued at fair value	(3,657)	
- financial assets valued at fair value with impact taken to profit and loss	961,638	
- financial assets valued at amortized cost	(1,307,743)	
- other assets	965,954	122,382
- financial assets held for trading (IAS39 pursuant)		(267,303)
- financial assets available for sale (IAS39 pursuant)		562,790
- due from customers (IAS39 pursuant)		(390,114)
- due from banks: on demand (IAS39 pursuant)		2,802,167
- due from banks: other (IAS39 pursuant)		2,429,318
3. Cash generated/absorbed by financial liabilities	**14,069**	**(4,890,687)**
- financial liabilities valued at amortized cost	(266,712)	
- financial liabilities held for trading	257,002	
- financial liabilities designated at fair value	—	
- other liabilities	23,779	(203,119)
- trading liabilities (IAS39 pursuant)		(290,366)
- due to banks: other (IAS39 pursuant)		(232,719)
- due to customers (IAS39 pursuant)		852,372
- debt securities (IAS39 pursuant)		(3,722,089)
- due to banks: on demand (IAS39 pursuant)		(1,294,766)
Net cash flow (outflow) from operating activities	**12,864**	**381,323**
B. Cash flows from investment activity		
1. Cash generated from:	**193,072**	**332,878**
- disposal of shareholdings	1,443	—
- dividends received in respect of equity investments	182,442	177,506
- disposals/redemptions of financial assets held to maturity (IAS39 pursuant)		128,126
- disposals of tangible assets	192	11,479
- disposals of intangible assets	27	1,138
- disposals of subsidiaries or business units	8,968	14,629
2. Cash absorbed by:	**(25,747)**	**(511,783)**
- purchases of shareholdings	—	(149,682)
- acquisitions of held-to-maturity investments		(332,583)
- purchases of tangible assets	(10,416)	(9,149)
- purchases of intangible assets	(15,331)	(20,369)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**167,325**	**(178,905)**
C. Cash flows from funding activity	**(679,828)**	**(294,641)**
- issuance/acquisition of treasury shares	(266,186)	24,835
- issuance/acquisition of capital instruments	(2,412)	(20)
- distribution of dividends and other purposes	(411,230)	(319,456)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(679,828)**	**(294,641)**
Net cash flow (outflow) during the period	**(499,639)**	**(92,223)**

Reconciliation of Movements in Cash Flow during the Period

(€ '000)

Accounting items	Amount	
	30/6/19	30/6/18
Cash and cash equivalents: balance at start of period	1,238,001	1,330,224
Total cash flow (ouflow) during the period	(499,639)	(92,223)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	738,362	1,238,001

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 June 2019 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 30 June 2019 have also been prepared on the basis of the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (fifth update issued on 22 December 2017), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts. [1]

SECTION 2

General principles

These consolidated financial statements comprise:

- Balance sheet;
- Profit and loss account;
- Comprehensive income statement;
- Statement of changes to net equity;

[1] The Bank of Italy has published the sixth update to its circular no. 262/05 which the Mediobanca Group has applied starting from 1 July 2019.

– Cash flow statement (direct method);
– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

International financial reporting standards IFRS 9 and 15 came into force during the year under review, both of which have been incorporated into the Group's accounting policies.

The table below listes the regulations approved by the European Commission that have supplemented the regulations on accounting standards in force and have therefore been incorporated into the accounting policies, despite not having a significant impact on the Group's accounts:

Approval regulation	**Group application date**	**Topic**
2018/182 of 7 February 2018	1 July 2018	Amendments to IAS 28 – *Investments in Associates and Joint Ventures* Amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards*
2018/289 of 26 February 2018	1 July 2018	Amendments to IFRS 2 – *Share-Based Payment Transactions*
2018/400 of 14 March 2018	1 July 2018	Amendments to IAS 40 – *Investment Property*
2018/519 of 28 March 2018	1 July 2018	Adoption of IFRIC *22 – Foreign Currency Transaction and Advance Consideration*

The following table lists the regulations approved by the European Commission during the twelve months which will be applied as from the next financial year, which supplement the regulations on accounting standards in force and will be incorporated into the Group's accounting policies accordingly:

Approval regulation	**Group application date**	**Topic**
2017/1986 of 31 October 2017	1 July 2019	Adoption of IFRS 16 – *Leasing*
2018/498 of 22 March 2018	1 July 2019	Amendments to IFRS9 – *Prepayment features with negative compensation*
2018/1595 of 23 October 2018	1 July 2019	Adoption to IFRS9 – *Uncertainty over income tax treatments*
2019/237 of 8 February 2019	1 July 2019	Amendments to IAS 28 – *Investments in Associates and Joint Ventures*
2019/402 of 13 March 2019	1 July 2019	Amendments to IAS 19 – *Employee Benefits*
2019/412 OF 14 March 2019	1 July 2019	Amendments to IAS 12 – *Income Taxes*
		Amendments to IAS 23 – *Borrowing Costs*
		Amendments to IFRS 3 – *Business Combinations*
		Amendments to IFRS 11 – *Joint Arrangements*

Transition to IFRS 9 on financial instruments [2]

1. Regulatory framework

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

The Mediobanca Group adopted IFRS 9 as from 1 July 2018.

IFRS 9, with regard to financial instruments, is structured into three different areas: “Classification and measurement”, “Impairment” and “Hedge accounting”.

The most important changes involve the “Classification and measurement” and “Impairment” areas, whereas the changes introduced in on the issue of “Hedge accounting” are less significant. Details are as follows:

– How financial assets (apart from shares) are classified and measured depends on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the “Solely Payments of Principal and Interest Test” (or SPPI). Only those instruments which pass both tests can be recognized at amortized cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio (“Hold to collect and sell”), for which, like with the previous Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income). Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account. No major changes will be made to the treatment

[2] A “Report on transition to IFRS 9” has been published on the Group’s website at www.mediobanca.com.

of financial liabilities in terms of their classification and measurement. Indeed, the existing rules will remain in force apart from the accounting treatment of own credit risk: for financial liabilities recognized at fair value (or under the fair value option), the standard stipulates that the changes in fair value attributable to changes in own credit risk must be booked to net equity, unless such treatment creates or inflates an accounting asymmetry in the profit for the period, whereas the remaining amount of the changes in the fair value of the liabilities must be taken through profit and loss.

– On the issue of impairment, for instruments recognized at amortized cost and fair value against a matching entry in net equity (apart from equity instruments), the new standard moves from an incurred to an expected impairment model; provisioning will have to be carried out for the whole portfolio (i.e. for assets with no impairment as well) and based on estimates which reflect macroeconomic factors ("expected losses"). In particular, at stage 1 of the recognition process, the instrument will have to reflect the expected loss over a 12-month time horizon; if there is a significant increase in the credit risk, the asset is classified as under-performing (stage 2), meaning its valuation will have to factor in the expected loss over its whole life-time; and if further impairment is recorded, the asset will be classified as non-performing (stage 3), where the final recoverable value will be estimated. The expected loss will be based on point-in-time data reflecting the internal credit models.
– As for hedge accounting, the new model rewrites the rules for designating a hedge relationship and for checking its effectiveness, with the objective of aligning accounting representation with risk management activities, and improving the disclosure on risk management activities performed by the entity preparing the financial reporting.

2. Impact on the Group

2.1 Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS 9 has introduced new rules for financial assets based on the portfolio management model used and the contractual cash flow characteristics of the instruments concerned, as certified via the SPPI (Solely Payment of Principal and Interest) test.

The standard identifies two main macro models: Hold to collect and Hold to collect and sell, plus a residual business model (Other) which brings together all portfolios held for trading purposes which continue to be recognized at fair value with any changes to it taken through the profit and loss account.

For the purposes of classifying financial instruments, the business model has been analysed by assessing the Group's entire financial assets portfolio in view of the strategy instituted by senior management, risk management on the portfolio, remuneration mechanisms, reporting methodologies and movements (past sales and future expectations). These considerations have been incorporated in the internal management policies, which as well as reiterating the link between the business model and accounting treatment, also introduce frequency and significance thresholds for portfolios recognized at cost.

The analysis performed showed that:

– The loan books – which under IAS 39 were recognized at amortized cost as "Loans and Receivables" – have a management strategy which is consistent with a Hold to Collect business model;
– Debt securities held as part of the banking book which constitute "Financial assets held to maturity" under IAS 39, are classified based on a Hold to Collect model;
– Debt securities held as part of the banking book which constitute "Financial assets available for sale" are classified almost entirely on the basis of a Hold to Collect and Sell business models; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
– Debt securities held as part of the trading book move to the "Other" business model, apart from certain limited cases in which portfolios have been reclassified from financial assets measured at fair value to other comprehensive income to reflect changes in the business model associated with such instruments;
– As for equities, shares held for trading purposes also move to the "Other" business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and

loss account (accounting category: “Fair Value to Other Comprehensive Income”, or “FVOCI”). For funds, stock units held over the medium-/long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the “Other” business model.

It should be noted that the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account (“Fair Value Through Profit & Loss”, or “FVPL”).

To complete the classification phase for financial instruments according to the new categories provided for by IFRS 9, the business model analysis must be accompanied by analysis of the contractual cash flows (the “Solely Payment of Principal and Interest”, or “SPPI”, test).

The SPPI test is performed at the level of the individual financial instrument, product or sub-product, and is based on the contractual features of the asset being tested. To this end, the Group has drawn up a standardized process for performing the test, in which loans are analysed using a tool developed internally based on decision-making trees, for the individual financial instrument or product according to the degree of customization involved. If the instrument or product fails the test, the SPPI Tool will suggest recognizing the asset at fair value and taking the effects through the profit and loss account (“Fair Value Through Profit & Loss”, or “FVPL”). The method for testing loans will be distinguished between retail and corporate (at the product level for retail loans, and analytically for each drawdown of corporate loans). For analysis of debt securities, an external info provider will be used; if the test results are unavailable for whatever reason, the instrument will be analysed by the SPPI Tool.

Shares in investment funds previously treated as AFS which fail the SPPI test, in accordance with the recent guidance issued by the IFRS Interpretation Committee, are treated as equities obliged to be recognized at fair value through profit and loss.

In addition to the above, specific analysis methodologies have been developed both for instruments that require benchmark testing for the time value of the modified money, and to value the credit risk on securitization tranches.

2.2 Impairment

Under IFRS 9, all financial assets not measured at fair value and taken through the profit and loss account, i.e. debt securities and loans as well as off-balance-sheet exposures, are associated with Hold to Collect or Hold to Collect and Sell business models and must be subject to the new forward-looking impairment model, by adopting an "expected loss" approach, with the loss estimated at twelve months or the end of the instrument's remaining life. The losses must therefore be booked to reflect not only the objective loss of value recorded at the reporting date, but also the expected future value losses which have not yet occurred. In view of these factors, IFRS 9 stipulates that financial instruments must be classified in three categories (or stages), reflecting increasing levels of impairment in credit standing.

In order to comply with the IFRS 9 requirements, the Group has drawn up a stage allocation model for financial instruments, to ensure that performing exposures are correctly allocated to stage 1 or stage 2 if there has been a "Significant Increase in Credit Risk" ("SICR").

For impaired exposures, by contrast, the fact that our practice is aligned with the default accounting and regulatory definitions, which are already used by Mediobanca, means the criteria according to which exposures are classified as "non-performing/impaired" will be the same as those for exposures to be classified within stage 3, albeit with certain very minor differences of valuation (cf. below).

The main methodological choices made on the issue of impairment are summarized below:

– Valuation of the significant increase in credit risk. This takes into account qualitative and quantitative items, and serves to identify significant deterioration in the counterparty's credit standing for each facility. The recognition of forbearance measures and the thirty days past due criterion are considered as backstop indicators. In accordance with the supervisory authority's expectations the simplified, or "low credit risk exemption" approach. has only been used to a very limited degree. The criteria defined for the purposes of transferring exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when significant deterioration indicators no longer apply, the exposure returns to stage 1);

- Inclusion of forward-looking information within the expected loss calculation model: forward-looking information is considered with reference to three possible scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, in order to ensure a time horizon considered to be reasonable. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;
- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. In particular, alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);
- Validation and back-testing: with reference to models based on detecting expected losses, a process for validation and retrospective testing has been finalized. The framework adopted provides for the unit responsible for model development to be independent of the unit responsible for validation, in view of the clear definition of roles and responsibilities. Provision is also made for regular analysis to be carried out to ensure that the assumptions underlying the model continue to be valid and that new information available is taken into account;
- Twelve-month and life-time expected loss calculations: the IFRS 9 estimate of the PD, LGD and EAD parameters is based on existing prudential models, adapted to incorporate forward-looking information and the multi-period time horizon.

2.3 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.

3. Effects of first-time adoption (FTA)

The changes introduced by IFRS 9 in the areas of "Classification and measurement" and "Impairment" produce their effects at the first-time adoption stage on the amount and composition of Net equity.

With respect to "Classification and measurement", the analysis carried out for the entire portfolio of financial assets has not revealed any significant impact.

In some cases, however, changes in the business models used to manage the financial instruments or contractual cash flows not in line with the SPPI notion have been detected, hence the transition from IAS 39 to IFRS 9 with reference to "Classification and Measurement" has entailed the following reclassifications (see tables 1 and 2 below for details):

– €219.4m of loans and receivables have been reclassified as FVPL in view of the fact that the instruments' characteristics (subordination, equity convertible options, indirect exposure to equity) meant they did not pass the SPPI test. The impact in terms of measurement is €3.3m (see table 3 below);
– €649m of available-for-sale debt securities has been reclassified as HTC to provide a better representation of the business model's strategies, which led to the net equity reserve accumulated written back and the historical acquisition cost being recovered. The impact in terms of measurement is €3.3m (see table 3 below);
– €53.5m of debt securities held as part of the banking book have been reclassified as FVPL;
– €511.4m stock units held in investment funds classified as AFS have been reclassified as assets compulsorily recognized at fair value with effects taken through profit and loss and the current AFS reserve being transferred to the earnings reserve;

– €260.8m in AFS equities have been reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
– €196.1m of held-for-trading financial assets have been reclassified as FVOCI following changes to the business model.

Moreover, with reference to the fifth update of Bank of Italy circular 262/05, the change in the method by which financial assets are classified compared to the fourth update should be noted:

4th update, Bank of Italy Circular 262	5th update, Bank of Italy Circular 262
20. Financial assets held for trading	20. Financial assets at fair value with impact taken to profit or loss: *a) Financial assets held for trading* *b) Financial assets designated at fair value* *c) Other financial assets mandatorily at fair value*
30. *Financial assets at fair value through profit or loss*	30. Financial assets at fair value with impact taken to comprehensive income
40. Financial assets available-for-sale	40. Financial assets at amortized cost:
50. Financial assets held-to-maturity	*a) Due from banks*
60. Due from banks	*b) Due from customers*
70. Due from customers	

* * *

As far as regards financial liabilities, no significant impact is estimated, apart from one restatement of loan loss provisions equal to €13.4m recorded in respect of commitments to disburse funds and financial guarantees given: in view of the fifth update of Bank of Italy circular 262/05, these amounts have to be reclassified under “Provisions” rather than as “Other liabilities”.

The Group has also chosen to apply the fair value option for a limited number of financial liabilities with a book value of €51.4m in order to eliminate accounting asymmetries with some financial assets.

With regard to the mandatory schemes required by the Bank of Italy, the change in the method by which financial liabilities are classified compared to the fourth update should be noted:

4th update, Bank of Italy Circular 262	5th update, Bank of Italy Circular 262
10. Due to banks	10. Financial liabilities at amortized cost:
20. Due to customers	*a) Due to banks*
30. Debt securities in issue	*b) Due to customers*
	c) Debt securities in issue
40. Trading liabilities	20. Trading liabilities
50. Financial liabilities designated at fair value	30. Financial liabilities designated at fair value

Adoption of the new classification rules for financial instruments generates an almost null effect on net equity, representing the balance between changes in business model (which added €3.4m) and instruments failing the SPPI test (which subtracted €3.4m).[3]

As mentioned, the most significant impact of the transition to IFRS 9 derives from changes in relation to "Impairment". Compared to the IAS 39 provisioning, the overall increase in the expected losses totals €118.7m, 67% of which is attributable to the performing exposures (stage 1 and stage 2) and the other 33% to the non-performing exposures (stage 3).

The increase in provisioning for performing exposures (€79.3m) is 96% attributable to the positions classified as stage 2, which account for approx. 4% of the performing exposures.

The increase in adjustments for non-performing exposures (€39.4m) chiefly involves the mortgages and leasing portfolios.

The reclassifications and increased provisioning referred to above drove a €37.8m increase in deferred tax assets.

The combined effect of the changes on the Group's net equity totals €118,7m (€80.9m net of the tax effects), and implies a reduction of some 20 bps in the Group's CET1 ratio.

In order to mitigate the impact of the new reporting standard on prudential ratios, Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", amending Regulation (EU) 575/2013 (the "CRR") to include a new Article 473-*bis*, "Introduction of

[3] The new category entails a change in the valuation models which impacts on both recognition value and net equity (cf. below).

IFRS9", offers the possibility for banks to spread the impact deriving from the introduction of IFRS 9 on their own funds over a five-year transitional period by including a decreasing amount of such impact in their Common Equity Tier 1. The Mediobanca Group will apply the static approach, in order to neutralize the effect of the higher provisioning for performing assets, starting from the IFRS 9 FTA financial statements and for the next five years. [4]

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS 9 and IFRS 1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

3.1 Reconciliation between IAS 39-compliant and IFRS 9-compliant balance-sheet data

The reconciliations between the published financial statements as at 30 June 2018 and the new schemes introduced by the fifth update of Bank of Italy circular 262 as at 1 July 2018 are shown below. IAS 39-compliant values as at 30 June 2018 are assigned to new headings, without taking into account the classification and measurement provisions introduced by IFRS 9 (i.e. the value of total assets and total liabilities remains unchanged).

[4] Year 1: 95%; year 2: 85%; year 3: 70%; year 4: 50%; year 5: 25%.

Table 1: Reconciliation between IAS 39 and IFRS 9 – assets

IAS 39 / IFRS 9	10 Cash and cash equivalents	20 Financial assets held for trading	30 *Financial assets at fair value through profit or loss*	40 Financial assets available-for-sale	50 Financial assets held-to-maturity	60 Due from banks	70 Due from customers	80 Hedging derivatives	90 Adjustment of hedging financial assets (+/-)	100 Equity investments	110 Reinsured portion of technical reserves	120 Property, plant and equipments	130 Intangible assets	140 Tax assets	150 Assets classified as held for sale	160 Other assets	Total assets
10 Cash and cash equivalents	1,238,001	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,238,001
20 Financial assets at fair value with impact taken to profit and loss	—	8,008,776	—	565,431	2	—	219,394	—	—	—	—	—	—	—	—	3,842	8,797,445
a) Financial assets held for trading	—	8,008,494	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,008,494
b) Financial assets designated at fair value	—	—	—	53,509	—	—	—	—	—	—	—	—	—	—	—	—	53,509
c) Other financial assets mandatorily at fair value	—	282	—	511,922	2	—	219,394	—	—	—	—	—	—	—	—	3,842	735,442
30 Financial assets at fair value with impact taken to comprehensive income	—	196,134	—	4,507,087	—	—	—	—	—	—	—	—	—	—	—	—	4,703,221
40 Financial assets at amortized cost	—	1	—	649,000	2,595,745	7,552,958	40,758,495	—	—	—	—	—	—	—	—	4,080	51,560,279
50 Hedging derivatives	—	—	—	—	—	—	—	225,814	—	—	—	—	—	—	—	—	225,814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
70 Equity investments	—	—	—	—	—	—	—	—	—	3,210,839	—	—	—	—	—	—	3,210,839
80 Reinsured portion of technical reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
90 Property, plant and equipments	—	—	—	—	—	—	—	—	—	—	—	287,809	—	—	—	—	287,809
100 Intangible assets	—	—	—	—	—	—	—	—	—	—	—	—	739,864	—	—	—	739,864
110 Tax assets	—	—	—	—	—	—	—	—	—	—	—	—	—	816,484	—	—	816,484
120 Assets classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
130 Other assets	—	—	—	359	—	—	—	—	—	—	—	—	—	—	—	720,407	720,766
Total assets	**1,238,001**	**8,204,911**	**—**	**5,721,877**	**2,595,747**	**7,552,958**	**40,977,889**	**225,814**	**—**	**3,210,839**	**—**	**287,809**	**739,864**	**816,484**	**—**	**728,329**	**72,300,522**

Table 2: Reconciliation between IAS 39 and IFRS 9 - liabilities

IAS 39 / IFRS 9	10 Due to banks	20 Due to customers	30 *Debt securities in issue*	40 Trading liabilities	50 *Financial liabilities designated at fair value*	60 Hedging derivatives	70 Adjustment of hedging financial liabilities (+/-)	80 Tax liabilities	90 Liabilities included in disposal groups classified as held for sale	100 Other liabilities	110 Staff severance indemnity provision	120 Provisions	130 Insurance reserves	140 Revaluation reserves	150 Redeemable shares repayable on demand	160 Equity instruments repayable on demand	170 Reserves	180 Share premium reserve	190 Share capital	200 Treasury share (-)	210 Minority interests (+/-)	220 Profit/ (loss) for the period (+/-)	Total liabilities and net equity
10 Financial liabilities at amortized cost	12,263,459	21,320,043	20,557,091	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	54,140,593
20 Trading financial liabilities	—	—	—	6,462,404	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,462,404
30 Financial liabilities designated at fair value	—	—	51,427	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	51,427
40 Hedging derivatives	—	—	—	—	—	233,086	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	233,086
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
60 Tax liabilities	—	—	—	—	—	—	—	531,587	—	—	—	—	—	—	—	—	—	—	—	—	—	—	531,587
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
80 Oher liabilities	—	—	—	—	—	—	—	—	—	746,945	—	—	—	—	—	—	—	—	—	—	—	—	746,945
90 Staff severance indemnity provision	—	—	—	—	—	—	—	—	—	—	27,510	—	—	—	—	—	—	—	—	—	—	—	27,510
100 Provisions	—	—	—	—	—	—	—	—	—	13,430	—	185,482	—	—	—	—	—	—	—	—	—	—	198,912
110 Insurance reserves	—	—	—	—	—	—	—	—	—	—	—	—	175,853	—	—	—	—	—	—	—	—	—	175,853
120 Revaluation reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	764,255	—	—	—	—	—	—	—	—	764,255
130 Redeemable shares repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
140 Equity instruments repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
150 Reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,490,450	—	—	—	—	—	5,490,450
160 Share premium reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,191,743	—	—	—	—	2,191,743
170 Share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	443,275	—	—	—	443,275
180 Treasury share (-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(109,338)	—	—	(109,338)
190 Minority interests (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	87,900	—	87,900
200 Profit/(loss) for the period (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	863,920	863,920
Total liabilities and net equity	**12,263,459**	**21,320,043**	**20,608,518**	**6,462,404**	**—**	**233,086**	**—**	**531,587**	**—**	**760,375**	**27,510**	**185,482**	**175,853**	**764,255**	**—**	**—**	**5,490,450**	**2,191,743**	**443,275**	**(109,338)**	**87,900**	**863,920**	**72,300,522**

3.2 Reconciliation of assets and liabilities

The table below shows, for each asset and liability heading pursuant to the fifth update of Bank of Italy circular 262/05, the impact arising from application of the new IFRS 9 accounting standard, for the "Classification and measurement" and "Impairment" work streams.

The column headed "Classification and measurement" shows the value changes arising from the different valuation criterion. The column entitled "Impairment" shows value changes arising from the adoption of the new impairment model introduced by IFRS 9.

Table 3: Reconciliation of balance-sheet items - assets

Heading	**30/6/18**	**Transition effect**		**IFRS 9 1/7/18**
		Classification and measurement	**Impairment**	
10 Cash and cash equivalent	1,238,001	—	—	1,238,001
20 Financial assets at at fair value with impact taken to profit and loss	8,797,445	(411)	—	8,797,034
a) financial assets held for trading	*8,008,494*	—	—	*8,008,494*
b) Financial assets designated at fair value	*53,509*	—	—	*53,509*
c) Other financial assets mandatorily at fair value	*735,442*	*(411)*	—	*735,031*
30 Financial assets at fair value with impact taken to comprehensive income	4,703,221	—	—	4,703,221
40 Financial assets at amortized cost	51,560,279	5,751	(118,767)	51,447,263
50 Hedging derivatives	225,814	—	—	225,814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—
70 Equity investments	3,210,839	—	—	3,210,839
80 Reinsured portion of technical reserves	—	—	—	—
90 Property, plant and equipment	287,809	—	—	287,809
100 Intangible assets	739,864	—	—	739,864
110 Tax assets	816,484	3,847	41,345	861,676
120 Assets classified as held for sale	—	—	—	—
130 Other assets	720,766	—	—	720,766
Total assets	**72,300,522**	**9,187**	**(77,422)**	**72,232,287**

Table 4: Reconciliation of balance-sheet items – liabilities

Heading	30/6/18	Transition effect		IFRS 9 1/7/18
		Classification and measurement	Impairment	
10 Financial liabilities at amortized cost	54,140,593	—	—	54,140,593
20 Trading liabilities	6,462,404	—	—	6,462,404
30 Financial liabilities designated at fair value	51,427	5,938	—	57,365
40 Hedging derivatives	233,086	—	—	233,086
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—
60 Tax liabilities	531,587	5,413	1,927	538,927
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—
80 Oher liabilities	746,945	457	(1,829)	745,573
90 Staff severance indemnity provision	27,510	—	—	27,510
100 Provisions	198,912	(1,015)	1,728	199,625
110 Insurance reserves	175,853	—	—	175,853
120 Revaluation reserves	764,255	(19,930)	2,197	746,522
130 Redeemable shares repayable on demand	—	—	—	—
140 Equity instruments repayable on demand	—	—	—	—
150 Reserves	5,490,450	18,324	(76,394)	5,432,380
160 Share premium reserve	2,191,743	—	—	2,191,743
170 Share capital	443,275	—	—	443,275
180 Treasury share (-)	(109,338)	—	—	(109,338)
190 Minority interests (+/-)	87,900	—	(5,051)	82,849
200 Profit/(loss) for the period (+/-)	863,920	—	—	863,920
Total liabilities and net equity	**72,300,522**	**9,187**	**(77,422)**	**72,232,287**

3.3 Reconciliation of post-FTA net equity

The following table shows the reconciliation for net equity between IAS 39-compliant values as at 30 June 2018 and the corresponding headings introduced by the new classification, measurement and impairment requirements introduced by IFRS 9.

	Values
Net equity as at 30 June 2018	**9,732,205**
- Group	*9,644,305*
- of which: minorities	*87,900*
Total effects of IFRS 9 transition - 1 July 2018	
of which: Classification	*(80,859)*
of which: Impairment	**(19)**
of which: Impairment	**(118,666)**
- Stage 1 and 2	*(79,257)*
- Stage 3	*(39,409)*
of which: Tax effect	**37,826**
Net equity (IFRS 9) as at 1 July 2018	**9,689,172**
- Group	*9,606,323*
- of which: minorities	*82,849*

Transition to IFRS 15 "Revenue from contracts with customers"

The new accounting standard introduces a new model for the recognition of revenues deriving from contracts with customers. The new standard will replace the current requirements in IFRS for revenues recognition: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective for the Mediobanca Group starting from 1 July 2018, and requires revenues to be recognized on the basis of the following five steps:

– Identification of the contract;

– Identification of individual bonds;

– Determination of the transaction price;

- Allocation of the transaction price to the individual bonds, on a “market prices” basis (“stand-alone selling price”);
- Recognition of the revenues allocated to the single performance obligation when it is settled, i.e. when the customer obtains control of the goods and services.

Implementation of the standard was co-ordinated centrally by Mediobanca S.p.A. through an *ad hoc* working group to extend the analysis to the whol Group involving the subsidiaries as and where necessary.

The analysis led to all types of contracts with customers being identified, and the means by which to record the revenues generated by them to establish their compliance with the new standard’s provisions. No significant impact emerged from application of the new standard, except for contingent liabilities arising to cover the early collection of insurance premiums in respect of mortgage loans which would then have to be written back in the event of early repayment of the mortgages themselves (for a total of €5.9m, €4m net of the tax effect).

New IFRS 16: “Leases”

Regulatory provisions

In 2016, the IASB issued the new IFRS 16 on “Leases” to replace IAS 17 previously in force and its respective interpretations.[5] IFRS 16 was adopted by the European Commission under Commission Regulation (EU) 1986/2017 and as far as the Mediobanca Group is concerned, takes effect from the new financial year starting on 1 July 2019.

The main changes introduced by the new reporting standard are a change in the definition of leasing and a single accounting model for operating and financial contracts. Under the new standard, a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, which means that long-term rental or hire contracts are also included.

[5] IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives”, and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

The new standard requires the lessee to represent the amount of the “right of use” for the asset covered by the leasing/rental agreement in its accounts, matched by the future instalments due on it discounted as at the reporting date. Thereafter the “right of use” asset will be ammortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in continuity with the existing IAS 17.

IFRS 16 project

The Mediobanca Group has launched a project to manage transition to the new reporting standard, which involves analysis of the contracts , definition of the choices, assessment of the estimated impact and adaptation of the internal regulations;

The Group has adopted an IT solution to manage the new reporting standard in terms of quantifying and accounting for amounts payable and receivable in respect of leases, based on the application currently used to manage such contracts.

Mediobanca Group choices

At the first-time adoption stage for the new reporting standard, the Mediobanca Group has decided to use the “modified retrospective approach”, i.e. recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption.

The Group has also elected to adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months or less calculated at FTA, contracts involving amounts of less than €5,000 (“low value”), and contracts for intangible assets.

The Group has also decided not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question in view of the contract's duration.

If the original contract has been sub-leased to a counterparty and the conditions apply for it to be treated as a finance sub-lease, the liability in respect of the original list is balanced by an amount receivable from the subscriber rather than by the value in use.

Results

Overall, the changes introduced by IFRS 16 will generate an increase in assets of some estimated €200m,[6] 95% of which relating renting contracts for offices and branches, matched by payables (amounts due to the lessor) for the same amount without impacting on net equity.

SECTION 3

Area and methods of consolidation

The consolidated financial statements comprise the financial/earnings results of the Group companies and the companies directly or indirectly controlled by them, including those operating in sectors dissimilar to the one in which the parent company operates.

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

[6] The increase in assets will determine a rise in RWAs of the same amount (i.e. risk weighting 100%), impacting on the CET1 ratios by around 6 bps.

The following events should be noted:

- 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 that of Société Monégasque des Études Financières ("SMEF"), owned CMB S.A., and MB Advisory Turkey;
- On 12 March 2019, the liquidation procedure for CMB Wealth Assets Management (owned by CMB S.A.) was commenced;
- On 10 April 2019 the acquisition of French company Messier Maris & Associés specializing in corporate finance and M&A was finalized. Mediobanca acquired 66.4% of the share capital outright, and entered into put-and-call agreements which, when exercised, will allow the Bank to increase its interest to 100% of the share capital consolidated as from 1 April 2019; MMA in turn owns Messier Maris & Associés LLC (50%, here too with provision for the stake to be increased to 100%).

It should also be noted that ownership of Spafid Connect has been transferred from Spafid to MIS at book value.

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

	Name	Registered office	Type of relationship[1]	Shareholding		% voting rights[2]
				Investor company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	Line-by-line					
1.	MEDIOBANCA - Banca di Credito finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.P.A. - *under liquidation and arrangement with creditors*	Milan	1	A.1.1	100.0	100.0
3.	SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.5	100.0	100.0
5.	MEDIOBANCA INNOVATION SERVICES - S.C.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.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.92	99.92
8.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.3	99.3
9.	CMB WEALTH MANAGEMENT LIMITED - *under liquidation*	London	1	A.1.1	100.0	100.0
10.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			1	A.1.11	1.0	1.0
11.	COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
12.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
13.	MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.11	100.0	100.0
14.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
15.	MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
16.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
17.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
18.	MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
19.	QUARZO S.R.L.	Milan	1	A.1.11	90.0	90.0
20.	FUTURO S.P.A	Milan	1	A.1.11	100.0	100.0
21.	QUARZO CQS S.R.L.	Milan	1	A.1.20	90.0	90.0
22.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
23.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
24.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
25.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0*	60.8
26.	CAIRN CAPITAL LIMITED	London	1	A.1.25	100.0	100.0
27.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.25	100.0	100.0
28.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.25	100.0	100.0
29.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
30.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
31.	AMPLUS FINANCE (non operating)	London	1	A.1.25	100.0	100.0
32.	SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
33.	SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
34.	MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
35.	MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
36.	RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	89.3**	69.0
37.	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.36	100.0	100.0
38.	MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0***	66.4
39.	MESSIER MARIS & ASSOCIES LLC.	New York	1	A.1.38	100.0***	50.0

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

Legend

[1] Type of relationship:
1 = majority of voting rights in ordinary AGMs.

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

2. Considerations and significant assumptions used to determine consolidation area

The area of consolidation is defined on the basis of IFRS 10, "Consolidated financial statements", which provides that control occurs when the following three conditions apply:

– When the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;

– When the investor has exposure, or rights, to variable returns from its involvement with the investee

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

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

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

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

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

The financial statements of the consolidated companies represented in currencies other than the Euro are converted by applying the exchange rate prevailing at the end of the accounting period to the balance-sheet items, and the average exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS 39 rather than IFRS 9 adopted by the Mediobanca Group since 1 July 2018, having opted for the deferred approach provided by IFRS 9 as governed by IFRS 4. Accordingly, in the Mediobanca Group's consolidated financial statements, the figures shown under "Value reserves for investments accounted for using the equity method" will be calculated in accordance with IAS 39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS 39 with no adjustments.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

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

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

5. Other information

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

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

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, par. 24-25), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date. As mentioned previously, Assicurazioni Generali has opted for the deferred approach governed by IFRS 4, and will therefore continue to apply IAS 39 until 1 January 2021.

SECTION 4

Events subsequent to the reporting date

Since the reporting date, the sale of the CheBanca! French branch office's portfolio of bad debts has been completed.

No events have taken place that cause the results presented in the consolidated report for the twelve months ended 30 June 2019 to be amended.

SECTION 5

Other aspects

The consolidated financial statements and the individual accounts of Mediobanca S.p.A. have been audited by external auditors PricewaterhouseCoopers S.p.A. as required by Italian Legislative Decree 39/10 and under the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012, for the 2013-21 financial years.

A.2 - Significant accounting policies

Financial assets recognized at amortized cost

These include loans and advances to customers and banks, debt securities and repo transactions which meet the following conditions:

– The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;

– Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS 17 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

The Group business model should reflect the ways in which financial assets are managed at a portfolio level (and not at instrument level), on the basis of factors observable at a portfolio level (and not at instrument level):

– Operating procedure adopted by management in the process of performance evaluation;

– Risk type and procedure for managing risks taken, including indicators for portfolio rotation;

– Means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering “worst case” and “best case” scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.

At initial recognition, the Group analyses contractual cash flows for the instrument as part of the SPPI test; when contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

The instrument is recognized at amortized cost, i.e. the initial value less/plus the repayments of principal made, writedowns/writebacks, and amortization – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, adjusted to reflect expected losses.

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate 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.

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.

Following initial recognition, all financial assets recognized at amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing assets.

Impairment regards losses which are expected to materialize in the twelve months following the reference date of the financial statement, or, in cases where a significant increase in credit risk is noted, the losses which are expected to materialize throughout the rest of the instrument's life. Both the twelve-month and outstanding life expected losses can be calculated on an individual or collective basis according to the nature of the underlying portfolio.

In accordance with the provisions of IFRS 9, the financial assets are split into three different categories:

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. The Group uses the simplified, low credit risk exemption approach only to a very limited extent.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, with interest calculated later using an internal rate of return adapted to the circumstances. The expected credit losses are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default (for further details see the section specifically on credit quality in Part E of the Notes to the Accounts), the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value.[7]

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. This category comprises debt securities, equities, loans held for trading purposes, and the positive value of derivatives held for trading including those embedded in complex instruments such as structured bonds (recorded separately).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost.

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

[7] See Part A – Information on fair value on pp. 140-141.

the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

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 respective headings.

Assets which must be recognized at fair value also include loans which do not guarantee full repayment of principal in the event of the counterparty finding itself in financial difficulties and which therefore do not pass the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

Financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

Financial assets recognized at fair value through other comprehensive income

These are financial instruments, mostly debt securities, for which both the following conditions are met:

- The instruments are on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments;
- The contractual terms which pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in te same way as financial assets recotnized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

The category also includes equities not held for trading which meet the definition provided by IAS 32, and which the Group decided to classify irrevocably in this category at the initial recognition stage. As the instruments in question are equities they are not subject to impairment, and the gains/losses on equities are never taken through profit and loss, even following the sale of the instrument. Conversely, dividends on the instruments are recorded through profit and loss when the right of collection takes effect.

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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.

When a financial asset recognized at amortized cost is renegotiated, the Group derccognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument’s carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as stage 1 for purposes of calculating the expected loss (save in cases where the new instrument is classified as a POCI).

In cases where the renegotiation does not result in substantially different cash flows, the Group does not derecognize the instrument, but the difference between the original carrying value and the estimated cash flows discounted using the original internal rate of return must be recorded through profit and loss (taking due account of any provisions already set aside to cover it).

Leasing

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods), even if the good itself is not stated explicitly in the agreement.

A leasing contract must be classified at the execution date as either a financial lease or an operating lease.

A lease which transfers basically all risks and benefits typical of ownership to the lessee is a financial lease.

Financial leases in which the Group is the lessor are capitalized at the start of the transaction based on the fair value of the good at the execution date, or the current value of the minimum payments provided for by the agreement if lower. Payments are split into the two components of interest payable and repayment of the amount due under the lease itself based on methods which reflect a constant, regular return on the lessor's net investment.

The good being leased is recorded in the accounts and amortized over the course of its useful life. If there is no reasonable certainty that the Group will acquire the good at the end of the lease, it is amortized over its useful life or the duration of the lease itself, whichever is shorter.

Payments made in respect of operating lease contracts are recorded through profit and loss as costs on a straight-line basis throughout the life of the leasing contract itself.

Leases in which the Group is the lessor and does not transfer basically all risks and benefits associated with ownership of the good are classified as operating leases. Revenues generated from contracts such as these are recorded through profit and loss on a straight-line basis throughout the life of the leasing contract. Any costs incurred to negotiate the contract are added to the value of the good and recorded throughout the life of the contract using the same criterion adopted to record the revenues.

Hedges

For hedging transactions, the Group has adopted the provisions of IFRS 9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS 39 to this type of operation.

Two types of hedge are used by the Group:

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

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

Hedge derivatives are recognized at fair value as follows:

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

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.

At inception, the Group formally designates and documents the hedging relationship, with an indication of the risk management objectives and strategy for the hedge. The documentation includes identification of the hedging instrument, the item hedged, the nature of the risk hedged and how the entity intends to assess if the hedging relationship meets the requisites for the hedge to be considered effective (including analysis of the sources of any ineffectiveness and how this affects the hedging relationship). The hedging relationship meets the eligibility criteria for accounting treatment reserved for hedges if, and only if, the following conditions are met:

– The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
– The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Bank actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

Fair value hedges

As long as the fair value hedge meets the criteria for eligibility, the profit or loss on the hedge instrument must be recorded in the profit and loss account or under one of the other comprehensive income headings if the hedge instrument hedges another instrument representative of equity for which the Group has chosen to recognize changes in fair value through OCI. The hedge profit or loss is recorded as an adjustment to the book value of the hedged item with a matching entry through the profit and loss account, even in cases where the item hedged is a financial asset (or one of its components) recognized at fair value with changes taken through OCI. However, if the item hedged is an equity instrument for which the entity has opted to recognize changes in fair value through OCI, the amounts remain in the other items in the comprehensive income statement.

If the item hedged is an irrevocable commitment (or one of its components) not booked to the accounts, the cumulative change in the fair value of the item hedged resulting from its designation as such is recorded as an asset or liability with corresponding gain or loss recorded in the profit (loss) for the period.

Cash flow hedges

As long as the cash flow hedge meets the criteria for eligibility, it is accounted for as follows:

– The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.

- The cash flow reserve is adjusted to reflect the lower amount of:
- The gain or loss accumulated on the hedge instrument since the hedge's inception; and
- The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception;

The amount accumulated in the cash flow hedge reserve must be reclassified from the cash flow hedge reserve to profit (loss) for the period as an adjustment due to reclassification in the same period or periods in which the estimated future cash flows hedged impact on the profit (loss) for the period (e.g. in periods when interest receivable or payable are recorded, or when the planned sale takes place). However, if the amount constitutes a loss and the entity does not expect to recover the whole loss or part of it in one or more future periods, the entity must classify the amount it does not expect to recover in the profit (loss) for the period (as an adjustment due to reclassification) immediately.

Equity investments

This heading consists of interests held in jointly-controlled companies and associates. Companies subject to joint control, otherwise known as joint ventures, are defined as entities of which control is contractually stipulated as being shared between the Group and one or more other parties, or when for decisions regarding relevant activities, the unanimous consent of all parties which share control of the entity is required.

Companies subject to significant influence, otherwise known as associates, are defined as entities in which the Group holds at least 20% of the voting rights (including "potential" voting rights) or for which – despite holding a lower share of the voting rights – it is entitled to participate in deciding the financial and management policies of the investee company under specific legal arrangements, e.g. participation in shareholder agreements.

The Group uses the net equity method to account for these investments; hence they are initially recognized at cost and subsequently adjusted to reflect changes in the net assets attributable to the Group since the acquisition date.

Following application of the net equity method, if there is objective evidence that the value of an investment may have reduced, estimates are made of its recoverable value, taking into account the value of the discounted cash flows which the investment might generate, including the final sale value of the investment itself.

If the recoverable value is lower than the book value, the difference is taken through profit and loss.

If, in a period following the year in which a long-term reduction in value is recorded, a change occurs in the estimates used to determine the recoverable value, the book value of the investment will be revised to reflect the recoverable value and the adjustment will give rise to a writeback.

In cases where significant influence or joint control are lost, the Group recognizes and values any residual share still held at fair value. Any difference between the book value at the date on which the loss of significant influence or joint control occurs, plus the fair value of the share still held and the consideration received on disposal, are 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.

The heading also includes tangible assets classified pursuant to IAS 2 – *Inventories*, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

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

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

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

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS 3R.

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.

Financial liabilities recognized at amortized cost

These include the items *Due to banks*, *Due to customers* and *Debt securities in issue* less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IAS 17 but which are also affected by the IFRS 9impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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 when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the profit and loss account.

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

The sale of treasury shares over the market following a buyback (even in the form of repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

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

Financial liabilities designated at fair value

They include the value of financial liabilities recognized at fair value through profit and loss based on the fair value option permitted under IFRS 9 and in accordance with the cases permitted under the regulation itself.

Provisions for liabilities and charges

These regard risks linked to commitments to disburse funds and guarantees issued, and to the Group's operations which could lead to expenses in the future (cf. below).

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment introduced by IFRS 9. In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is recognized in the profit and loss account.

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

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

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

The staff severance indemnity provision qualifies as a defined-contribution benefit scheme for units accruing starting from 1 January 2007 (the date on which the reform of complementary pension schemes came into force under Italian Legislative Decree 252/05), for cases where the employee opts into a complementary pension scheme, and also for cases where contributions are paid to the treasury fund held with the Italian national pension scheme (INPS). For such payments, the amount accounted for under labour costs is determined on the basis of the contributions due without application of actuarial calculation methods.

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, 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 using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

Actuarial gains and/or losses are recorded in the Other Comprehensive Income statement, while the interest component is taken through profit and loss.

Foreign currency transactions

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

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

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted using the average of the average monthly exchange rate readings for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

Tax assets and liabilities

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

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

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

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

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

Contributions to Deposits Guarantee Schemes and resolution funds are accounted for according to IFRIC 21.

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.

Schemes which involve payment through the award of shares are recognized through profit and loss, with a corresponding increase in net equity, based on the fair value of the financial instruments allocated at the award date, thus spreading the cost of the scheme throughout the period of time in which the requisites in terms of service and performance where appropriate) are met.

The overall cost of the scheme is recorded in each financial year up to the date on which the plan vests, so as to reflect the best possible estimate of the number of shares that will actually vest. Requisites in terms of service and performance objectives are not considered in determining the fair value of the instruments awarded, but the probability of such objectives being reached is estimated by the Group and this is factored into the decision as to the number of instruments that will vest. Conversely, market conditions will be included in establishing the fair value, whereas conditions unrelated to the requisites in terms of service are considered "non-vesting conditions" and are reflected in the fair value established for the instruments, and result in the full cost of the scheme being recorded in the profit and loss account immediately in the absence of any service requisites and/or performance conditions.

In the event of performance or service conditions not being met and the benefit failing to be allocated as a result, the cost of the scheme is written back. However, if any market conditions fail to be reached, the cost must be recorded in full if the other conditions have been met.

In the event of changes to the scheme, the minimum cost to be recorded is the fair value at the scheme award date pre-change, if the original conditions for vesting have been met. An additional cost, established at the date on which the change is made to the scheme, must be recorded if the change has entailed an increase in the overall fair value of the scheme for the beneficiary.

For schemes which will involve payments in cash, the Group records an amount payable equal to the fair value of the scheme measured at the award date of the scheme and at every reporting date thereafter, up to and including the settlement date, with any changes recorded as labour costs.

Treasury shares

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

Fees and commissions receivable in respect of services

This heading includes all revenues deriving from the provision of services to customers with the expectation of those relating to financial instruments, leases and insurance contracts.

Revenues from contracts with clients are recorded through profit and loss when ownership of the service is transferred to the client, in an amount that reflects the consideration to which the Group considers it is entitled in return for the service rendered.

In order to record the revenues, the Group analyses the contracts to establish whether they contain more than one obligation to provide services to which the price of the transaction should be allocated. The revenues are then recorded throughout the time horizon over which the service is rendered, using suitable methods to recognize the measurement in which the service is provided. The Group also takes into consideration the effects of any variable commissions, and whether or not a significant financial component is involved.

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requisites of IFRS 15, the Group will assess whether to capitalize them and then amortize them through the life of the contract, or to make use of the exemption provided by IFRS 15 to expense the costs immediately in cases where the amortization period for them would be complete within twelve months.

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

Recognition of costs

Costs are recorded through profit and loss in accordance with the revenues to which they refer, save in cases where the requisites for capitalizing them apply and where provided in order to determine amortized cost. Any other costs which cannot be associated with revenues are accounted for immediately in profit and loss.

Related parties

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

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in Mediobanca's share capital,[8] and the entities controlled by or controlling them;

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

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

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

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

[8] Excluding market-makers and asset managers, Italian and international, which, in the exercise of their collective fund management activity, undertake not to take an active part in the management of the companies in which they are investing.

A.3 - Information on transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: change in business model, book value and interest income

(€ '000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt securites	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	112,742	5,837
Total				112,742	5,837

A.4 - Information on fair value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market.

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics;
– Discounted cash flow calculations;

- Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

If no market inputs are available, valuation models based on data estimated internally are used.

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

Fair value is reported according to rankings based on the quality of the input parameters used to determine it [9].

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level3) is assigned to valuations deriving predominantly from unobservable inputs.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified:

- Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
- Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.

[9] Cf. IFRS 13, paragraph 73: "the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement"; and paragraph 74: "The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used". For further details see IFRS 13, paragraphs 72-90

– Level 3: significant inputs which are either unobservable on the market and/ or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

Fair value adjustment

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

– Credit/debt valuation adjustment;
– Other adjustments.

Credit/debt valuation adjustment (CVA/DVA)

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

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

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

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

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

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

Other adjustments (FVA)

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

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. To take account of this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

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

Assets and liabilities measured at fair value on a recurring basis

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

- Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions;
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3;
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
- Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely

and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;

- Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level 3.

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

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

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

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

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

A.4.2 Measurement processes and sensibilities

As required by IFRS13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

Uncertainties inherent in inputs and impact on mark-to-market for equity products

Non-observable inputs	**Quantification of uncertainty inherent input**	**+/- delta vs MtM (€'000), 30/6/19**	**+/- delta vs MtM (€'000), 30/6/18**
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	460	620
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	612	325

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	***Non-observable inputs***	**Fair value * Assets 30/6/19 (€m)**	**Fair value * Liabilities 30/6/19 (€m)**	**Fair value * Assets 30/6/18 (€m)**	**Fair value * Liabilities 30/6/18 (€m)**
OTC equity single name options, variance swap	Black-Scholes/ Black model	Implicit volatility[1]	0.81	(3.89)	1.46	(7.81)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation[2]	9.85	(9.40)	2.70	(4.84)

* Values are shown net of reserves booked.

[1] Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

[2] Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

A.4.3 Fair value ranking

Transfers between fair value ranking levels

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

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

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

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

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

(€ '000)

Financial assets/liabilities measured at fair value	30/6/19		
	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	7,393,508	2,575,250	654,215
a) financial assets held for trading	7,054,588	2,321,359	389,706
b) financial assets designated at fair value	—	51,976	—
c) other financial assets mandatorily valued at fair value	338,920	201,915	264,509
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,613,361	240,572	32,838
3. Hedging derivatives	—	412,234	—
4. Tangible assets	—	—	—
5. Intangible assets	—	—	—
Total	11,006,869	3,228,056	687,053
1. Financial liabilities held for trading	4,948,023	2,829,951	249,777
2. Financial liabilities valued at fair value	—	55,859	—
3. Hedging derivatives	—	414,241	—
Total	4,948,023	3,300,051	249,777

The Level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, totalled €236m (30/6/18: €72.6m), plus €0.5m (€1.9m) in options linked to bonds issued and hedged on the market. Net of these items, the Level

3 assets increased from €110.2m to €153.2m, following new deals of €51.1m (deriving chiefly from the bridge subscribed to by Mediobanca in its role as arranger with Intesa/ICCREA receivables as the underlying instrument, amounting to approx. €246.2m, which is gradually being sold, in an amount of €186.7m during the twelve months under review), redemptions totalling €3.8m, and other reductions, including downward movements in fair value, totalling €4.3m.

Financial assets compulsorily recognized at fair value,[10] which mostly consist of investments in funds (including seed capital) decreased from €309m to €264.5m, following investments of €22.2m, sales and redemptions totalling €58.6m (mostly in respect of a Cairn fund, for €39.2m), and other negative changes of €8.1m. Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), rose slightly from €19.5m to €32.8m.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

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

(€ '000)

Financial assets/liabilities measured at fair value	**30/6/18**		
	Level 1	**Level 2**	**Level 3**
1. Financial assets held for trading	4,805,779	3,214,454	184,678
2. Financial assets recognized at fair value	—	—	—
3. AFS securities	5,107,728	303,178	310,971
4. Hedge derivatives	—	225,814	—
5. Tangible assets	—	—	—
6. Intangible assets	—	—	—
Total	9,913,507	3,743,446	495,649
1. Financial liabilities held for trading	3,206,919	3,168,354	87,131
2. Financial liabilities recognized at fair value	—	—	—
3. Hedge derivatives	—	233,086	—
Total	3,206,919	3,401,440	87,131

[10] A financial asset is classified as a financial asset which must compulsorily be recognized at fair value if it does not meet the conditions, in terms of business model and cash flow characteristics ("solely payment of principal and interest" – i.e. if it does not pass the SPPI test) to be recognized at amortized cost or at fair value through Other Comprehensive Income.

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

(€ '000)

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading [1]	*of which: b) financial assets designated at fair value*	*of which: c) other financial assets mandatorily valued at fair value*				
1. Opening balance	438,690	110,201	—	309,015	19,474	—	—	—
2. Increases	303,308	254,237	—	33,786	15,285	—	—	—
2.1 Acquisti	282,225	251,245	—	22,193	8,787	—	—	—
2.2 Purchases	19,200	1,681	—	11,021	6,498	—	—	—
2.2.1 profit and loss	12,702	1,681	—	11,021	—	—	—	—
- of which, gains	*1,035*	*1,035*	—	—	—	—	—	—
2.2.2 net equity	6,498	X	X	X	6,498	—	—	—
2.3 Transfers from other levels	—	—	—	—	—	—	—	—
2.4 Other increases	1,883	1,311	—	572	—	—	—	—
3. Decreases	291,436	211,223	—	78,292	1,921	—	—	—
3.1 Disposals	254,663	200,103	—	53,360	1,200	—	—	—
3.2 Redemptions	9,071	3,789	—	5,282	—	—	—	—
3.3 Losses recognized in:	25,924	5,553	—	19,650	721	—	—	—
3.3.1 profit and loss	25,211	5,553	—	19,650	8	—	—	—
- of which, losses	*5,553*	*5,553*	—	—	—	—	—	—
3.3.2 net equity	713	X	X	X	713	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	1,778	1,778	—	—	—	—	—	—
4. Closing balance	450,562	153,215	—	264,509	32,838	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level 3 liabilities)

(€ '000)

	Financial liabilities		
	Held for trading [1]	**Designated at fair value**	**Hedging derivatives**
1. Opening balance	12,651	—	—
2. Increases	6,722	—	—
2.1 Issuance	4,935	—	—
2.2 Losses recognized in:	1,607	—	—
2.2.1 profit and loss	1,607	—	—
- of which, losses	*1,607*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	180	—	—
2.4 Other increases	—	—	—
3. Decreases	6,088	—	—
3.1 Redemptions	3,192	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2,896	—	—
3.3.1 profit and loss	2,896	—	—
- of which, gains	*442*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	13,285	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€ '000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/19			
	Book value	**Level 1**	**Level 2**	**Level 3**
1. Financial assets valued at amortised cost	56,599,859	2,487,696	19,157,722	38,229,986
2. Tangible assets held for investment purposes	66,883	—	—	141,764
3. Non-current assets and groups of assets being sold	22,168	—	—	22,168
Total	56,688,910	2,487,696	19,157,722	38,393,918
1. Financial liabilities valued at amortised cost	57,936,936	1,109,322	57,136,709	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—
Total	57,936,936	1,109,322	57,136,709	48,237

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

(€ '000)

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/18			
	Book value	Level 1	Level 2	Level 3
1. Financial assets held to maturity	2,595,747	2,586,499	28,086	—
2. Due from banks	7,552,958	—	5,934,247	1,637,891
3. Due from customers	40,977,889	—	8,334,617	33,696,913
4. Tangible assets held for investment purposes	77,388	—	—	154,516
5. Non-current assets and groups of assets being sold	—	—	—	—
Total	51,203,982	2,586,499	14,296,950	35,489,320
1. Due to banks	12,263,459	—	12,263,459	—
2. Due to customers	21,320,043	—	21,317,138	—
3. Debt securities in issue	20,608,518	704,927	20,118,202	49,719
4. Liabilities in respect of noncurrent assets being sold	—	—	—	—
Total	54,192,020	704,927	53,698,799	49,719

A.5 - Information on "day one profit/loss"

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

The only transaction of this kind involved the approx. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument which, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €5.9m, and the portion that passed through profit and loss during the period totalled €2.5m.

Part B - Notes to consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/19	30/6/18
a) Cash	106,260	65,410
b) Demand deposits with Central Banks	632,102	1,172,591
Total	738,362	1,238,001

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

SECTION 2

Heading 20: Financial assets at fair value with impact taken to profit and loss

2.1 Financial assets held for trading: composition *

Items/values	30/6/19		
	Level 1	Level 2	Level 3
A. Balance-sheet assets			
1. Debt securities	3,857,970	297,582	58,831
1.1 Structured securities	17,251	10,451	—
1.2 Other securietes	3,840,719	287,131	58,831
2. Equity securites [1]	2,441,048	—	76,336
3. UCITs	245,002	3	7,385
4. Loans	6,894	—	—
4.1 REPOs	—	—	—
4.2 Others	6,894	—	—
Total (A)	6,550,914	297,585	142,552
B. Derivative instruments			
1. Financial derivates	503,674	1,533,275	247,154
1.1 trading	503,674	1,488,740	246,957 [2]
1.2 related to the fair value option	—	—	—
1.3 others	—	44,535	197 [3]
2. Credit derivates	—	490,499	—
2.1 trading	—	490,499	—
2.2 related to the fair value option	—	—	—
2.3 others	—	—	—
Total (B)	503,674	2,023,774	247,154
Total (A+B)	7,054,588	2,321,359	389,706

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

[1] Equities include shares committed in securities lending transactions totalling €1,277,841,000.

[2] Includes €235,984,000 in options traded, with the matching amount booked as financial instruments held for trading.

[3] Includes the market value of options (30/6/19: €0.5m) matching those associated with bond issues booked as financial instruments held for trading.

2.2 Financial assets held for trading: by borrowers/issuers

Items/Values	**30/6/19**
A. Financial assets	
1. Debt securities	4,214,383
a) Central banks	—
b) Public administrations	3,398,524
c) Banks	553,734
d) Other financial companies	197,994
of which: insurance companies	—
e) Non-financial companies	64,131
2. Equity instruments	2,517,384
a) Banks	391,154
b) Other finanzial companies	205,008
of which: insurance companies	*94,336*
c) Non-financial companies	1,921,222
d) Other issuers	—
3. Units investment funds	252,390
4. Loans	6,894
a) Central banks	—
b) Public administrations	—
c) Banks	—
d) Other financial companies	2,031
of which: insurance companies	—
e) Non-financial companies	4,863
f) Families	—
Total (A)	6,991,051
B. Derivative instruments	
a) Central counterparties	95,465
b) Others	2,679,137
Total (B)	2,774,602
Total (A+B)	9,765,653

The tables below show the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

2.1 Financial assets held for trading: composition *

Items/Values	30/6/18		
	Level 1	Level 2	Level 3
A. Cash assets			
1. Debt securities	2,538,652	254,051	14,128
1.1 Structured securities	109	11,526	—
1.2 Other debt securities	2,538,543	242,525	14,128
2. Equity instruments [1]	1,616,416	—	81,402
3. Units in investment funds	101,499	—	10,504
4. Loans	24,966	—	—
4.1 Repos	—	—	—
4.2 Others	24,966	—	—
Total A	4,281,533	254,051	106,034
B. Derivative instruments			
1. Financial derivatives	524,246	2,754,834	78,644
1.1 Trading	524,246	2,685,191	77,072 [2]
1.2 Related to the fair value option	—	—	—
1.3 Others	—	69,643	1,572 [3]
2. Credit derivatives	—	205,569	—
2.1 Trading	—	205,569	—
2.2 Related to the fair value option	—	—	—
2.3 Others	—	—	—
Total B	524,246	2,960,403	78,644
Total (A+B)	4,805,779	3,214,454	184,678

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

[1] Equities as at 30/6/18 include shares committed in securities lending transactions totaling €982,223,000.

[2] Includes €72,603,000 related to options brokered, whose counterparty is booked into trading financial liabilities.

[3] Includes the market value of options (€1.9m as at 30/6/18) matching those associated with bond issues booked as financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	**30/6/18**
A. Financial assets (non-derivatives)	
1. Debt securities	2,806,831
a) Governments and Central banks	2,333,021
b) Other public-sector entities	20,680
c) Banks	120,732
d) Other issuers	332,398
2. Equity instruments	1,697,818
a) Banks	118,343
b) Other issuers:	1,579,475
- Insurance companies	16,939
- Financial companies	16,942
- Non-financial companies	1,545,594
- Other	—
3. Units in investment funds	112,003
4. Loans	24,966
a) Goverments and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other issuers	24,966
Total A	4,641,618
B. Derivative instruments	
a) Banks	2,400,466
- Fair Value	2,400,466
b) Customers	1,162,827
- Fair Value	1,162,827
Total B	3,563,293
Total (A+B)	8,204,911

2.3 Financial assets designated at fair value: composition

Items/Values	**Total**		
	30/6/19		
	Level 1	**Level 2**	**Level 3**
1.Debt securities	—	51,976	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	—	51,976	—
2. Loans	—	—	—
2.1 Structured	—	—	—
2.2 Others	—	—	—
Total	—	51,976	—

These financial assets recognized at fair value, which failed the SPPI test on first-time adoption, are matched by equivalent liabilities also designated at fair value.

2.4 Financial assets designated at fair value: by borrower/issuer

Items/Values	**30/6/19**
1. Debt securities	51,976
a) Central banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	51,976
of which: Insurance companies	—
e) Non-financial companies	—
2. Loans	—
a) Central banks	—
b) Public-sector entities	—
c) Banks	—
d) Other financial companies	—
of which: Insurance companies	—
e) Non-financial companies	—
f) Households	—
Total	51,976

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	30/6/19		
	Level 1	Level 2	Level 3
1. Debt securities	489	—	3,146
1.1 Structured securities	—	—	—
1.2 Others	489	—	3,146
2. Equity instruments	—	—	2,330
3. Units investment funds	338,431	—	241,161
4. Loans	—	201,915	17,872
4.1 REPOs	—	—	—
4.2 Others	—	201,915	17,872
Total	338,920	201,915	264,509

This is a residual item consisting of banking book debt securities that have failed the SPPI test. The loans in particular include equity instruments deriving from the restructuring of unlikely-to-pay positions.

2.6 Other financial assets mandatorily at fair value: by borrower/issuer

Items/Values	30/6/19
1. Equity instruments	2,330
of which: banks	—
of which: other financial companies	*2,330*
of which: other non financial companies	—
2. Debts securities	3,635
a) Central banks	—
b) Public sector entities	489
c) Banks	—
d) Other financial companies	3,146
of which: insurance companies	—
e) Non-financial companies	—
3. Units investment funds	579,592
4. Loans	219,787
a) Central banks	—
b) Public sector entities	—
c) Banks	—
d) Other financial companies	202,305
of which: insurance companies	—
e) Non-financial companies	17,482
f) Households	—
Total	805,344

SECTION 3

Heading 30: Financial assets at fair value with impact taken to comprehensive income

3.1 Financial assets at fair value with impact taken to comprehensive income: composition *

Items/Values	30/6/19		
	Level 1	Level 2	Level 3 [1]
1. Debts securities	3,507,591	240,572	—
1.1 Structured securities	—	—	—
1.2 Other	3,507,591	240,572	—
2. Equity instruments	105,770	—	32,838
3. Loans	—	—	—
Total	3,613,361	240,572	32,838

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

[1] Includes investments in unlisted companies valued based on internal models.

3.2 Financial assets at fair value through other comprehensive income: by borrowers/issuers

Items/Values	30/6/19
1. Debt securities	3,748,163
a) Central banks	—
b) Public entities	2,863,097
c) Banks	507,767
d) Other financial companies	216,529
of which: insurance companies	*131,292*
e) Non-financial companies	160,770
2. Equity securities	138,608
a) Banks	114
b) Other issuers:	138,494
- other financial companies	33,690
of which: insurance companies	—
- non-financial companies	104,804
- others	—
3. Loans	—
a) Central banks	—
b) Public entities	—
c) Banks	—
d) Other financial companies	—
of which: insurance companies	—
e) Non-financial companies	—
f) Households	—
Total	3,886,771

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 AFS securities: composition *

Items/Values	**30/6/18**		
	Level 1	**Level 2**	**Level 3** [1]
1. Debt securities	4,646,431	303,178	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	4,646,431	303,178	—
2. Equity instruments	240,994	—	24,704
2.1 Valued at fair value	240,994	—	24,704
2.2 Valued at cost	—	—	—
3. Units in investment funds	220,303	—	286,267
4. Loans	—	—	—
Total	5,107,728	303,178	310,971

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

[1] These include investments in unlisted companies valued on the basis of internal models

4.2 AFS securities: by borrowers/issuers

Items/Values	**30/6/18**
1. Debt securities	4,949,609
a) Governments and Central banks	3,157,194
b) Other public-sector entities	386,845
c) Banks	861,526
d) Other entities	544,044
2. Equity instruments	265,698
a) Banks	471
b) Other issuers:	265,227
- Insurance companies	—
- Financial companies	26,080
- Non-financial companies	236,280
- Other	2,867
3. Units in investment funds (including Private Equity funds)	506,570
4. Loans	—
a) Governments and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other entities	—
Total	5,721,877

3.3 Financial assets at fair value through other comprehensive income: gross value and total accumulated impairments

	Gross value				Writedown			Write off partial total
	First stage	*of which: low credit risk* *	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	3,750,003	204,812	—	—	1,840	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/19	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	X	X	—	—	X	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

SECTION 4

Heading 40: Financial assets at amortized cost *

4.1 Financial assets at amortized cost: composition of due from banks

Type of transaction/Values	30/6/19					
	Balance value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks				—	211,382	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	259,120	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	7,702,812	—	—	275,178	6,625,844	853,304
1. Loans	7,232,563	—	—	—	6,469,971	669,363
1.1 Current accounts and demand deposits	898,595	—	—	X	X	X
1.2. Time deposits	63,653	—	—	X	X	X
1.3 Other loans:	6,270,315	—	—	X	X	X
- Repos	4,482,055	—	—	X	X	X
- Finance leases	4,634	—	—	X	X	X
- Others	1,783,626	—	—	X	X	X
2. Debts securities	470,249	—	—	275,178	155,873	183,941
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	470,249	—	—	275,178	155,873	183,941
Total	7,961,932	—	—	275,178	6,837,226	853,304

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

4.2 Financial assets at amortized cost: composition of due from customers

Type of transaction/Values	30/6/19					
	Book value			Fair value		
	First and second stage	Third stage	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
1. Loans	45,059,134	1,156,867	*368,637*	—	11,068,820	37,202,323
1.1. Current accounts	1,294,359	74,928	*74,913*	X	X	X
1.2. REPOs	2,550,975	—	—	X	X	X
1.3. Mortgages	23,317,445	489,194	*17,690*	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,947,099	406,187	*248,550*	X	X	X
1.5. Finance lease	1,810,589	138,369	*27,484*	X	X	X
1.6. Factoring	1,915,630	10,018	—	X	X	X
1.7. Other loans	4,223,037	38,171	—	X	X	X
2. Debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
2.1. Structured securities	—	—	—	—	—	—
2.2. Other debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
Total	47,481,060	1,156,867	*368,637*	2,212,518	12,320,496	37,376,682

The column headed “of which: impaired items acquired” contains the non-performing loans (NPLs) acquired by Group company MBCredit Solutions.

4.3 Financial leases

*Financial leasing: banks **

	30/6/19				
	Non performing exposures	Minimum payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	—	318	47	365	—
From 3 months up to 1 year	—	977	122	1,099	2
From 1 up to 5 years	—	2,664	224	2,887	—
Over 5 years	—	684	70	754	18
Unspecified	—	—	—	—	—
Total	—	4,643	463	5,105	20

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

Financial leasing: customers *

	30/6/19				
	Non performing exposures	Minimum payments		Gross investments	
		Principal	Interest share		of which outstanding amount guaranteed
Up to 3 months	18,784	105,167	13,933	145,986	1,048
From 3 months up to 1 year	858	273,836	36,528	311,222	9,822
From 1 up to 5 years	91,243	916,593	106,919	1,114,755	101,674
Over 5 years	—	523,544	48,582	572,126	160,165
Unspecified	—	—	—	—	—
Total	110,885	1,819,140	205,962	2,144,089	272,709

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

4.4 Financial assets at amortized cost: breakdown by borrowers/issuers of due from customers

Type of transaction / Values	30/6/19		
	First and second stage	Third stage	*of which: impaired assets aquired or created*
1. Debt securities	2,421,926	—	—
a) Public Administration	1,733,519	—	—
b) Other financial company	432,677	—	—
of which: insurance companies	229,762	—	—
c) Non financial companies	255,730	—	—
2. Loans to:	45,059,134	1,156,867	*368,637*
a) Public Administration	209,875	13,342	—
b) Other financial company	6,726,486	2,709	*412*
of which: insurance companies	695,307	—	—
c) Non financial companies	14,583,974	549,526	*63,562*
d) Households	23,538,799	591,290	*304,663*
Total	47,481,060	1,156,867	*368,637*

4.5 Financial assets at amortized cost: gross value and total accumulated impairments

	Gross value				Writedown			Writeoff partial total
	First stage	*of which: low credit risk **	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	2,868,057	*385,553*	28,069	—	3,547	404	—	—
Loans	50,267,598	*219,198*	2,796,101	2,017,484	193,777	319,105	860,617	9,948
Total	30/6/19	*604,751*	2,824,170	2,017,484	197,324	319,509	860,617	9,948
of which: impaired financial assets aquired or originated	*X*	*X*	—	*368,637*	*X*	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "of which" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

The tables below show the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

5.1 Financial assets held to maturity: composition *

	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Debt securities	2,595,747	2,586,499	28,086	—
- structured	—	—	—	—
- others	2,595,747	2,586,499	28,086	—
2. Loans	—	—	—	—

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies" of Annual report as at 30/6/18.

5.2 Financial assets held to maturity: by borrower/issuer

	30/6/18
1. Debt securities	2,595,747
a) Government and Central banks	1,839,373
b) Other public-sector entities	—
c) Banks	176,968
d) Other issuers	579,406
2. Loans	—
a) Government and Central banks	—
b) Other public-sector entities	—
c) Banks	—
d) Other entities	—
Total	2,595,747
Total Fair Value	2,614,585

6.1 Due from banks: composition *

Type of transactions/Values	30/6/18			
	Book values	Fair value		
		Level 1	Level 2	Level 3
A. Loans to Central Banks	212,418	—	212,421	—
1. Time deposits	—	X	X	X
2. Compulsory reserve	212,418	X	X	X
3. Repos	—	X	X	X
4. Others	—	X	X	X
B. Loans to banks	7,340,540	—	5,721,826	1,637,891
1. Loans	7,340,540	—	5,721,826	1,637,891
1.1 Current accounts and demand deposits	849,094	X	X	X
1.2 Time deposits	25	X	X	X
1.3 Other loans	6,491,421	X	X	X
- Repos	4,902,337	X	X	X
- Finance lease	3,636	X	X	X
- Others	1,585,448	X	X	X
2. Debt securities	—	—	—	—
2.1 Structured	—	X	X	X
2.2 Others	—	X	X	X
Total	7,552,958	—	5,934,247	1,637,891

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies" of Annual report as at 30/6/18.

7.1 Due from customers: composition *

Type of transactions/Values	30/6/18					
	Book values			Fair value		
	Performing	Non-performing		Level 1	Level 2	Level 3
		Purchased	Others			
Loans	39,648,585	287,927	842,061	—	8,300,289	33,532,861
1. Current accounts	1,250,480	137,715	345	X	X	X
2. Repos	446,410	—	—	X	X	X
3. Mortgages	20,904,933	—	498,750	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,595,332	123,658	156,048	X	X	X
5. Financial leases	1,970,491	22,638	138,321	X	X	X
6. Factoring	1,830,548	—	10,194	X	X	X
7. Other loans	3,650,391	3,916	38,403	X	X	X
Debt securities	199,316	—	—	—	34,328	164,052
8. Structured securities	—	—	—	X	X	X
9. Other debt securities	199,316	—	—	X	X	X
Total	39,847,901	287,927	842,061	—	8,334,617	33,696,913

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies" of Annual report as at 30/6/18.

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/18		
	Performing	Non performing	
		Purchased	Other
1. Debt securities issued by:	199,300	—	—
a) Governments	—	—	—
b) Other public-sector entities	—	—	—
c) Other issuers	199,300	—	—
- Non-financial companies	38,536	—	—
- Financial companies	127,945	—	—
- Insurance companies	32,819	—	—
- Other	—	—	—
2. Loans to:	39,648,601	287,927	842,061
a) Governments	90,027	—	—
b) Other public-sector entities	175,342	—	14,140
c) Other entities	39,383,232	287,927	827,921
- Non-financial companies	12,482,850	53,541	474,224
- Financial companies	3,798,935	4,209	14,909
- Insurance companies	667,657	—	1
- Other	22,433,790	230,177	338,787
Total	39,847,901	287,927	842,061

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair value			Notional value	Fair value			Notional value
	30/6/19				30/6/18			
	Level 1	Level 2	Level 3	30/6/19	Level 1	Level 2	Level 3	30/6/18
A. Financial derivatives								
1. Fair value	—	410,675	—	15,223,497	—	225,814	—	9,590,262
2. Cash flows	—	1,559	—	30,000	—	—	—	—
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	412,234	—	15,253,497	—	225,814	—	9,590,262

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair value							Cashflow hedges		Net investments in non-Italian subsidiaries
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets vslued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	402	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	402	—	—	—	—	—	—	—	—	—
1. Financial liabilities	410,273	X	—	—	—	—	X	1,559	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	410,273	—	—	—	—	—	—	1,559	—	
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.9	12.9
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.4	25.4
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	2	Mediobanca S.p.A.	22.1	22.1

Legend:

[1] Joint control.

[2] Subject to significant influence.

[3] Exclusively controlled and not consolidated.

The criteria and methods for establishing the area of consolidation are illustrated in "Section 3 - Part A - Accounting Policies" to which reference is made.

7.2 Significant investments: book values, fair values and dividends received

Company name	Book value	Fair value *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,219,257	3,356,936	182,442
2. Istituto Europeo di Oncologia S.r.l.	40,468	n.a.	
3. Burgo Group S.p.A.	—	n.a.	
Total [1]	3,259,725	—	—

[1] The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€52,000).

* Available only for listed companies.

** Dividends collected in the course of the financial year have been deducted from the book value of the investment (as described in Part A – Accounting Policies" of the Notes to the Accounts.

As at 30 June 2019, the book value carried under the "Equity investments" heading totalled €3,259.8m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,219.3m), and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €40.5m). The value of the stake held in Burgo (22.1%) has been written off entirely, on prudential grounds.

The Assicurazioni Generali and Istituto Europeo di Oncologia investments have been accounted for using the equity method, and the calculation of their value includes treasury shares owned, dividends collected, and any Mediobanca shares owned by the investee companies; the dividends collected are not taken through profit and loss but have been deducted from the carrying value.

Impairment testing of equity investments

The value of the equity investments has been subject to impairment testing, as required by IAS 28, IAS 36, IFRS 10 and IFRS 11, in order to ascertain whether or not there is objective evidence to suggest that the book value at which the assets are recognized might not be recovered in full.

The process of recording impairment charges involves checking whether there are indicators of impairment and then proceeding to write the investment down if appropriate. Indicators of impairment may be subdivided into two main categories:

– Quantitative indicators: market capitalization below the company's net asset value, in cases where the securities are listed on active markets;

- Qualitative indicators: manifest financial difficulties, negative earnings results, falling by a significant margin of targets set in budgets or long-term business plans disclosed to the market, announcing/launching composition procedures or restructuring plans, or downgrade of credit rating (in particular if to levels below investment grade).

IAS 28, paragraph 41A states that impairment charges must be taken for an asset if the book value is higher than the recoverable value, defined by IAS 36 as the higher of fair value (net of sales costs) and net present value:

- To calculate fair value (as governed by IFRS 13), the methodologies that may be used are as follows:
  - Stock market prices, in cases where the investee company is listed on an active market;
  - Valuation models generally recognized by the market, including market multiples (for significant transactions in particular);
- To calculate net present value (as governed by IAS 28 paragraph 42), one or other of the following methodologies may be used:
  - The discounted value of the cash flows generated by the investee company, as derived from the cash flows generated by the investments owned by the company and the proceeds deriving from the sale of those investments; or
  - The discounted value of the cash flows assumed to derive from dividends receivable and the eventual sale of the investment.

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

* * *

Accounting data for the investee companies consolidated using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2018.

7.3 Significant investments: accounting data

Company name	Entities under significant influence		
	Assicurazioni Generali S.p.A.	Istituto Europeo di Oncologia S.r.l.	Burgo Group S.p.A.
Cash and cash-convertible assets	X	X	X
Financial assets	412,228	106	503
Non-financial assets	96,902	114	990
Financial liabilities	38,540	84	1,065
Non-financial liabilities	452,644	66	181
Total revenues	74,699	348	1,883
Profit/(Loss) on ordinary activities before tax	3,450	11	11
Profit/(Loss) on ordinary activities after tax	2,324	8	10
Profit/(Loss) on held-for-sale assets after tax	173	—	—
Profir/(Loss) for the period (1)	2,497	8	10
Other profit/(loss) components after tax (2)	(2,564)	—	1
Total profit/(loss) for the period (3) = (1) + (2)	(67)	8	11

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

Company name	Aggregate net equity	Pro rata net equity	Differences arising upon consolidation	Consolidated book value
Entities under significant influence				
Assicurazioni Generali S.p.A.	24,895,814 [1]	3,216,260	2,997 [2]	3,219,257
Istituto Europeo di Oncologia S.r.l.	159,507 [3]	40,468	—	40,468

[1] The overall net equity reflects the dividend received in May 2019 (€1,413m).

[2] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €23.2m; pro rata €3m).

[3] The net equity value of €125.2m as at 31/12/18 (€31.8m pro rata) has been adjusted to reflect property revaluations totalling €8.7m pro rata (net of depreciation charges accrued).

For details on the nature of the relations between the companies, please refer to section 7.1.

At 30 June, for both the equity investments (Assicurazioni Generali and IEO) there has not been any indication of impairment.

– The Assicurazioni Generali stake has a fair value of €3,356.9m (based on a stock market price of €16.56 per share at 28/6/19), which is higher than its book value. The fair value is confirmed by the analysts' average target price which is now €17.2 per share (up from €16.8);

– The Istituto Europeo di Oncologia stake has a book value in line with its net present value, the latter having been adjusted upon acquisition to factor in the revaluation of the properties owned by the company based on market prices.

7.5 Equity investments: movements during the period

	30/6/19	30/6/19
A. Opening balance	3,210,839	3,036,541
B. Increases	321,161	346,604
B.1 Purchases	—	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	321,161	346,604
C. Decreases	272,223	172,306
C.1 Sales	—	—
C.2 Adjustments	—	—
C.3 Writeoffs	—	—
C.4 Other changes	272,223	172,306
D. Closing balance	3,259,777	3,210,839
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

SECTION 9

Heading 90: Property, plant and equipments

9.1 Core tangible assets stated at cost

Activities/Values	Total	Total
	30/6/19	30/6/18
1. Property assets	210,949	210,421
a) lands	84,895	84,883
b) buildings	96,912	100,044
c) furniture	12,994	10,630
d) electronic system	9,042	10,440
e) other	7,106	4,424
2. Leased assets	—	—
a) lands	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic system	—	—
e) other	—	—
Total	210,949	210,421
of which: arising from the recovery of guarantees received	*76*	—

9.2 Properties held for investment purposes stated at cost

Activities/Values	Total				Total			
	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	66,883	—	—	141,764	77,388	—	—	154,516
a) lands	29,054	—	—	84,398	30,224	—	—	85,092
b) buildings	37,829	—	—	57,366	47,164	—	—	69,424
2. Leased assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	66,883	—	—	141,764	77,388	—	—	154,516
of which: arising from the recovery of guarantees received	*41,999*	—	—	*47,590*	*43,857*	—	—	*47,790*

9.5 Inventories pursuant to IAS 2: composition

Items/Values	Total
	30/6/19
1. Inventories of tangible assets arising from the recovery of guarantees received	8,017
a) lands	1,100
b) buildings	6,917
c) furnitures	—
d) electronic systems	—
e) others	—
2. Other tangible assets	—
Total	8,017
of which: valued at fair value less costs to sell	—

The above includes assets received under leasing contracts, which were originally recorded as Investment Property (under IAS 40), and have now been restated as Inventories in accordance with IAS 2 in cases where only minor amounts are involved and where leasing the properties out is not economically feasible and sale is expected to take place within three or four years.

9.6 Core tangible assets: movements during the period

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	84,883	143,553	59,324	42,272	48,991	379,023
A.1 Total net reduction value	—	(43,509)	(48,694)	(31,832)	(44,567)	(168,602)
A.2 Net opening balance	84,883	100,044	10,630	10,440	4,424	210,421
B. Increase:	12	1,216	5,286	1,170	5,436	13,120
B.1 Purchasing	12	773	5,273	1,170	5,418	12,646
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised expenditure on improvements	—	428	—	—	—	428
B.3 Writebacks	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	15	2	—	8	25
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	—	11	—	10	21
C. Decrease:	—	4,348	2,922	2,568	2,754	12,592
C.1 Sales	—	—	61	3	2	66
- of which business combinations	—	—	—	—	—	—
C.2 Amorization	—	4,265	2,746	2,372	2,230	11,613
C.3 Impairment losses allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative exchange difference	—	—	4	1	—	5
C.6 Transfer to:	—	—	—	—	—	—
a) held for sale investment	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	83	111	192	522	908
D. Net closing balance	84,895	96,912	12,994	9,042	7,106	210,949
D.1 Total net write-down	—	(46,494)	(50,739)	(34,051)	(44,649)	(175,933)
D.2 Final gross balance	84,895	143,406	63,733	43,093	51,755	386,882
E. Carried at cost	—	—	—	—	—	—

9.7 Properties held for investment purposes: movements during the period

	Total	
	Land	**Buildings**
A. Opening balance	30,224	47,164
B. Increases	—	141
B.1 Purchases	—	—
- of which: business combinations	—	—
B.2 Capitalized improvement expenses	—	57
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange rates differences	—	—
B.6 Trasfers from core tangible assets	—	—
B.7 Other variations	—	84
C. Decreases	1,170	9,476
C.1 Disposals	—	—
- of which: business combinations	—	—
C.2 Depreciations	—	2,277
C.3 Negative exchange rate differences	—	—
C.4 Writedowns	—	—
C.5 Negative changes in fair value	—	—
C.6 Trasfers to:	—	—
a) core tangible assets	—	—
b) assets held for sale	—	—
C.7 Other variations	1,170	7,199
D. Closing balance	29,054	37,829
E. Valued at fair value	84,398	57,366

These consist of the following properties:

Properties	**Squ.m**	**Book value (€'000)**	**Book value per Squ.m (€'000)**
Rome	8,228	24,885	0.3
Lecce	21,024	17,994	1.2
Verona *	30,502	9,675	3.2
Bologna	6,913	5,887	1.2
Vicenza	8,491	7,245	1.2
Pavia	2,250	1,197	1.9
Total	77,408	66,883	

* Includes both warehouse and buildings used as offices.

9.8 Inventories pursuant to IAS 2: movements during the period

	Inventories of tangible assets obtained via the collection of guarantees received					Other inventories of tangible assets	Total
	Land	Buildings	Furniture	Electronic devices	Others		
A. Opening balance	—	—	—	—	—	—	—
B. Increases	1,260	7,577	—	—	—	—	8,837
B.1 Purchases	90	360	—	—	—	—	450
B.2 Writebacks	—	—	—	—	—	—	—
B.3 Positive exchange rates differences	—	—	—	—	—	—	—
B.4 Other variations	1,170	7,217	—	—	—	—	8,387
C. Decreases	160	660	—	—	—	—	820
C.1 Disposals	160	660	—	—	—	—	820
C.2 Writedowns	—	—	—	—	—	—	—
C.3 Negative exchange rates differences	—	—	—	—	—	—	—
C.4 Other variations	—	—	—	—	—	—	—
D. Closing balance	1,100	6,917	—	—	—	—	8,017

SECTION 10

Heading 100: Intangible assets

10.1 Intangible assets: composition

Activities/Values	30/6/19		30/6/18	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	772,427	X	649,781
A.1.1 attributable to the group	X	772,427	X	649,781
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	59,233	70,098	74,593	15,490
A.2.1 Assets valued at cost	47,976	70,098	58,140	15,490
a) intangible assets generated internally	—	—	—	—
b) other assets	47,976	70,098	58,140	15,490
A.2.2 Assets valued at fair value	11,257	—	16,453	—
a) intangible assets generated internally	—	—	—	—
b) other assets	11,257	—	16,453	—
Total	59,233	842,525	74,593	665,271

This item increased from €739.9m to €901.8m during the twelve months, chiefly due to the acquisition of Messier Maris & Associés, which added goodwill calculated provisionally at €149m, and entailed the consolidation of a new brand worth €17m. Other movements were recorded during the twelve months as a result of the purchase price allocation process for RAM and the sale of the Market Connect business unit.

10.2 Intangible assets: movements during the period

	Goodwill	Other internally-generated intangible assets		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	649,781	—	—	228,013	15,490	893,284
A.1 Total net writedowns	—	—	—	(153,420)	—	(153,420)
A.2 Net opening balance	649,781	—	—	74,593	15,490	739,864
B. Increases:	149,043	—	—	19,029	54,608	222,681
B.1 Purchases	149,043	—	—	18,167	53,806	221,016
B.2 Increases of internally-generated intangible assets	X	—	—	248	—	248
B.3 Writebacks	X	—	—	564	—	564
B.4 Positive changes in fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange rates differences	—	—	—	43	802	846
B.6 Other variations	—	—	—	7	—	7
C. Decreases:	26,397	—	—	34,389	—	60,787
C.1 Disposals	—	—	—	78	—	78
C.2 Writedowns	—	—	—	30,274	—	30,274
- Amortizations	X	—	—	29,096	—	29,096
- Writedowns	—	—	—	1,178	—	1,178
+ net equity	X	—	—	—	—	—
+ profit and loss	—	—	—	1,178	—	1,178
C.3 Negative changes in fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to assets held for sale	—	—	—	—	—	—
C.5 Negative exchange rates differences	22,563	—	—	—	—	22,563
C.6 Other variations	3,834	—	—	4,037	—	7,872
D. Net closing balance	772,427	—	—	59,233	70,098	901,758
D.1 Total net writedowns	—	—	—	(165,263)	—	(165,263)
E. Gross closing balance	772,427	—	—	224,496	70,098	1,067,021
F. Valued at cost	—	—	—	—	—	—

Information on intangible assets and goodwill

Intangible assets include the effects of transactions executed by the Group.

On 31 December 2018 the purchase price allocation process for the RAM AI acquisition was completed, leading to two new intangible assets being identified:

- The RAM brand, estimated at €37.7m, with an indefinite useful lifetime calculated using the market approach, taking into account the fact that some of RAM's main funds are among the top performers in the Morningstar rankings;
- The contract for AUM of a certain amount managed by one of the selling shareholders, with a value of €2.4m and a useful lifetime of five years.

Accordingly, the goodwill initially recorded of €177m reduces to €152.7m, including deferred tax of €7.1m (at 31/12 forex rates).

A table summarizing the effects of the PPA process is shown below:

Table 1: Summary of PPA effects

	Linea	IFID	Spafid Connect	Cairn [1]	Esperia	RAM [2]
Acquisition date	*27/6/2008*	*1/8/2014*	*18/6/2015*	*31/12/2015*	*6/4/2017*	*28/2/2018*
Price paid	406,938	3,600	5,124	31,476	233,920	190,528
of which: ancillary charges	*2,000*	*200*	—	—	—	—
Liabilities	—	—	—	19,476	—	42,188
Intangible assets, defined life	(44,200)	(700)	(3,250)	—	(4,508)	(2,159)
no. of years amortization	*8*	*7*	*10*	—	*5*	*5*
Brands	(6,300)	—	—	—	(15,489)	(33,674)
Fair value adjustments	—	—	—	—	11,232	—
Balance of other assets (liabilities)	(2,659)	420	(466)	(9,538)	(176,585)	(6,171)
Tax effects	12,155	220	934	—	6,613	6,450
Goodwill	**365,934**	**3,540**	**2,342**	**41,414**	**55,183**	**154,974**

[1] Based on exchange rate prevailing at 30 June 2019.

[2] All amounts are calculated pro rata (89.25%) and based the on exchange rate prevailing at 30 June 2019.

On 10 April 2019, Mediobanca completed the acquisition of a 66.4% stake in Messier Maris & Associés (MMA), a company mainly focused on M&A activities for mid-cap to large corporates and a wide range of financial sponsors, coupled with debt advisory and financing activities, as well as a counter-cyclical debt restructuring activity. The deal has been structured in such a way to ensure that the founder partners will remain involved and indeed continue to manage the company and fully committed to promoting future growth. The deal was paid for entirely with Mediobanca shares acquired from the buyback scheme currently in progress. Accordingly, the consideration paid consisted of 11.6 million Mediobanca (equal to 1.3% of the Bank's share capital), valued based on the stock market price as at 12 April 2019, for a total outlay of €107.9m. A put-and-call option was also signed which will allow the stake acquired to be increased to 100%. Upon closing, the Messier Maris brand worth €17m was transferred to Mediobanca, and will be consolidated accordingly.

On 20 December 2019, Spafid Connect sold Market Connect, the IT services platform acquired in March 2017 from Borsa Italiana, to Norwegian group Infront. The sale comprised staff, equipments, accounts receivable and payable, and intangible assets for a total amount of €7.9m, €3.8m of which in goodwill, €2.8m customer lists, €0.9m brands, and €0.3m software.

The tables below show a list of the intangible assets acquired as part of M&A transactions and summarizing the goodwill recognized in the accounts as broken down both by deal and cash-generating unit (CGU).

Table 2: Other intangible assets acquired through extraordinary transactions

Typology	Deal	30/6/19	30/6/18
Customer relationship		22,201	30,495
	IFID	208	308
	Spafid	390	588
	ISPS	—	2,915
	Barclays	11,258	16,454
	MB Private Banking	2,705	3,606
	CMB	5,865	6,624
	RAM Active Investments	1,774	—
Brand		53,219	16,422
	ISPS	—	933
	MB Private Banking	15,489	15,489
	RAM Active Investments	37,730	—
Acquired software	Spafid Connect	3,005	5,033
Total		**78,425**	**51,950**

Table 3: Goodwill

Deal	30/6/19	30/6/18
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	—	3,831
Spafid- Fiduciaria	3,080	3,080
Cairn Capital	41,414	41,905
Banca Esperia	52,103	52,103
RAM Active Investments	154,974	177,046
Messier Maris & Associés *	149,040	—
Total	**772,427**	**649,781**

* First estimates of goodwill; PPA to be completed by 31/3/20.

Table 4: Summary of Cash Generating Units

CGU	Deal	30/6/19	30/6/18
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	3,080
Corporate services	Spafid Connect	2,342	2,342
Information services	ISPS	—	3,831
Cairn Capital		41,414	41,905
Mid corporate	ex Esperia	22,650	22,650
MBPrivate Banking	ex Esperia	29,453	29,453
RAM		154,974	177,046
Messier Maris & Associés *		149,040	—
Total goodwill		**772,427**	**649,781**

* First estimates of goodwill, PPA to be completed by 31/3/20.

To complete the information given above, the situation regarding the Group's other main acquisitions is as follows:

– The Linea acquisition (€407m) generated goodwill of €365.9m, which is now the only amount still recorded in the books following the writeoff of the brands with the useful life of the intangible assets having ended. The goodwill is split between three different CGUs: consumer credit, credit cards and salary-backed finance.

– The IFID acquisition (€3.6m) generated goodwill of €3.5m and intangible assets with time-limited life for a total of €0.7m (€0.3m outstanding at the reporting date). The deal has been allocated to the "Fiduciary Services" CGU.

– The Spafid Connect acquisition €5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m (amount outstanding at the reporting date: €2.4m). The deal has been allocated to the "Corporate Services" CGU.

– The deal to acquire the Barclays' Italian business unit required Barclays to pay badwill of €240m, generating, in application of the purchase price allocation process, intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years (amount outstanding at 30 June 2019: €11.3m).

- The Cairn Capital acquisition (£23m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed and has been valued at the current exchange rate at €41.4m; Cairn Capital Group has been treated as a single CGU. A first tranche of the call option was exercised during the second half of the financial, increasing the stake owned from 51% to 60.8%; the liabilities reduced accordingly, from €24.2m to €19.5m, and a net gain of €0.6m was booked to profit and loss.
- In November 2016, Mediobanca acquired the 50% of Banca Esperia it did not already own from Banca Mediolanum in return for a consideration of €141m (the deal closed on 6 April 2017). In December 2017 Banca Esperia was merged into Mediobanca, and the purchase price allocation process was completed the same month. As a result of the PPA procees, a brand was recognized in an amount of €15.5m, a customer list of €4.5m to be amortized over five years (worth €2.7m at 30/6/19), and goodwill of €52.1m split between the Private Banking and MidCap CGUs (for €29.4m and €22.7m respectively).

Information on impairment testing

As stated in the Accounting Policies section, IAS 36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value.

If it is not realistically possible to establish the recoverable value of the individual asset directly, the standard allows the calculation to be made based on the recoverable value of the cash-generating unit, or CGU, to which the asset belongs. The CGU is defined as the smallest identifiable group of assets able to generate cash flows that do not present synergies with the other parts of the company, may be considered separately and sold individually.

In order to establish the recoverable value versus the book value at which the asset has been recognized in the accounts, reference is made to the higher between the fair value (net of any sales costs) and the net present value of an asset. The net present value in particular is calculated by discounting the future cash flows expected from an asset or cash-generating unit; the cash flow projections must reflect reasonable assumptions and must therefore be based on recent budget or estimates approved by the company's governing bodies. The cash flows must also be discounted at a rate which factors in the current cost of money and risks associated with the specific activity.

The Group has adopted a policy, the most recent update of which was submitted to the approval of the Board of Directors in June 2019, governing the impairment testing process which incorporates the guidance issued jointly by the *Organismo Italiano di Valutazione* (Impairment testing of goodwill in financial crises, published on 14 June 2012, *Principi Italiani di Valutazione* (PIV) published in 2015, Discussion Paper dated 22 January 2019), the ESMA recommendations contained in its document entitled "European Common Enforcement Priorities for 2013 Financial Statements", the joint Bank of Italy-Consob-IVASS guidelines (document no. 4 issued on 3 March 2010) and Consob communications (DIE/17131 of 3 March 2014 and 3907 of 19 January 2015).

The recoverable value for goodwill has been estimated using the excess capital version of the dividend discount model methodology, which is commonly employed by financial institutions for this purpose and applied to capital-intensive CGUs, and the discounted cash flow methodology for the capital-light CGUs.

The cash flows have been projected over a time horizon of three-four years based on the Group's strategic plans and the annual budgets formulated by the management of the individual CGU.

To estimate the cost of equity, which is determined via the Capital Asset Model (CAPM) as required under IAS 36, certain parameters common to all CGUs have been used, namely:

- The risk-free rate, i.e. the return on investments which are risk-free or entail minimum risk over the near term and not exceeding one year, identified as the return on sovereign debt of the countries in which the asset being valued is headquartered;
- The market risk premium, i.e. the reward which investors require in order to increase the risk on their investments. This is obtained from a variety of sources, including research carried out by companies and leading

academics, with the contribution of various university professors in order to estimate the long-term payout ratio and the spread of returns on equities and the spot levels of government securities;

– The growth rate (g), to calculate the terminal value, using the so-called "perpetuity" methodology, established taking into account the inflation rate expected over the long term in the country where the specific CGU is based; in some cases, however, other factors are also considered, such as the real growth scenario in the sector where the CGU operates.

In calculating the cost of equity (Ke), account must also be taken of risk specific to the CGU, if any, through an additional risk (alpha coefficient/factor) to incorporate the risk perceived by the market but not fully reflected by the CAPM indicators.

Each CGU is also assigned a systemic risk indicator (Beta) considered over a two-year time horizon based on market peers.

Table 5: Cost of equity parameters per CGU

CGU	**30/6/19**					
	Risk-free rate	**Equity risk premium**	**Beta 2y**	**Factor**	**Cost of equity**	**Expected growth rate**
	Rf	***Erp***	***β***	***α***	***Ke***	***g***
Consumer credit	2.82%	6.82	0.83	n.a.	8.50%	1.3
Credit cards	2.82%	6.82	0.83	n.a.	8.50%	1.3
Salary-backed finance	2.82%	6.82	0.83	n.a.	8.50%	1.3
Fiduciary services	2.82%	6.82	1.07	n.a.	10.09%	1.3
Private Banking	2.82%	6.82	1.07	n.a.	10.09%	1.3
Mid corporate	2.82%	6.82	1.07	n.a.	10.09%	1.3
Servizi emittenti	2.82%	6.82	0.90	n.a.	8.96%	2.0
Cairn Capital / UK	1.10%	6.20	1.05	1.80	9.56%	2.0
RAM AI / Suisse	1.26%	6.90	1.05	1.80	10.14%	2.0

CGU	30/6/18					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	*Erp*	*β*	*α*	*Ke*	*g*
Consumer credit	2.05%	6.4	0.79	n.a.	7.09%	1.5
Credit cards	2.05%	6.4	0.79	n.a.	7.09%	1.5
Salary-backed finance	2.05%	6.4	0.79	n.a.	7.09%	1.5
Fiduciary services	2.05%	6.4	1.06	n.a.	8.81%	1.5
Private Banking	2.05%	6.4	1.18	n.a.	9.59%	1.5
Mid corporate	2.05%	6.4	1.18	n.a.	9.59%	1.5
Services to issuers (former Corporate services)	2.05%	6.4	1.06	n.a.	8.81%	1.5
Cairn Capital / UK	1.37%	5.50	1.09	n.a.	7.34%	2.0

Compared to last year there was a widespread increase in the cost of equity used, in particular for the Italian CGUs which reflect an increase in the risk-free rate (from 2.05% to 2.82%) and the risk premium (from 6.40% to 6.82%), while the two alternative asset management CGUs Cairn and RAM reflect the risk inherent in their sector plus the market scenario uncertainty through the incorporation of an adjustment factor.

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

* * *

The value of the Mediobanca Private Banking brand has been tested to confirm there are no indicators of impairment, using the royalty relief method which is based on discounting the royalty flows allocated to the Private Banking brand at a discount rate reflecting the risk of the flows themselves and corresponding to a cost of equity estimated at 10.09%. The testing has not shown the need for any adjustments.

As for the RAM AI brand, no changes have been observed to the estimates used when the PPA process was completed, thus the initial recognition value has been confirmed.

SECTION 11

Asset heading 110 and Liability heading 60: Tax assets and liabilities

11.1 Advance tax assets: composition

	Total 30/6/19	**Total 30/6/18**
- Against profit and loss	612,627	614,153
- Against net equity	46,856	20,560
Total	659,483	634,713

11.2 Deferred tax liabilities: composition

	Total 30/6/19	**Total 30/6/18**
- Against profit and loss	292,302	284,242
- Against net equity	26,870	55,346
Total	319,172	339,588

Tax assets and liabilities reflect the effects of IFRS 9 first-time adoption; for further details, see Part A of the Notes to the Accounts and/or the "Report on transition to IFRS 9" published on the Group's website at www.mediobanca.com.

11.3 Changes in advance tax during the period (against profit and loss)

	Total 30/6/19	Total 30/6/18
1. Opening balance	614,153	700,672
2. Increases	47,119	51,140
2.1 Deferred tax assets for the year	47,111	50,518
a) relating to previous years	32	39,447
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	47,079	11,071
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	9	622
3. Decreases	48,646	137,659
3.1 Deferred tax assets derecognized in the year	47,915	95,353
a) reversals of temporary differences	47,515	92,789
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	400	2,564
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	731	42,306
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	731	42,306
4. Closing balance	612,627	614,153

*11.4 Changes in advance tax during the period (pursuant to Italian Law 214/11) **

	Total 30/6/19	Total 30/6/18
1. Opening balance	548,385	609,074
2. Increases	—	71
3. Decreases	—	60,760
3.1 Reversals of temporary differences	—	57,536
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	3,224
4. Closing balance	548,385	548,385

* Italian decree law 59/16 on 29 April 2016 on deferred tax receivable pursuant to Italian decree law 214/11, as amended by Italian decree law 237/16, provides that in order to be able to retain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be specifically exercised, which involves payment of an annual instalment equal to 1.5% of the difference between the increase in advance tax assets at the reporting date since 30 June 2008 and the tax paid during the same period each year until 2029. Mediobanca has exercised this option in order to retain the possibility of converting DTAs for all companies adhering to the tax consolidation. No payment shall be due in this respect, however, given that the payments made to the tax consolidation exceed the increase in DTAs recorded since 30 June 2008.

As a result of the provisions contained in the Italian 2019 budget law, the writeoff to current taxes has been postponed, hence no changes have been recorded.

11.5 Changes in deferred tax during the period (against profit and loss)

	Total 30/6/19	Total 30/6/18
1. Opening balance	284,242	290,368
2. Increases	105,501	8,217
2.1 Deferred tax liabilities of the year	1,095	4,392
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	1,095	4,392
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	104,406	3,825
3. Decreases	97,442	14,343
3.1 Deferred tax liabilities derecognized in the year	95,774	12,849
a) reversals of temporary differences	93,789	9,910
b) due to changes in accounting policies	—	—
c) others	1,985	2,939
3.2 Reductions in tax rates	32	—
3.3 Other decreases	1,636	1,494
4. Closing balance	292,302	284,242

11.6 Changes in advance tax during the period (against net equity)

	Total 30/6/19	Total 30/6/18
1. Opening balance [1]	69,542	14,687
2. Increases	37,358	16,281
2.1 Deferred tax liabilities of the year	37,269	16,175
a) relating to previous years	—	—
b) due to changes in accounting policies	942	—
c) others	36,327	16,175
2.2 New taxes or increases in tax rates	—	1
2.3 Other increases	89	105
3. Decreases	60,044	10,408
3.1 Deferred tax liabilities derecognized in the year	52,923	10,174
a) reversals of temporary differences	39,056	9,344
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	13,867	830
3.2 Reductions in tax rates	39	—
3.3 Other decreases	7,082	234
4. Closing balance	46,856	20,560

[1] Initial balance as at 31/12/18 includes the effects of FTA of the new financial reporting standards.

The change is mainly due to taxes being restated as a result of IFRS 9 first-time adoption.

11.7 Changes in deferred tax during the period (against net equity)

	Total 30/6/19	Total 30/6/18
1. Opening balance [1]	59,782	79,878
2. Increases	95,855	254,221
2.1 Deferred tax liabilities of the year	95,836	254,220
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	95,836	254,220
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	19	1
3. Decreases	128,767	278,753
3.1 Deferred tax liabilities derecognized in the year	128,767	278,753
a) reversals of temporary differences	128,577	277,861
b) due to changes in accounting policies	—	—
c) others	190	892
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Closing balance	26,870	55,346

[1] Initial balance as at 31/12/18 includes the effects of FTA of the new financial reporting standards.

The change is mainly due to taxes being restated as a result of IFRS 9 first-time adoption.

SECTION 12

Assets heading 120 and Liability heading 70: Non-current assets and disposal groups classified as held for sale

12.1 Non-current assets and disposal groups classified as held for sale: breakdown by asset type

	30/6/19
A. Assets held for sale	
A.1 Financial assets	22,168
A.2 Equity investments	—
A.3 Tangible assets	—
of which: obtained via the obtainment of the collateral	—
A.4 Intangible assets	—
A.5 Other non-current assets	—
Total (A)	22,168
of which: valued at cost	—
of which: valued at fair value, level 1	—
of which: valued at fair value, level 2	—
of which: valued at fair value, level 3	22,168

At end-December 2018, CheBanca! reached an agreement to dispose of its entire legacy of non-performing loans generated by the French branch office (this line of operations was discontinued in December 2009); as at end-June 2019, the sale of the remainder of the former Micos Banca bad debts was at an advanced stage, involving a net asset value of €22.2m to be transferred after the balance-sheet date.

The portfolio sold does not contain any items which would constitute "Discontinued operations liabilities" or "Liabilities in respect of discontinued operations".

SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	30/6/19	30/6/18
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	26,024	26,765
3. Trade receivables or invoices to be issued	172,536	175,290
4. Amounts due from tax revenue authorities (not recorded under Heading 130)	179,658	213,004
5. Other items	330,032	312,575
- bills for collection	158,064	138,305
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	22,634	20,845
- advance payments on deposit commissions	2,859	3,178
- other items in transit	128,099	119,170
- amounts due from staff	390	348
- sundry other items [1]	16,244	28,880
- improvements on third parties' assets	1,626	1,849
- group VAT	116	—
Total	708,945	728,329

[1] Includes accrued income.

Liabilities

SECTION 1

Heading 10: Financial liabilities at amortized cost

1.1 Financial liabilities at amortized cost: composition of due to banks

Type of transaction/Values	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	4,367,257	X	X	X	4,384,592	X	X	X
2. Due to banks	9,503,601	X	X	X	7,878,867	X	X	X
2.1 Current accounts and on demand deposits	637,250	X	X	X	495,301	X	X	X
2.2 Deposits to maturity	52,759	X	X	X	—	X	X	X
2.3 Loans	8,307,212	X	X	X	7,242,932	X	X	X
2.3.1 Reverse repos	4,482,590	X	X	X	3,821,874	X	X	X
2.3.2 Other	3,824,622	X	X	X	3,421,058	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Other debt	506,380	X	X	X	140,634	X	X	X
Total	13,870,858	—	13,870,858	—	12,263,459	—	12,263,459	—

1.2 Financial liabilities at amortized cost: composition of due to customers

Type of transaction/Values	30/6/19				30/6/18			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	17,379,865	X	X	X	14,573,523	X	X	X
2. Deposits to maturity	5,813,091	X	X	X	4,966,008	X	X	X
3. Loans	676,049	X	X	X	1,646,122	X	X	X
3.1 Reverse repos	471,387	X	X	X	806,937	X	X	X
3.2 Other	204,662	X	X	X	839,185	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Other debt	118,877	X	X	X	134,390	X	X	X
Total	23,987,882	—	23,987,882	—	21,320,043	—	21,317,138	—

1.3 Financial liabilities at amortized cost: composition of debt securities in issue

Type of securities/ Values	30/6/19				30/6/18			
	Book value	Fair value*			Book value	Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. bonds	18,724,942	1,109,322	17,972,952	—	19,187,164	704,927	18,746,567	—
1.1 structured	4,058,647	—	4,238,889	—	5,089,072	—	5,212,649	—
1.2 other	14,666,295	1,109,322	13,734,063	—	14,098,092	704,927	13,533,918	—
2. other securities	1,353,254	—	1,305,017	48,237	1,421,354	—	1,371,635	49,719
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,353,254	—	1,305,017	48,237	1,421,354	—	1,371,635	49,719
Total	20,078,196	1,109,322	19,277,969	48,237	20,608,518	704,927	20,118,202	49,719

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2019 would show a gain of €295.5m (€260.3m).

Debt securities in issue declined from €20,608,518,000 to €20,078,196,000, on new issuance of €3.1bn, redemptions and buybacks of €3.8bn (generating gains of €10.2m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €173.2m.

1.4 Breakdown of subordinated debt securities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,452,216,000:

Issue	30/6/19		
	ISIN code	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,475
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	651,652
MB OPERA 3.75 2026	IT0005188351	299,820	307,309
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	394,424
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,897
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	541,459
Total subordinated securities		2,351,944	2,452,216

SECTION 2

Heading 20: Trading financial liabilities

2.1 Trading financial liabilities: composition

Operation type/Values	30/6/19				
	Notional value	Fair value			Fair value *
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X
3.2.2 Other	—	—	—	—	X
Total (A)	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments					
1. Financial derivatives	—	650,530	1,415,615	249,777	—
1.1 Trading	X	650,530	1,357,118	247,959 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Other	X	—	58,497	1,818 [2]	X
2. Credits derivatives	—	—	1,414,336	—	—
2.1 Trading	X	—	1,414,336	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Other	X	—	—	—	X
Total (B)	X	650,530	2,829,951	249,777	X
Total (A+B)	3,852,063	4,948,023	2,829,951	249,777	4,297,493

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

[1] Including €235,984,000 for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value of options (€0.5m as at 30/6/19) covering others attached to bonds issued, matching the amount booked as financial assets held for trading.

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

4.1 Trading liabilities: composition

Type of transactions/Values	30/6/18				Fair value *
	Nominal value	Fair value			
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210
2. Deposits from customers	213,819	246,452	—	—	246,452
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 structured	—	—	—	—	X
3.1.2 other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 structured	—	—	—	—	X
3.2.2 other bonds	—	—	—	—	X
Total A	2,295,648	2,645,662	—	—	2,645,662
B. Derivative instruments					
1. Financial derivatives	—	561,257	1,936,667	87,131	X
1.1 Trading	X	561,257	1,849,508	83,713 [1]	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Others	X	—	87,159	3,418 [2]	X
2. Credit derivatives	—	—	1,231,687	—	X
2.1 Trading	X	—	1,231,687	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Others	X	—	—	—	X
Total B	X	561,257	3,168,354	87,131	X
Total (A+B)	X	3,206,919	3,168,354	87,131	X

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

[1] Respectively €72,603,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€1.9m at 30/6/18) of options covering options matched with bonds issued, against the same amount recorded among assets held for trading.

SECTION 3

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities designated at fair value: composition

Operation type/Values	Total				
	30/6/19				
	Nominal value	Fair value			Fair value
		Level 1	Level 2	Level 3	
1. Due to banks	—	—	—	—	—
1.1 Structured	—	—	—	—	X
1.2 Others	—	—	—	—	X
of which:					
- commitments to disburse funds	—	X	X	X	X
- financial guarantees given	—	X	X	X	X
2. Due to customers	—	—	—	—	—
2.1 Structured	—	—	—	—	X
2.2 Others	—	—	—	—	X
of which:					
- commitments to disburse funds	—	X	X	X	X
- financial guarantees given	—	X	X	X	X
3. Debt securities	50,000	—	55,859	—	55,859
3.1 Structured	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X
Total	50,000	—	55,859	—	55,859

The above financial liabilities recognized at fair value are matched by equivalent financial assets also recognized at fair value.

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by hedge type and level

	Notional value	Fair value 30/6/19			Notional value	Fair value 30/6/18		
	30/6/19	Level 1	Level 2	Level 3	30/6/18	Level 1	Level 2	Level 3
A. Financial derivatives	17,381,786	—	414,241	—	9,135,810	—	233,086	—
1) Fair value	12,536,786	—	349,007	—	9,095,810	—	227,445	—
2) Cash flow	4,845,000	—	65,234	—	40,000	—	5,641	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	17,381,786	—	414,241	—	9,135,810	—	233,086	—

4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/ Type of hedge	Fair value							Cash flow		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken on comprehensive income	63,980	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	267,927	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	331,907	—	—	—	—	—	—	—	—	—
1. Financial liabilities	17,100	X	—	—	—	—	X	65,234	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	17,100	—	—	—	—	—	—	65,234	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see asset section 11.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/19	**30/6/18**
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	15,404
3. Working capital payables and invoices pending receipt	327,037	308,165
4. Amounts due to revenue authorities [1]	76,186	67,468
5. Amounts due to staff	227,706	194,054
6. Other items:	318,029	175,284
- bills for collection	26,719	25,895
- coupons and dividends pending collection	2,564	2,326
- available sums payable to third parties	44,959	41,927
- premiums, grants and other items in respect of lending transactions	29,951	24,493
- credit notes to be issued	—	—
- other [2]	213,836	80,643
7. Adjustments upon consolidation	—	—
Total	948,958	760,375

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as “Other liabilities”, are now stated as “Provisions”.

[2] Includes the liability in respect of the potential outlay to acquire the other 49% of Cairn Capital and 20.3% of RAM AI under the terms of the put-and-call agreements entered into.

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	30/6/19	30/6/18
A. Initial amount	27,510	29,779
B. Increases	9,093	10,038
B.1 Provision of the year	6,394	8,622
B.2 Other increases	2,699	1,416
C. Reductions	8,795	12,307
C.1 Severance payments	2,742	4,914
C.2 Other decreases [1]	6,053	7,393
D. Closing balance	27,808	27,510
Total	27,808	27,510

[1] Includes €3,904,000 in transfers to external, defined contribution pension schemes (30/6/18: €4,287,000).

The staff severance indemnity provision is for those of the Group companies headquartered in Italy. For a detailed description of the accounting standards used, please see Part A – Accounting Policies.

9.2 Other information

The staff severance indemnity provision is a defined benefit scheme, and the actuarial model used to account for it relies on a series of assumptions, both demographic and economic in nature.

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2019 has been used for similar companies to those being valued (equal to 0.77%), while the inflation rate is 1.50%.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	30/6/19	30/6/18
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given[1]	10,536	—
2. Funds on other commitments to disburse funds and guarantees given	—	—
3. Provision to retirement payments and similar [2]	1,840	—
4. Other provisions	150,139	185,482
4.1 Legal and fiscal controversies	—	—
4.2 Staff expenses	3,889	12,421
4.3 Others	146,250	173,061
Total	162,515	185,482

[1] With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as "Other liabilities", are now stated as "Provisions".

[2] These regard the Swiss company RAM AI, in line with Swiss regulations.

IAS 37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

As at 30 June 2019, the heading "Other provisions" totalled €162.5m, and includes €10.5m in commitments to disburse funds and financial guarantees issued (which until last year were accounted for as other liabilities), €5.7m in staff-related expenses and post-retirement provisions (following withdrawals of approx. €8.7m), plus €146.3m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca as to €100.8m (€95,8m), CheBanca! as to €33m (€59m), and SelmaBipiemme as to €10.3m (€9.4m).

The most significant litigation still pending against the Mediobanca Group consists of the two requests for damages made respectively by:

- Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with thirteen other banks. The liability with which the banks are charged is non-contractual, and consists of participation in the alleged damages caused by execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, and the next hearing has been set for 29 October 2019;
- Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-bis of the Italian bankruptcy law which included unduly favourable guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. Judgement is currently pending at the court of Milan; the next hearing – for the taking up of any means of test – has been set for 19 November 2019.

With reference to the disputes outstanding with the Italian revenue authorities, during the period under review Mediobanca S.p.A. received notification of the alleged failure to apply the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion. In particular, the notice of assessment regards the alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest). The same charge was made in a report of findings for FY 2014-15 (2014 earnings),[1] for which no notice of assessment has yet been issued.

The company is convinced there has been no wrongdoing, and has challenged the rulings and is waiting to hear when the appeal session will take place. Furthermore, since 2016 both Group companies have paid income tax in the Principality of Monaco, meaning they would be excluded from application of the CFC regulations.

[1] The allegation involved the failure to apply withholding tax to interest expense payable in connection with a secured financing transaction.

A total of eighteen disputes were outstanding as at 30 June 2019. In addition to the cases described above, the others were as follows:

– Eight claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €12m and currently pending with the Court of Cassation; for seven of these claims, approval is still pending from the Italian revenue authority for the voluntary application submitted by the company under Article 6 of Italian Decree Law 119/18 in respect of the remaining amount outstanding, after the disputed amount of €191,000 had been paid; during the twelve months, the Court of Cassation declared in favour of the company in one of the proceedings;
– Two cases in connection with the alleged failure of CheBanca! to pay registration tax on the deed of purchase for its acquisition of Barclays' Italian operations in 2016: in the former case (involving higher tax worth a notified amount of €3.9m) the company has been victorious at both the first and second stages; and in the second case (involving higher tax worth a notified amount of €7.2m), the date for the appeal hearing is still pending, after the court ruled in the company's favour at the first stage. For both cases the amounts paid in taxation and provisional collection in a total amount of €9m were refunded during the twelve months under review;
– One claim regarding the failure by the former Banca Esperia to report a money transfer outside Italy as part of the tax monitoring communications, for which fines of €5.9m were handed down. The company was found guilty at both ruling stages, and paid the disputed amount accordingly; however, an appeal is still pending at the Court of Cassation;
– Seven claims in respect of direct and indirect taxes, for minor amounts and at different stages of the legal process, for a total notified amount of €1.1m.

Mediobanca SGR has also been charged, in its capacity as manager of the *Marsupio* real estate fund, for the alleged failure to charge withholding tax on three deals involving higher tax worth a notified amount of €746,000; to date the first-degree ruling has gone in favour of the company in two cases, and against it in the third, and the date for the second-degree hearing has still to be set.

On 26 June 2019, Mediobanca received a tax collection notice following an automatic check carried out on Banca Esperia's *Unico* tax return. The Bank has taken steps to defend itself and will appeal against the notice before the tax commission.

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca and the other Group companies (for which no other significant litigation is pending).

10.2 Provisions: movements during the period *

	Funds on other commitments to disburse funds and guarantees given	Provision to retirement payments and similar	Other provisions	Total
A. Opening balance[1]	—	12,421	172,880	185,301
B. Increases	—	200	4,922	5,122
B.1 Provision for the year	—	200	4,682	4,882
B.2 Changes due to the passage of time	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—
B.4 Other increases:	—	—	240	240
- of which business aggregation operations	—	—	—	—
C. Decreases	—	8,732	31,552	40,284
C.1 Use during the year	—	8,732	31,552	40,284
C.2 Difference due to discount rate changes	—	—	—	—
C.3 Other decreases	—	—	—	—
- of which business aggregation operations	—	—	—	—
D. Closing balance	—	3,889	146,250	150,139

* The balance as at 30/6/19 includes the effects of the new reporting standards coming into force.

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Funds for credit risk related to commitments to disburse funds and financial guarantees given			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds	6,850	591	2,354	9,795
Financial guarantees given	358	383	—	741
Total	7,208	974	2,354	10,536

10.5 Defined benefit company retirement pension schemes

This refers to the defined benefit company retirement pension scheme operated by Caisse Bâloise on behalf of RAM AI staff as required by Swiss law. The provision is subject to actuarial quantification by an independent

[2] This method involves future outflows being projected on the basis of historical statistical analysis and the demographic curve, and then being discounted based on market interest rates.

actuary using the Projected Unit Credit Method.[2] The current value of the liability as at the reporting date has also been adjusted to reflect the fair value of any assets used in connection with the scheme, resulting in a liability of €1.8m (CHF 2m) has been booked to the accounts.

To determine the liability's value, certain financial and demographic assumptions have been used: the former include the discount rate being equal to 0.40%, and the increase in salaries 1%; for the latter, in some cases the company's own experience has been used, e.g. for data on advance withdrawals from the provision, frequency of early retirement, nuclear family composition, etc., while in other cases account has been taken of the relevant best practice or legislative provisions: for instance, for the mortality, turnover and invalidity rates the BVG 2015 tables have been used, for life expectancy of the populations the CMI 2016 tables – 1.25%, and for retirement age the legal provisions.

The following table shows the breakdown of the net defined benefit obligation:

IAS19 Net obligation	**30/6/19**
	CHF/1000
Present value of defined benefit obligation	-13,578
Present value of assets servicing the fund	11,536
Surplus/(deficit)	-2,042
IFRIC14 adjustment	—
Net accounting (liability)/asset	**-2,042**

A sensitivity analysis is performed on the DBO to measure its sensitivity to changes in the main assumptions adopted.

SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

	Direct business	Indirect business	30/6/19	30/6/18
A. Non-life insurance	—	170,838	170,838	175,853
A1. Premium reserves	—	162,203	162,203	165,752
A2. Accident reserves	—	8,635	8,635	10,101
A3. Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B1. Mathematical reserves	—	—	—	—
B2. Reserves for sums to pay	—	—	—	—
B3. Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C1. Reserves related to contract which performance are connected to investment funds and market index	—	—	—	—
C2. Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	170,838	170,838	175,853

11.2 Technical reserves: movements during the period

	30/6/19	30/6/18
A. Non-life business		
Balance at start of period	175,853	165,974
Combinations involving group companies	—	—
Changes to reserves (+/-)	(5,015)	9,879
Other additions	—	—
Balance at end of period	170,838	175,853
B. Life business and other reserves		
Balance at start of period	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	170,838	175,853

SECTION 13

Headings 120, 130, 140, 150, 160, 170 and 180: Net equity

13.1 "Capital" and "treasury shares": composition

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

On 8 November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the "CRR") on 23 October 2018. The buyback involves a maximum of 3% of the share capital (or some 26.6 million shares), at 30 June 2019, a total of 15.3 million shares have been purchased, for an outlay of €162.5m. Since the year-end a further 99,000 shares have been purchased, for an outlay of €0.9m.

13.2 Share capital: changes in no. of parent company shares in issue during the period

Item/Type	Ordinary
A. Shares in issue at start of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—
A.1 Treasury shares (-)	(8,714,833)
A.2 Shares in issue: balance at start of period	877,835,607
B. Additions	14,122,756
B.1 New shares issuance as a result of:	665,737
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	665,737
- to staff members	665,737
- to Board members	—
- others	—
B.2 Treasury shares' disposals	13,457,019
B.3 Other additions	—
C. Reductions	(20,088,481)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(20,088,481)
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	871,869,882
D.1 Add: treasury shares	(15,346,295)
D.2 Shares in issue at end of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—

13.4 Profit reserves: other information

Item	30/6/19	30/6/18
Legal reserve	88,704	88,124
Statutory reserve	1,157,437	1,284,471
Treasury shares	141,989	109,338
Others	4,503,343	4,008,517
Total	5,891,473	5,490,450

SECTION 14

Heading 190: Minority interests

14.1 Heading 210: Minority interests: composition

Company name	30/6/19	30/6/18
1. SelmaBipiemme S.p.A.	83,792	86,603
2. RAM Active Investments S.A. [1]	5,856	1,290
3. Other minors	10	7
Total	89,658	87,900

[1] The change chiefly regards the effects of the PPA process.

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			30/6/19
	First stage	Second stage	Third stage	
1. Commitment to disburse funds	12,564,238	27,940	16,240	12,608,418
a) Central Banks	—	—	—	—
b) Public Administration	4,069,828	—	—	4,069,828
c) Banks	82,745	—	—	82,745
d) Other financial companies	1,043,680	—	—	1,043,680
e) Non-financial companies	5,845,296	20,512	15,345	5,881,153
f) Families	1,522,689	7,428	895	1,531,012
2. Financial guarantees given	270,313	11,904	47	282,264
a) Central Banks	—	—	—	—
b) Public Administration	—	—	—	—
c) Banks	26,407	—	—	26,407
d) Other financial companies	166,763	—	—	166,763
e) Non-financial companies	58,683	11,904	47	70,634
f) Families	18,460	—	—	18,460

2. Other commitments and guarantees given

	Nominal value
	Total 30/6/19
1. Other guarantees issued	123,463
of which: impaired credit exposures	—
a) Central Banks	—
b) Public Administration	—
c) Banks	5
d) Other financial companies	19,494
e) Non-financial companies	28,188
f) Families	75,776
2. Other commitment	129,299
of which: impaired credit exposures	—
a) Central Banks	—
b) Public Administration	—
c) Banks	111,319
d) Other financial companies	—
e) Non-financial companies	17,980
f) Families	—

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1. Commitments and financial guarantees given

Operations	**30/6/18**
1) Financial guarantees given to	295,211
a) Banks	17,256
b) Customers	277,955
2) Commercial guarantees given to	68,942
a) Banks	5
b) Customers	68,937
3) Irrevocable commitments to disburse funds	10,619,616
a) Banks	398,799
i) usage certain	398,709
ii) usage uncertain	90
b) Customers	10,220,817
i) usage certain	9,086,995
ii) usage uncertain	1,133,822
4) Commitments underlying credit derivatives protection sales	19,893,957
5) Assets formed as collateral for third-party obligations	—
6) Other commitments	4,081,688
Total	34,959,414

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amounts 30/6/19
1. Financial assets valued at FV with impact taken to profit and loss	4,816,803
2. Financial assets valued at FV with impact taken to other comprehensive income	1,817,460
3. Financial assets valued at amortized cost	15,371,083
4. Tangible assets	—
of which: tangible assets that constitute inventories	—

The table below show the data stated in accordance with IAS, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

2. Other commitments and guarantees given

Portfolio	30/6/18
1. Financial instruments held for trading	3,089,233
2. Financial instruments designated at fair value	—
3. Financial instruments available for sale	1,333,617
4. Financial instruments held to maturity	823,976
5. Loans and receivables with banks	335,086
6. Loans and receivables with customers	8,992,820
7. Property, plant and equipments	—

6. Assets managed and traded on behalf of customers

Type of service	30/6/19	30/6/18
1. Orders execution on behalf of customers		
a) Purchases	14,820,923	16,781,417
1. settled	14,711,791	16,633,525
2. unsettled	109,132	147,892
b) Sales	14,199,338	16,400,545
1. settled	14,090,206	16,252,653
2. unsettled	109,132	147,892
2. Portfolio management		
a) Individual	12,358,038	13,010,988
b) Collective	16,117,972	16,956,851
3. Custody and administration of securities		
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	11,191,064	8,894,582
1. securities issued by companies included in the area of consolidation	160,049	194,759
2. other securities	11,031,015	8,699,823
b) Third-party securities held in deposits (excluding portfolio management): other	16,182,829	15,604,059
1. securities issued by companies included in the area of consolidation	164,398	151,740
2. other securities	16,018,431	15,452,319
c) Third-party securities deposited to third	23,131,120	18,026,801
d) Own securities deposited to third	9,922,561	8,570,108
4. Other operations	1,702,426	1,934,851

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/19	30/6/18
1. Derivatives	2,521,036	279,269	2,241,767	1,612,815	25,490	603,462	418,699
2. Repos	7,033,030	—	7,033,030	7,033,030	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/19	9,554,066	279,269	9,274,797	8,645,845	25,490	603,462	X
Total 30/6/18	8,483,882	—	8,483,882	7,709,586	355,597	X	418,699

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

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets offset in BS (b)	Net amount of the financial liabilities reportes in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash collateral placed (e)	30/6/19	30/6/18
1. Derivatives	2,222,114	—	2,222,114	1,612,815	390,526	218,773	217,203
2. Repos	4,953,977	—	4,953,977	4,953,977	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/19	7,176,091	—	7,176,091	6,566,792	390,526	218,773	X
Total 30/6/18	7,706,789	49,050	7,657,739	6,989,650	450,886	X	217,203

9. Securities lending operations

The tables below illustrate the Group's operations in securities lending (and borrowing), broken down by type of instrument (sovereign debt, bank bonds and others), market counterparty (banks, financial intermediaries and clients) and form (loan secured by cash, other instruments, or unsecured).

Securities lending transactions for which collateral is put up in the form of cash fully available to the borrower are represented in the balance sheet as amounts due to or from banks or customers under the heading "Repos". Securities lending transactions for which collateral is put up in the form of other instruments, or which are unsecured, are represented as "Off-balance-sheet exposures".

Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2019, in 52% the counterparty was three major banking groups, and in another 25% the deals involved other Group companies.

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	613,777	314,712	401,007
a) Banks	612,808	309,775	351,902
b) Financial institutions	969	4,937	41,993
c) Customers	—	—	7,112
2. Securities lended collateralized by cash - Due to:	(422,226)	(102,199)	(906,691)
a) Banks	(422,226)	(36,644)	(818,099)
b) Financial institutions	—	(65,555)	(88,592)
c) Customers	—	—	—
Total securities lending (book value)	191,551	212,513	(505,684)

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by other securities or unsecured:	2,248,654	588,000	395,909
a) Banks	552,110	588,000	231,519
b) Financial institutions	1,599,298	—	164,209
c) Customers	97,246	—	181
2. Securities lended collateralized by other securities or unsecured:	(2,611,606)	(772,251)	(1,179,181)
a) Banks	(1,593,336)	(241,980)	(470,679)
b) Financial institutions	(1,018,270)	(530,271)	(708,502)
c) Customers	—	—	—
Total securities lending (fair value)	(362,952)	(184,251)	(783,272)

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	12 mths ended 30/6/19
1. Financial assets at fair value with impact taken to P&L:	30,528	2,641	—	33,169
1.1 Financial assets held for trading	28,516	429	—	28,945
1.2 Financial assets designated at fair value	1,416	—	—	1,416
1.3 Other financial assets mandatorily at fair value	596	2,212	—	2,808
2. Financial assets at fair value with impact taken to comprehensive income	63,472	—	X	63,472
3. Financial assets at amortized cost	56,918	1,699,403		1,756,321
3.1 Due from banks	17,118	15,980	X	33,098
3.2 Due from customers	39,800	1,683,423	X	1,723,223
4. Hedging derivatives	X	X	12,355	12,355
5. Other assets	X	X	1,902	1,902
6. Financial liabilities	X	X	X	18,771
Total	150,918	1,702,044	14,257	1,885,990
of which: income interests on impaired financial assets	—	*64,554*	—	*64,554*

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.1 Interest and similar income: breakdown

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18
1. Financial assets held for trading	13,442	1,840	—	15,282
2. Financial assets designated at fair value through profit or loss	—	—	—	—
3. Available for sale financial assets	64,338	—	—	64,338
4. Held to maturity investments	41,844	—	—	41,844
5. Loans and receivables with banks	—	27,873	1	27,874
6. Loans and receivables with customers	7,100	1,623,211	—	1,630,311
7. Hedging derivatives	X	X	97,999	97,999
8. Other assets	X	X	19,154	19,154
Total	126,724	1,652,924	117,153	1,896,801

1.2 Interest and similar income: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest income on foreign currency financial assets	124,380	170,929
Interest income on finance leasing operations	49,935	85,985
Total	174,315	256,914

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	12 mths ended 30/6/19
1. Financial liabilities at amortized cost	(110,493)	(363,369)		(473,862)
1.1 Due to central banks	(761)	X	X	(761)
1.2 Due to banks	(25,875)	X	X	(25,875)
1.3 Due to customers	(83,857)	X	X	(83,857)
1.4 Debt securities in issue	X	(363,369)	X	(363,369)
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,450)	—	(2,450)
4. Other liabilities and funds	X	X	(519)	(519)
5. Hedging derivatives	X	X	—	—
6. Financial assets	X	X	X	(4,961)
Total	(110,493)	(365,819)	(519)	(481,792)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

1.4 Interest expense and similar charges: breakdown

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/18
1. Deposits from central banks	(714)	X	—	(714)
2. Deposits from banks	(21,160)	X	—	(21,160)
3. Deposits from customers	(60,318)	X	—	(60,318)
4. Debt securities in issue	X	(444,459)	—	(444,459)
5. Financial liabilities held for trading	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—
7. Other liabilities and found	X	X	(4,109)	(4,109)
8. Hedging derivatives	X	X	—	—
Total	(82,192)	(444,459)	(4,109)	(530,760)

1.4 Interest expense and similar charges: other information

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
Interest expense on foreign currency financial liabilities	(105,528)	(71,992)
Interest expense on finance leasing operations	—	—
Total	(105,528)	(71,992)

1.5 Margins on hedging transactions

Items	Total 12 mths ended 30/6/19	Total 12 mths ended 30/6/18
A. Positive differentials related to hedging operations	175,774	1,533,193
B. Negative differentials related to hedging operations	(163,419)	(1,435,194)
C. Net balance (A-B)	12,355	97,999

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees given	2,359	2,076
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	345,530	353,706
1. securities trading	14,231	12,993
2. currency trading	—	—
3. portfolio management	124,266	100,565
3.1. individual	36,276	32,377
3.2. collective	87,990	68,188
4. custody and administration of securities	14,242	9,879
5. custodian bank	7,458	7,458
6. placement of securities	71,955	102,897
7. reception and transmission of orders	15,173	15,047
8. advisory services	11,793	8,976
8.1 related to investments	11,793	8,976
8.2 related to financial structure	—	—
9. distribution of third parties services	86,412	95,891
9.1 porfolio management	12,813	32,188
9.1.1 individual	12,035	31,887
9.1.2 collective	778	301
9.2 insurance products	70,005	59,761
9.3 other products	3,594	3,942
d) collection and payment services	11,559	21,238
e) securitization servicing	473	61
f) factoring services	6,382	5,786
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	4,752	5,042
j) other services	213,868	202,740
Total	584,923	590,649

This heading includes €42.8m from RAM AI (compared with €19.9m last year, when its results were consolidated for just four months), in connection with collective portfolio asset management activity, and €5.3m from the consolidation of Messier Maris et Associés, from 1 April 2019, in connection with advisory activity (other services).

2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
a) guarantees received	(34)	—
b) credit derivatives	—	—
c) management and brokerage services	(22,451)	(24,845)
1. trading in financial instruments	(7,740)	(8,544)
2. currency trading	—	—
3. portfolios management:	(10,882)	(9,839)
3.1 own portfolio	(100)	(345)
3.2 third parties portfolio	(10,782)	(9,494)
4. custody and administration securities	(3,448)	(3,577)
5. financial instruments placement	(381)	(2,885)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(13,892)	(13,027)
e) other services	(108,078)	(96,443)
Total	(144,455)	(134,315)

This heading includes €7.1m from RAM AI (compared with €4.4m, last year, when its results were consolidated for just four months), in connection with collective portfolio asset management activity.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/19	
	Dividends	Similar income
A. Financial assets held for trading	87,269	—
B. Other financial assets mandatorily measured at fair value	—	14,205
C. Financial assets measured at fair value with impact taken to other comprehensive income	4,329	—
D. Investments	—	—
Total	91,598	14,205

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

Items/Income	12 mths ended 30/6/18	
	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	61,455	729
b) Available for sale financial assets	3,029	19,110
c) Financial assets through profit or loss - other	—	—
d) Investments	—	X
Total	64,484	19,839

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit [(A+B) - (C+D)]
1. Financial assets held for trading	166,352	191,020	(274,272)	(225,171)	(142,071)
1.1 Debt securities	97,619	57,661	(112,528)	(41,085)	1,667
1.2 Equity	62,307	132,236	(155,261)	(181,767)	(142,485)
1.3 Units in investments funds	6,301	953	(6,415)	(2,319)	(1,480)
1.4 Loans	125	170	(49)	—	246
1.5 Others	—	—	(19)	—	(19)
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences [2]	X	X	X	X	(49,650)
4. Derivatives	2,932,035	1,767,393	(2,960,382)	(1,629,848)	179,573
4.1 Financial derivatives:	2,343,836	1,265,245	(2,378,418)	(1,139,137)	161,901
- on debt securities and interest rates [1]	1,802,287	640,465	(1,821,743)	(619,743)	1,266
- on equity securities and shares indexes	541,549	624,780	(556,675)	(519,394)	90,260
- on currencies and gold	X	X	X	X	70,375
- other	—	—	—	—	—
4.2 Credit derivatives	588,199	502,148	(581,964)	(490,711)	17,672
of which: natural hedges connected to fv option	X	X	X	X	—
Total	3,098,387	1,958,413	(3,234,654)	(1,855,019)	(12,148)

[1] Of which €13,829,000 in negative margins on interest rate derivatives (30/6/18: minus €9,448,000).
[2] This item contains valuations for banking book positions based at current exchange rates totalling €18,137,000.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Income from:		
A.1 Fair value hedging instruments	168,235	289,223
A.2 Hedged asset items (in fair value hedge relationship)	239,391	51,784
A.3 Hedged liability items (in fair value hedge relationship)	30,895	269,236
A.4 Cash-flows hedging derivatives	2	—
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	438,523	610,243
B. Losses on:		
B.1 Fair value hedging instruments	(57,495)	(479,797)
B.2 Hedged asset items (in fair value hedge relationship)	(48,721)	(63,163)
B.3 Hedged liability items (in fair value hedge relationship)	(326,881)	(64,425)
B.4 Cash-flows hedging derivatives	—	(1)
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(433,097)	(607,386)
C. Net profit from hedging activities (A-B)	5,426	2,857
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposals/repurchases: breakdown

Items/Income	12 mths ended 30/6/19		
	Gains	Losses	Net profit
A. Financial assets			
1. Financial assets at amortized cost	17,863	(15,498)	2,365
1.1 Loans and receivables with banks	—	(150)	(150)
1.2 Loans and receivables with customers	17,863	(15,348)	2,515
2. Financial assets at fair value with impact taken to comprehensive income	73,260	(6,461)	66,799
2.1 Debt securities	73,260	(6,461)	66,799
2.2 Loans	—	—	—
Total assets (A)	91,123	(21,959)	69,164
B. Financial liabilities at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	10,787	(592)	10,195
Total liabilities (B)	10,787	(592)	10,195

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income include exchange rate valuations of €3.7m and €14.4m respectively.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

6.1 Gain (loss) on disposal/repurchases: breakdown

Items/Income	12 mths ended 30/6/18		
	Gains	Losses	Net profit
Financial assets			
1. Loans and receivables with banks	5,502	(7,350)	(1,848)
2. Loans and receivables with customers	11,502	(19,017)	(7,515)
3. Financial assets available for sale	133,371	(10,305)	123,066
3.1 Debt securities	34,836	(10,189)	24,647
3.2 Equity instruments	96,205	—	96,205
3.3 Units in investment funds	2,330	(116)	2,214
3.4 Loans	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)
Total assets	150,837	(38,053)	112,784
Financial liabilities			
1. Deposits with banks	2,183	—	2,183
2. Deposits with customers	—	—	—
3. Debt securities in issue	—	(9,910)	(9,910)
Total liabilities	2,183	(9,910)	(7,727)

The losses on debt securities (AFS and held to maturity) involve exclusively valuations of bonds denominated in foreign currencies (€11.6m, €10.2m of which in the AFS segment).

SECTION 7

Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Operation/Income item	Gains (A)	Proceeds (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(1,534)	—	(1,534)
1.1 Debt securities	—	—	(1,534)	—	(1,534)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	1,506	—	—	—	1,506
2.1 Debt securities in issue	1,506	—	—	—	1,506
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences	X	X	X	X	—
Total	1,506	—	(1,534)	—	(28)

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	40,962	1,331	(23,890)	(497)	17,906
1.1 Debt securities	—	984	(72)	—	912
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	16,202	347	(16,229)	(497)	(177)
1.4 Loans	24,760	—	(7,589)	—	17,171
2. Financial assets: exchange rate differences	X	X	X	X	(1,479)
Total	40,962	1,331	(23,890)	(497)	16,427

SECTION 8

Heading 130: Net writeoffs (writebacks) for credit risk

8.1 Net writeoffs for credit risk related to financial assets valued at amortized cost: breakdown

Transaction/Income	Writedowns (1)			Writebacks (2)		
	First and second stage	Third stage		First and second stage	Third stage	12 mths ended 30/6/19
		Write-off	Others			
A. Loans and receivables with banks	(356)	—	—	92	—	(264)
- Loans	(47)	—	—	92	—	45
- Debt receivables	(309)	—	—	—	—	(309)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	(290,633)	(44,621)	(283,508)	198,186	211,329	(209,247)
- Loans	(290,623)	(44,621)	(283,508)	194,459	211,329	(212,964)
- Debt receivables	(11)	—	—	3,727	—	3,716
of which: financial assets purchased or originated credit impaired	—	*(36,892)*	—	—	*52,965*	*16,073*
Total	(290,990)	(44,621)	(283,508)	198,278	211,329	(209,512)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18
	Specific		Portfolio	Specific		Portfolio		
	Writeoffs	Other		A	B	A	B	
A. Loans and receivables with banks								
- Loans	—	—	(12)	—	—	—	771	759
- Debt receivables	—	—	—	—	—	—	—	—
B. Loans and receivables with customers								
Deteriorated purchased loans								
- Loans	(27,810)	—	X	—	41,808 [1]	X	X	13,998
- Debt securities	—	—	X	—	—	X	X	—
Other receivables								
- Loans	(23,657)	(281,000)	(226,697)	3,914	125,326	—	177,462	(224,652)
- Debt receivables	—	—	(2)	—	—	—	666	664
C. Total	(51,467)	(281,000)	(226,711)	3,914	167,134	—	178,899	(209,231)

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

Legend:

A = interest

B = other amounts recovered

8.2 Net writeoffs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/Income	Writedowns (1)			Writebacks (2)		Total
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3	12 mths ended 30/6/19
		Write-off	Others			
A. Debt securities	(779)	—	—	—	—	(779)
B. Loans	—	—	—	—	—	—
- to customers	—	—	—	—	—	—
- to banks	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	(779)	—	—	—	—	(779)

SECTION 9

Heading 140: Gains (losses) from contractual modifications without derecognition

9.1 Gains (losses) from contractual modifications: breakdown

This heading, which reflects a loss of €199,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS 9 and the Group's own accounting policies, do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

SECTION 10

Heading 160: Net premium

10.1 Net premiums: breakdown

Premium for insurance	Direct business	Indirect business	12 mths ended 30/6/19	12 mths ended 30/6/18
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premium written (+)	—	55,625	55,625	72,812
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	3,548	3,548	(14,945)
B.4 Change in provision for unearned premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Total	—	59,173	59,173	57,867
C. Total net premiums	—	59,173	59,173	57,867

SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	12 mths ended 30/6/19	12 mths ended 30/6/18
1. Net change in insurance provisions	—	—
2. Claims paid for the period [1]	(7,056)	(3,028)
3. Other income and expense from insurance	(5,659)	(5,961)
Total	(12,715)	(8,989)

[1] The item "Claims paid for the period" includes writebacks in an amount of €6.4m for the six months ended 31/12/18, against the valuation reserve for risks in respect of claims estimated but not yet reported.

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

Changes for claims	12 mths ended 30/6/19	12 mths ended 30/6/18
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers (-)	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers (-)	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(8,523)	(8,094)
C.1 Gross annual amount	(8,523)	(8,094)
C.2 Amount attributable to reinsurers (-)	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	1,467	5,066
E.1 Gross annual amount	1,467	5,066
E.2 Amount attributable to reinsurers (-)	—	—
Total non-life business claims	(7,056)	(3,028)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
1) Employees	(560,935)	(538,753)
a) wages and salaries	(408,011)	(390,024)
b) social security contributions	(89,579)	(86,670)
c) severance pay (only for Italian legal entities)	(3,656)	(1,901)
d) social security costs	—	—
e) allocation to employees severance pay provision	(11,718)	(11,368)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(15,488)	(15,517)
- defined contribution	(15,488)	(15,517)
- defined benefits	—	—
h) expenses resulting from share based payments	(12,022)	(10,980)
i) other employees' benefits	(20,461)	(22,293)
2) Other staff	(6,259)	(5,192)
3) Directors and Statutory Auditors	(9,296)	(8,047)
4) Early retirement costs	(4,651)	(5,832)
Total	(581,141)	(557,824)

The heading includes €15.8m from RAM AI (30/6/18: €6.4m, when its contribution was limited to just four months) and €3.2m deriving from the consolidation of Messier Maris et Associés, starting from 1 April 2019.

12.2 Average number of staff by category

	12 mths ended 30/6/19	12 mths ended 30/6/18
Employees:		
a) Senior executives	409	395
b) Executives	1,860	1,818
c) Other employees	2,417	2,482
Other staff	246	231
Total	4,932	4,925

The figures also include Messier Maris et Associés (37 staff).

12.5 Other administrative expenses: breakdown

Type of expense/Amounts	12 mths ended 30/6/19	12 mths ended 30/6/18
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(71,124)	(65,384)
- loan recovery activity	(66,467)	(62,695)
- marketing and communications	(42,268)	(47,683)
- property	(53,191)	(52,618)
- EDP	(125,900)	(107,616)
- info-provider	(40,985)	(37,627)
- bank charges, collection and payment fees	(21,645)	(19,747)
- operating expenses	(63,551)	(65,647)
- other staff expenses	(23,756)	(24,422)
- other costs [1]	(71,319)	(61,366)
- indirect and other taxes	(72,416)	(69,571)
Total other administrative expenses	(652,622)	(614,376)

[1] The item includes contributions to the various resolution funds: €53.5m for the year ended 30/6/19 and €46.3m for the year ended 30/6/18.

This heading includes €5.6m from RAM AI (compared with €1.8m last year, when its contribution was limited to just the four months) and €2.2m from Messier Maris et Associés, which has been consolidated since 1 April 2019.

SECTION 13

Heading 200: Net transfers to provisions

13.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	12 mths ended 30/6/19		
	Provisions	Reallocation surplus	Total
Loan committments	(5,863)	9,649	3,786
Financial guarantees given	(250)	171	(79)
Total	(6,113)	9,820	3,707

13.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/19		
	Provisions	Reallocation surplus	Total
1. Other provisions			
1.1 Legal expenses	(2,555)	90	(2,465)
1.2 Staff expenses	—	—	—
1.3 Others	(1,404)	139	(1,265)
Total	(3,959)	229	(3,730)

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depriciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A. Property, equipment and investment property				
A.1 Owned	(13,890)	—	—	(13,890)
- For operational use	(11,613)	—	—	(11,613)
- For investment	(2,277)	—	—	(2,277)
- Inventories	X	—	—	—
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(13,890)	—	—	(13,890)

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Amortization (a)	Impairment losses (b)	Writebacks (c)	Net risult (a + b - c)
A. Intangible assets				
A.1 Owned	(29,096)	(1,178)	—	(30,274)
- Software	(21,420)	(1,178)	—	(22,598)
- Other	(7,676)	—	—	(7,676)
A.2 Held by finance leases	—	—	—	—
Total	(29,096)	(1,178)	—	(30,274)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expense: breakdown

Income-based components/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Leasing activity	(10,735)	(11,490)
b) Sundry costs and expenses	(9,437)	(9,823)
Total	(20,172)	(21,313)

16.2 Other operating income: breakdown

Income-based components/Values	12 mths ended 30/6/19	12 mths ended 30/6/18
a) Amounts received from customers	72,909	79,674
b) Leasing activity	8,826	10,296
c) Other income	102,328	99,162
Total	184,063	189,132

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/Value	12 mths ended 30/6/19	12 mths ended 30/6/18
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	321,157	280,291
1. Revaluation	321,157	280,291
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	321,157	280,291
Total	321,157	280,291

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	**12 mths ended 30/6/19**	**12 mths ended 30/6/18**
A. Assets	(73)	—
- Gains on disposal	—	—
- Losses on disposal	(73)	—
B. Other assets	239	475
- Gains on disposal	266	487
- Losses on disposal	(27)	(12)
Net result	166	475

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activities: breakdown

Income components/Sectors	**12 mths ended 30/6/19**	**12 mths ended 30/6/18**
1. Current tax expense (-)	(257,566)	(150,497)
2. Changes of current tax expense of previous years (+/-)	3,436	2,782
3. Reduction in current tax expense for the period (+)	875	—
3.bis Reductions in current tax expense for the period due to tax credit related to Italian Law 214/2011 (+)	—	—
4. Changes of deferred tax assets (+/-)	(13,605)	(86,902)
5. Changes of deferred tax liabilities (+/-)	10,331	6,497
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(256,529)	(228,120)

21.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/19	
	Amounts %	**Absolute value %**
Total profit or loss before tax from current operations	100.00%	1,082,737
Theoretical tax rate	27.50%	297,753
Dividends (-)	-4.32%	(46,728)
Gains on disposals of equity investments (PEX) (-)	-0.06%	(608)
Gains on equity-accounted investments (-)	-7.32%	(79,221)
Changes in deferred tax for previous years (-)	0.02%	207
Other taxes (non-Italian companies) (+ /-)	-0.21%	(2,257)
Non-taxable income 10% IRAP (-)	-0.06%	(685)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.04%	(391)
Non-deductible interest expense 4% (+)	—	—
Benefit from tax consolidation (-)	—	—
Impairment *(+ /–)*	0.18%	1,928
Extraordinary items (IRES surtax)	-0.19%	(2,062)
Other differences (+ /-)	3.40%	36,826
TOTAL IRES	18.91%	204,762
IRAP	4.78%	51,767
TOTAL HEADING [1]	23.69%	256,529

[1] Compared with a tax rate of 20.82% last year.

SECTION 23

Heading 340: Net profit (loss) attributable to minorities

23.1 Breakdown of Heading 340, "Net profit (loss) for the year attributable to minorities"

Company name	**12 mths ended 30/6/19**	**12 mths ended 30/6/18**
1. SelmaBipiemme S.p.A.	2,130	3,237
2. RAM Active Investments S.A.	1,055	579
3. Others	(2)	(10)
Total	3,183	3,806

SECTION 25

Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/19	12 mths ended 30/6/18
Net profit	823,025	863,920
Avg. no. of shares in issue	871,819,196	877,685,049
Avg. no. of potentially diluted shares	5,081,612	5,738,709
Avg. no. of diluted shares	876,900,808	883,423,758
Earnings per share	0.94	0.98
Earnings per share, diluted	0.94	0.98

Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect
10.	**Net profit (loss)**	**X**	**X**	**826.208**
	Other income items not passing through P&L			
20.	Equity instruments designated at fair value with impact taken to comprehensive income:	11,555	(627)	10,928
	a) changes in fair value	4,267	(422)	3,845
	b) tranfers to other shareholders' equity items	7,288	(205)	7,083
30.	Financial liabilities designated at fair value with impact taken to profit and loss (own creditworthiness changes):	—	—	—
	a) changes in fair value	—	—	—
	b) tranfers to other shareholders' equity items	—	—	—
40.	**Hedge accounting of equity instruments measured at fair value with impact taken to comprehensive income:**	**—**	**—**	**—**
	a) fair value change (hedged instrument)	—	—	—
	b) fair value change (hedging instrument)	—	—	—
50.	**Property, plant and equipment**	**—**	**—**	**—**
60.	**Intangible assets**	**—**	**—**	**—**
70.	**Defined benefits plans**	**(1,623)**	**517**	**(1,106)**
80.	**Non-current assets classified as held for sale**	**—**	**—**	**—**
90.	**Valuation reserves from equity-accounted investments:**	**(21,745)**	**—**	**(21,745)**
100.	**Tax expenses (income) relating to items not reclassified to profit or loss**	**—**	**—**	**—**
	Other income items passing through P&L			
110.	**Hedges of non-Italian investments:**	**(5,417)**	**1,579**	**(3,838)**
	a) changes in fair value	(5,417)	1,579	(3,838)
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
120.	**Exchange differences:**	**3,706**	**—**	**3,706**
	a) changes in value	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	3,706	—	3,706
130.	**Cash flow hedges:**	**(42,704)**	**14,122**	**(28,582)**
	a) changes in value	(42,704)	14,122	(28,582)
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
	of which: net position	—	—	—
140.	**Hedging instruments (non-designated items):**	**—**	**—**	**—**
	a) changes in value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
150.	**Financial assets (different from equity instruments) at fair value with impact taken to comprehensive income:**	**(34,588)**	**11,409**	**(23,179)**
	a) changes in fair value	22,871	(7,592)	15,279
	b) reclassifications through profit or loss account	(57,459)	19,001	(38,458)
	- impairment losses	814	(269)	545
	- gains/losses on disposals	(58,273)	19,270	(39,003)
	c) other variations	—	—	—
160.	**Non-current assets classified as held for sale**	**—**	**—**	**—**
	a) changes in fair value	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
170.	**Valuation reserves from equity-accounted investments**	**(81,395)**	**—**	**(81,395)**
180.	**Tax expenses (income) relating to items reclassified to profit or loss**	**—**	**—**	**—**
190.	**Total other comprehensive income**	**(172,211)**	**27,000**	**(145,211)**
200.	**Comprehensive income (10+190)**	**X**	**X**	**680,997**
210.	Consolidated comprehensive income attributable to minorities	X	X	3,337
220.	**Consolidated comprehensive income attributable to parent company**	**X**	**X**	**677,660**

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to whom the Group is subject and manages and mitigates them in coordination with various business areas. Hence are described the aspects related to duties and responsibilities of this division, its independence characteristics and the role of different corporate structures in the risks mitigation process.

Banking Group risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

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 co-ordination 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 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 Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

With reference to the authorization process to use AIRB models in order 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 and for the CheBanca! Italian mortgage loan book. 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 "CRR"), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Plan"). With regard to such exposures, for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk used for managerial purposes.

2. Credit risk management policies

2.1 Organizational aspects

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 Plan 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, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group 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; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

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 balance 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.

2.3 Methods for measuring expected losses

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 for aspects which are not suitable for direct use in an accounting environment (for example, reconverting 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 increase in credit risk ("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.

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.

2.4 Credit risk mitigation techniques

The Group has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral are set out in in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the "CRR"). The Group has also compiled specific criteria by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The use of financial instruments or of moveable and immoveable assets as collateral and of personal guarantees is widespread in lending activity, in particular as follows:

- Mortgage guarantees: when mortgages are taken out, valuations are required from independent experts; specific procedures are also in place to calculate the fair value of the asset and monitor it at regular intervals, based on market indicators furnished by external information providers; further valuations are also required in cases where significant departures are noted from the most recent valuation available;
- Pledges: pledges are valued according to the market value for listed financial instruments, or on the basis of their expected realizable value; prudential haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

The Group also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in establishing eligibility criteria for regulatory and management purposes remains central, with Group Risk Management responsible for supervising consistency overall. Controls on the mitigation instruments are included in the general risk control and management framework.

3. Non-performing credit exposures

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 thelevel of them 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.

Non-performing 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 detect non-performing before the 90 days past due status by execution of individual analysis or by application of automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures 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 may be written off even 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.

4. Financial assets subject to commercial renegotiations and concessions

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 corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations 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, such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced 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, whereas certain predefined conditions apply in the case of consumer credit activities (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

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.

5. Details by individual business segment

Corporate activity

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.

The Credit Risk Management unit also 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 with the same frequency.

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 (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. All forborne positions are also 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 versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

Leasing

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

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

The activities of analysis, disbursement, monitoring and credit risk control are significantly supported by the company's information system; the asset being leased is 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.

The quantification of provisions for non-performing accounts requires individual analysis to establish the estimated loss, taking into account inter alia the value of the assets resulting from regularly updated expert valuations, revised downwards on a prudential basis, and/or any other form of collateral. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured on the basis of internal PD and LGD parameters. To define the PD parameters, through-the-cycle transition matrices for the management models based on internal data are used, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. The LGD estimates 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

Consumer credit operations are performed primarily by Compass, where 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 by the relevant bodies at headquarters, in accordance with the authorization levels established by the Board of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, 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, 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 estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. 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 using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

Factoring

Factoring, a business in which MBFACTA specializes, 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 instalment factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, costs and margins.

Non-performing exposures to corporate counterparties are quantified analytically, while non-performing exposures to retail counterparties are based on the identification of clusters of exposures with similar characteristics. The portfolio of performing assets is valued on the basis of PD and LGD parameters. PD parameters are defined by using the revised parameters supplied by external providers or internal estimates based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the parent company’s process apply.

NPL business

This business is performed by MBCredit Solutions, which 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 determined by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections of expected amounts recovered, expenses and margins. 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 as 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

Private banking operations include granting loans as a complementary activity in serving affluent, 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 backed by collateral or 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/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. 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 collateral and guarantees involved.

Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed 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 collateral for positions which have become non-performing.

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

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyers. Internal procedures requires that cases with four or more unpaid instalments (not necessarily consecutive), or cases with persistent irregularities or interest suspended at the legal rate, are designated as unlikely to pay accounts, and classified as bad loans 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 bad loans and based on clusters of similar positions for unlikely to pay, , other overdue and performing accounts. The analytical provision for bad loans takes account the of expert valuations of the assets (deflated on a prudential basis) as well as the timing and costs of the recovery process. 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 versions. The forward-looking component is factored in by applying the internal scenarios to the PD estimates. The LGD parameters 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.

QUANTITATIVE INFORMATION

SECTION 1

Consolidated accounting risks

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi (other company), which under the banking group method of consolidation are accounted under the equity method.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

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

Portfolios/quality	Bad loans *	Unlikely to pay *	Non-performing overdue exposures	Performing overdue exposures [1]	Other performing exposures	Total
1. Financial assets at amortized cost	446,193	652,684	57,990	465,977	54,977,015	56,599,859
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	51,976	51,976
4. Other financial assets mandatorily at fair value	264	17,482	—	—	205,676	223,422
5. Financial assets being sold	22,168	—	—	—	—	22,168
Total 30/6/19	468,625	670,166	57,990	465,977	58,982,830	60,645,588

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €127.4m, €117.5m of which is attributable to CheBanca! mortgage loans (0.22% of the performing loans in this segment), €112.1m to factoring (0.21%), and €87m to consumer credit (0.16%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €19.7m, consisting primarily of mortgage loans totalling €17.6m.

* Includes the NPLs held by MBCredit Solutions in an amount of €368.6m, €366.6m of which bad loans.

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

Asset portfolio/quality	Non-performing assets				Performing assets			Total (net exposition)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,017,484	860,617	1,156,867	9,948	55,959,824	516,832	55,442,992	56,599,859
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,750,003	1,840	3,748,163	3,748,163
3. Financial assets designated at fair value	—	—	—	—	X	X	51,976	51,976
4. Other financial assets mandatorily at fair value	133,417	115,671	17,746	—	X	X	205,676	223,422
5. Financial assets being sold	128,953	106,785	22,168	—	—	—	—	22,168
Total 30/6/19	2,279,854	1,083,073	1,196,781	9,948	59,709,827	518,672	59,448,807	60,645,588

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	6,951,228
2. Hedging Derivatives	—	—	412,234
Total 30/6/19	—	—	7,363,462

The non-performing items include €368.6m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.7bn as at 30 June 2019. Of these items, €7.9m (with a nominal value of €600.3m) involve assets acquired from other Group companies, mostly those operating in consumer banking.

The purchase price of these items, and also their initial recognition value, is €526.5m, compared with a nominal (original gross) value of €5.9bn.

Non-performing assets also include the bad debts originated in mortgage lending by Micos Banca, booked as “Non-current assets held for sale and discontinued operations” pursuant to IFRS 5 at a net value of €22.2m, which were sold after the year under review had ended.

Information on exposures to sovereign debt

*A.1.2a Exposures to sovereign debt securities by state, counterparty and portfolio **

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(905,979)	(905,979)
France	—	—	—	—	X	X	(643,671)	(643,671)
Italy	—	—	—	—	X	X	229,952	229,952
Germany	—	—	—	—	X	X	(468,815)	(468,815)
UK	—	—	—	—	X	X	(36,400)	(36,400)
Others	—	—	—	—	X	X	12,955	12,955
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,863,097	—	2,863,097	2,863,097
Italy	—	—	—	—	1,161,288	—	1,161,288	1,161,288
Germany	—	—	—	—	807,022	—	807,022	807,022
United States	—	—	—	—	433,925	—	433,925	433,925
France	—	—	—	—	256,482	—	256,482	256,482
Spain	—	—	—	—	204,380	—	204,380	204,380
3. Financial assets at amortized cost	—	—	—	—	1,733,519	—	1,733,519	1,733,519
Italy	—	—	—	—	1,088,629	—	1,088,629	1,088,629
France	—	—	—	—	367,965	—	367,965	367,965
Spain	—	—	—	—	110,525	—	110,525	110,525
Germany	—	—	—	—	83,604	—	83,604	83,604
Others	—	—	—	—	82,796	—	82,796	82,796
Total 30/6/19	—	—	—	—	4,596,616	—	3,690,637	3,690,637

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €26.7m.

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

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	268,940	229,952	1,90	2,234,818	2,249,916	2,258,775	3,21
Germany	(432,500)	(468,815)	2,23	840,000	857,275	857,681	2,10
Spain	4,400	4,198	0,09	360,000	367,007	369,641	3,34
United States	—	—	—	514,060	517,529	518,862	0,92
France	(582,656)	(643,671)	3,94	515,400	520,470	524,340	2,13
Others	(25,817)	(27,643)	—	88,566	84,419	94,028	—
Total 30/6/19	(767,633)	(905,979)		4,552,844	4,596,616	4,623,327	

* The figure does not include forward sales with a notional amount of €104m.

[1] Does not include sales of €414m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €4.0m; or sales of €156.8m on the BPT future (Italy) with a negative fair value of €1.5m. Net hedge buys of €836m have also not been included (virtually all of which allocated to France country risk).

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

B. Information on structured entities

In accordance with the provisions of IFRS 12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing narrow restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A – Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99 – namely Quarzo S.r.l. and Quarzo CQS S.r.l. – are included in the Group's area of consolidation, as is MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A. During the year under review, Quarzo MB S.r.l. (owned as to 90% by Mediobanca S.p.A. and as to 10% by SPV Holding) was placed in liquidation.

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Cairn Capital and RAM Active Investments) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

B.2.1 Structured entities consolidated for regulatory purposes

As at 30 June 2019 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are performed entirely through special purpose vehicles. In particular the following aspects should be noted:

UCITS

As part of its asset management business, CheBanca! follows the sale, exclusive to its clients, of five different segments of its Yellow Funds SICAV. The SICAV is managed by fund management company Mediobanca Management Company, whereas the funds are managed by BlackRock and Mediobanca SGR. As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments (230,000 units, for an outlay of €23m) which were still outstanding at 30 June 2019; these total 53,141, and have a NAV of €5m.

Compagnie Monégasque de Banque has sold its clients six fund segments of CMB Global Lux, a company authorized under Luxembourg law. The SICAV is managed by Compagnie Monégasque de Banque itself, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestione and by CACEIS Luxembourg respectively. As at 30 June 2019 the bond segment CMB Global Lux Expansion (€4.9m) and the equity segment CMB Global Lux High Yield Equity (€3.7m) were still featured in the portfolio.

Turning to RAM Active Investments SA, Mediobanca S.p.A. has subscribed to funds, providing seed capital with a total NAV of €176.8m split between five funds: two tactical funds – RAM Convertibles Europe (€16.9m) and RAM Asia Bond Total Return (€17.2m) and three systematic funds – RAM Systematic I/O (€49.9m), RAM Global Shareholder Yield Equities (€58m), and RAM Global Multi-Asset (€34.7m).

Cairn Capital Group Ltd itself has subscribed to Cairn Special Opportunities Credit Fund and Cairn Strata Credit Fund and to the Cairn Loan Investment SPE for a total amount of €2.1m, plus Mediobanca's share of the seed capital amounting to €190.5m invested in Cairn European Loan Fund (€51.7m), Cairn Strata Credit Fund (€51.3m), Cairn Strata Secured Fund (€10.4m), Cairn Mediobanca Strata UCITS Credit Fund (€50.3m), and SPE Cairn Loan Investments LLP (€26.8m).

Of the funds which Mediobanca SGR sells to its clients, Mediobanca S.p.A. has subscribed for a total of €30.4m, split between €15.2m in the new Mediobanca Global MultiManager fund (classes 15 and 35), €7.1m in Mediobanca Social Impact (a philanthropic fund), €4m in Mediobanca CoCo Credit Fund and €10.1m in Mediobanca Fondo per le imprese 1 and 2 (which invest in minibonds).

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments (24 months) means that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; hence Mediobanca does not have direct control.

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depends largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence this does not qualify as acting as sponsor.

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost – due from customers: composition", in which the Group is the sole lender, involve an amount of €435.2m, plus €3.4m in notes booked as Hold to Collect and Sell, and €52m in notes mandatorily recognized at fair value.

QUANTITATIVE INFORMATION

Accounted for under asset heading	Balance-sheet item/SPE type	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
Financial assets mandatorily at fair value	Yellow Fund Sicav	4,986	—	—	4,986	4,986	—
Financial assets mandatorily at fair value	CMB Global Lux	8,636	—	—	8,636	8,636	—
Financial assets mandatorily at fair value	CMG Funds	43	—	—	43	43	—
Financial assets mandatorily at fair value	Cairn Strata Secured	10,416	—	—	10,416	10,416	—
Financial assets mandatorily at fair value	Cairn European Loan Fund	51,735	—	—	51,735	51,735	—
Financial assets mandatorily at fair value	Cairn Strata Credit Fund	51,280	—	—	51,280	51,280	—
Financial assets mandatorily at fair value	Cairn Loan Investments	27,741	—	—	27,741	27,741	—
Financial assets mandatorily at fair value	Cairn Mediobanca Strata UCITS Credit Fund	50,330	—	—	50,330	50,330	—
Financial assets mandatorily at fair value	RAM - Systematic I/O	49,908	—	—	49,908	49,908	—
Financial assets mandatorily at fair value	RAM - Convertibles Europe	16,901	—	—	16,901	16,901	—
Financial assets mandatorily at fair value	RAM - Asia Bond Total Return	17,237	—	—	17,237	17,237	—
Financial assets mandatorily at fair value	RAM - Global Shareholder Yield Equities	58,030	—	—	58,030	58,030	—
Financial assets mandatorily at fair value	RAM - Global Multi-Asset	34,687	—	—	34,687	34,687	—
Financial assets held for trading	Mediobanca Funds	6,055	—	—	6,055	6,055	—
Financial assets mandatorily at fair value	Mediobanca Funds	30,472	—	—	30,472	30,472	—
Financial assets mandatorily at fair value	Other funds	1,179	—	—	1,179	1,179	—
Financial assets at amortized cost	Asset Backed	435,161	—	—	435,161	435,161	—
Financial assets at fair value with impact taken to comprehensive income	Asset Backed	3,448	—	—	3,448	3,448	—
Financial assets designated at fair value	Asset Backed	51,975	—	—	51,975	51,975	—

D.3 Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, inter alia financed by debt, with a medium-term time horizon).

As at 30 June 2019 the Group's exposure to this type of transaction amounted to €5,690.8m, [1] higher than the €4,529.8m reported last year, and accounting for just under 34.5% of the corporate loan book. Of this total, 40.3% relates to domestic transactions, six deals with non-EU clients (worth approx. €1,078m), and the remainder within the confines of the EU. There were repayments totalling €975m during the twelve months (with 21 deals being closed), against new investments of €2,135m (including 24 new deals). The Leverage Pure LBO within the scope of application worth €586.9m (representing 10.3% of the total value). The three NPL Leverage transactions totaled €460.8m (8.1%); of this total, two (€410.8m) were already classified as NPLs and have been included within the scope following contractual modification, while the remainder (of €50m) was already comprised and classified as NPLs following its debt restruction.

[1] Plus off-balance-sheet exposures (commitments and derivatives) totalling €776m (30/6/18: €1,120m).

SECTION 2

Banking Group risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

For the qualitative information, see pp. 236 ff of this Part of the Consolidated Financial Statements.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Prudential consolidation - Financial assets by past-due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3 *		
	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets valued at amortised cost	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335
2. Financial assets valued at fair value with impacts taken to comprehensive income	—	—	—	—	—	—	—	—	—
Total 30/6/19	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335

* Includes the NPLs acquired by MBCredit Solutions.

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: trend in overall writedowns and provisions

Motivations/risk stages	Cumulative write-downs													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				of which: purchased or originated credit impaired exposures	Stage 1	Stage 2	Stage 3	
	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive	of which: individual write-downs	of which: collective write-downs					
Starting balance	195,099	2,197	8,860	188,430	287,098	—	8,740	278,359	1,006,323	—	479,037	527,286	—	11,294	3,060	4,542	1,509,613
Increase variations due to acquired or originated financial assets	84,496	—	—	84,496	84,408	—	—	84,408	43,466	—	12,342	31,124	—	4,092	473	80	217,015
Derecognitions other than writeoffs	(3,502)	—	—	(3,502)	(22,873)	—	—	(22,873)	(141,782)	—	(4,991)	(136,791)	—	—	—	(407)	(168,564)
Net write-downs/ writebacks due to credit risk	(71,564)	(14)	—	(71,577)	(26,578)	—	—	(26,578)	135,740	—	(13,822)	149,562	—	(2,232)	31	(213)	35,170
Contractual modificationswithout derecognition	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in estimating methodologies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off not recognised directly in profit and loss	(1,539)	—	—	(1,539)	(2,645)	—	—	(2,645)	(63,682)	—	(45,624)	(18,058)	—	—	—	—	(67,866)
Other variations	(5,666)	(343)	(8,860)	2,850	99	—	(8,740)	8,839	(119,448)	—	(119,448)	—	—	(5,946)	(2,590)	(1,648)	(135,542)
Closing balance	197,324	1,840	—	199,158	319,509	—	—	319,509	860,617	—	307,493	553,123	—	7,208	974	2,354	1,389,826
Collection proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	4,552	—	4,414	138	3,328	—	—	—	4,552
Writeoffs recognised directly in profit and loss	1,644	—	—	1,644	1,321	—	—	1,321	44,621	—	41,238	3,383	36,892	—	—	—	47,586

A.1.3 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Risk stages	Gross amounts/nominal values					
	Passages from stage 1 and stage 2		Passages from stage 2 and stage 3		Passages from stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	1,538,100	584,344	261,993	76,007	198,543	2,623
2. Financial assets with impact taken to comprehensive income	—	—	—	—	—	—
3. Commitments to disburse funds and financial guarantees given	4,991	13,631	81	177	893	295
30/6/19	1,543,091	597,975	262,074	76,184	199,436	2,918

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/assets	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	8,791,827	(2,537)	8,789,290	—
- of which: forborne exposures	*X*	—	—	—	—
Total (A)	—	8,791,827	(2,537)	8,789,290	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	10,827,279	—	10,827,279	—
Total (B)	—	10,827,279	—	10,827,279	—
Total (A+B)	—	19,619,106	(2,537)	19,616,569	—

A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Non-performing	Performing			
A. Credit exposures for cash					
a) Bad loans *	888,311	X	(419,686)	468,625	9,393
- of which: forborne exposures	*96,189*	*X*	*(82,503)*	*13,686*	*2,972*
b) Unlikely to pay *	1,221,940	X	(551,773)	670,167	555
- of which: forborne exposures	*876,433*	*X*	*(369,873)*	*506,560*	*104*
c) Overdue exposures (NPLs)	169,604	X	(111,614)	57,990	—
- of which: forborne exposures	*28,900*	*X*	*(22,399)*	*6,501*	—
d) Overdue exposures (performing)	X	561,491	(95,514)	465,977	—
- of which: forborne exposures	*X*	*49,047*	*(15,788)*	*33,259*	—
e) Other exposures (performing)	X	54,559,140	(420,620)	54,138,520	—
- of which: forborne exposures	*X*	*603,428*	*(31,534)*	*571,894*	—
Total (A)	2,279,855	55,120,631	(1,599,207)	55,801,279	9,948
B. Non-balance sheet credits exposures					
a) Non-performing	16,287	X	(2,354)	13,933	—
b) Performing	X	20,230,493	(8,182)	20,222,311	—
Total (B)	16,287	20,230,493	(10,536)	20,236,244	—
Total (A+B)	2,296,142	75,351,124	(1,609,743)	76,037,523	9,948

* Includes NPLs acquired by MBCredit Solutions and bad debts originated by Micos Banca in Italy (non-current assets held for sale and discontinued operations under IFRS 5).

As at 30 June 2019 non-performing forborne loans amounted to €526.7m (€551.1m last year), with a coverage ratio of 47.4% (50%), while performing loans qualifying as forborne amounted to €605.2m (€703m) with a coverage ratio of 7.3% (9%).

Overall the non-performing forborne positions represent 1.14% (1.34%) of the total customer loan book, and the performing forborne exposures 1.31% (1.72%).

A.1.7 Prudential consolidation - Cash exposures to customers: trend in gross non-performing exposures

Causals/ category	Bad loans *	Unlikely to pay *	Overdue exposures (NPLs)
A. Opening balance (gross amount)	808,930	1,253,668	167,596
- Of which sold but not derecognized	—	—	—
B. Increases	286,997	430,779	157,477
B.1 transfers from performing loans	27,335	298,722	129,302
B.2 entry from impaired financial assets acquired or originated	117,813	116	—
B.3 transfers from other categories of non-performing exposures	103,957	50,824	5,877
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	37,892	81,117	22,298
C. Decreases	207,616	462,507	155,469
C.1 transfers to performing loans	1,516	72,520	14,279
C.2 write-off	74,713	27,904	6,514
C.3 Recoveries	67,125	189,654	30,545
C.4 sales proceeds	21,653	10,934	4,180
C.5 losses on disposals	53	2,799	1,647
C.6 transfers to other categories of non-performing exposures	1,033	88,661	70,964
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	41,523	70,035	27,340
D. Closing balance (gross amounts)	888,311	1,221,940	169,604
- Of which sold but not derecognized	*47,200*	*126,582*	*51,174*

* Includes the NPLs acquired by MBCredit Solutions and the bad debts originated by Micos Banca in Italy (treated as non-current assets held for sale and discontinued operations under IFRS 5).

The headings "Transferred from impaired financial assets acquired or originated" and "Other increases" chiefly involve the NPL portfolios acquired by MBCredit Solutions.

The heading "Transfers from other categories of non-performing exposures" includes the bad debts originated by Micos Banca in Italia, booked as non-current assets held for sale and discontinued operations under IFRS 5.

A.1.7bis Prudential consolidation - Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	Non-performing Forborne exposures	Performing Forborne exposures
A. Opening balance (gross amount)	1,103,051	761,518
- Of which sold but not derecognized	*78,620*	*112,951*
B. Increases	179,624	144,244
B.1 Inflows from performing not forborne exposures	30,691	74,507
B.2 Inflows from performing forborne exposures	72,347	X
B.3 Inflows from non-performing forborne exposures	X	56,357
B.4 other increases	76,586	13,380
C. Decreases	281,153	253,287
C.1 Outflows to performing not forborne exposures	X	89,515
C.2 Outflows to performing forborne exposures	56,357	X
C.3 Outflows to non-performing forborne exposures	X	72,347
C.4 write-off	12,556	885
C.5 recoveries	151,026	73,105
C.6 sales proceeds	5,464	439
C.7 losses on disposals	1,753	1,058
C.8 other decreases	53,997	15,938
D. Closing balance (gross amounts)	1,001,522	652,475
- Of which sold but not derecognized	*66,205*	*55,768*

A.1.9 Prudential consolidation – Non performing cash exposures to customers: trend in overall writedowns

Description/Category	**Bad loans**		**Unlikely to pay**		**Overdue exposures (NPLs)**	
	Total	***of which: forborne exposures***	**Total**	***of which: forborne exposures***	**Total**	***of which: forborne exposures***
A. Opening balance overall amount of writedowns	414,516	81,240	615,567	449,868	106,266	27,558
- Of which sold but not derecognized	*45,557*	*9,150*	*102,112*	*32,476*	*46,561*	*13,457*
B. Increases	175,584	34,528	243,521	81,852	102,431	21,288
B.1 Adjustments on acquired or originated impaired assets	—	X	—	X	—	X
B.2 other value adjustments	94,161	8,210	152,583	44,422	80,779	8,776
B.3 losses on disposal	53	25	2,799	1,395	1,647	333
B.4 transfer from other categories of non-performing exposures	71,244	20,793	34,374	12,864	3,310	2,207
B.5 contractual changes without cancellations	—	X	—	X	—	X
B.6 other increases	10,126	5,500	53,765	23,171	16,695	9,972
C. Reductions	170,414	33,265	307,315	161,847	97,083	26,447
C.1 writebacks from assessments	7,472	2,215	93,910	74,251	5,948	951
C.2 writebacks from recoveries	17,822	3,728	42,143	36,064	6,562	2,493
C.3 gains on disposal	5,493	1,317	2,240	490	323	69
C.4 write-off	74,713	11,223	27,904	5,611	6,514	1,394
C.5 transfers to other categories of non-performing exposures	733	602	59,112	21,610	49,083	15,650
C.6 contractual changes without cancellations	—	X	—	X	—	X
C.7 other decreases	64,181	14,180	82,006	23,821	28,653	5,890
D. Closing overall amount of writedowns	419,686	82,503	551,773	369,873	111,614	22,399
- Of which sold but not derecognized	*44,116*	*9,723*	*82,635*	*27,209*	*36,789*	*8,192*

A.2 Classification of credit exposures by internal and external ratings

A.2.1 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	1,077,148	5,107,948	4,315,543	2,042,009	622,493	143,225	44,272,248	57,580,614
- First stage	1,077,148	5,107,948	4,315,543	1,993,908	499,196	143,225	39,682,856	52,819,824
- Second stage	—	—	—	48,101	123,297	—	2,627,122	2,798,520
- Third stage	—	—	—	—	—	—	1,962,270	1,962,270
B. Financial assets valued at fair value with impact on overall profitability	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- First stage	1,445,338	256,500	1,629,638	202,351	—	69,370	146,806	3,750,003
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A+B)	2,522,486	5,364,448	5,945,181	2,244,360	622,493	212,595	44,419,054	61,330,617
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	*368,637*	*368,637*
C. Commitments and financial guarantees given								
- First stage	101,365	440,437	6,482,760	825,458	17,621	66	4,940,436	12,808,143
- Second stage	—	—	—	—	—	—	39,844	39,844
- Third stage	—	—	—	—	—	—	16,287	16,287
Total (C)	101,365	440,437	6,482,760	825,458	17,621	66	4,996,567	12,864,274
Total (A+B+C)	2,623,851	5,804,885	12,427,941	3,069,818	640,114	212,661	49,415,621	74,194,891

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

The table is compliant with the classification provided by Bank of Italy circular 262/05 (fifth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between AAA and BBB-, and represent 85.2% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients and to small and medium-sized enterprises.

A.2.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non performing exposures	*Unrated*	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortized cost									
- First stage	1,021,446	6,610,394	16,315,883	16,064,809	5,486,224	85,119	—	7,235,949	52,819,824
- Second stage	136	3,202	8,522	382,371	1,419,104	796,436	—	188,749	2,798,520
- Third stage	—	—	—	—	—	502,751	340,271	1,119,248	1,962,270
B. Financial assets valued at fair value with impact taken to other comprehensive income									
- First stage	1,445,338	288,214	1,674,324	262,440	69,370	—	—	10,317	3,750,003
- Second stage	—	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—	—
Total (A+B)	2,466,920	6,901,810	17,998,729	16,709,620	6,974,698	1,384,306	340,271	8,554,263	61,330,617
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—	*368,637*	*368,637*
C. Commitments and financial guarantees given									
- First stage	181,009	650,903	8,076,286	2,785,876	314,585	5,690	—	793,794	12,808,143
- Second stage	—	3	7	262	34,160	2,284	—	3,128	39,844
- Third stage	—	—	—	—	—	14,821	524	942	16,287
Total (C)	181,009	650,906	8,076,293	2,786,138	348,745	22,795	524	797,864	12,864,274
Total (A+B+C)	2,647,929	7,552,716	26,075,022	19,495,758	7,323,443	1,407,101	340,795	9,352,127	74,194,891

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

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

The companies within the Group which use the internal ratings and contribute to the various rating classes indicated apart from Mediobanca S.p.A. (for corporate customers) are: SelmaBipiemme, Compass/Futuro, CheBanca! and MBFACTA (for corporate customers).

A.3 Distribution of secured exposures by type of security

A.3.1 Prudential consolidation – Cash and off-balance sheet secured exposures to banks

	Gross exposure	Net exposures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing - property	Securities	Other guarantees	CLN	Other derivatives				General governe-ments	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	5,201,907	5,198,637	—	1,085	5,019,715	3,549	—	—	—	—	—	—	—	—	—	5,024,349
1.1 totally secured	2,837,358	2,837,091	—	1,085	2,832,457	3,549	—	—	—	—	—	—	—	—	—	2,837,091
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	2,364,549	2,361,546	—	—	2,187,258	—	—	—	—	—	—	—	—	—	—	2,187,258
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Prudential consolidation – Cash and off-balance sheet secured exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
			Property, Mortgages	Financial leasing property	Securities	Other assets	Credit derivatives					Signature loans				
							CLN	Other derivatives				Public Administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures	22,201,305	21,648,837	9,862,552	1,184,161	4,231,373	1,396,042	—	—	—	—	—	7,951	19	178,861	932,452	17,793,411
1.1 totally secured	15,220,357	14,871,085	9,412,022	1,184,161	2,172,643	1,008,894	—	—	—	—	—	7,951	19	170,080	915,224	14,870,994
- of which non-performing	*569,580*	*281,311*	*163,037*	*96,523*	*189*	*14,362*	—	—	—	—	—	—	—	—	*7,200*	*281,311*
1.2 partially secured	6,980,948	6,777,752	450,530	—	2,058,730	387,148	—	—	—	—	—	—	—	8,781	17,228	2,922,417
- of which non-performing	*461,552*	*283,006*	*4,845*	—	*10,532*	*16,771*	—	—	—	—	—	—	—	—	—	*32,148*
2. Secured off-balance sheet credit exposures:	1,371,070	1,359,839	68,740	—	234,843	105,040	—	—	—	—	—	10,998	—	99,549	580,666	1,099,836
2.1 totally secured	1,042,463	1,031,332	61,765	—	218,475	93,319	—	—	—	—	—	10,998	—	99,549	547,226	1,031,332
- of which non-performing	*126*	*100*	*64*	—	*35*	—	—	—	—	—	—	—	—	—	—	*99*
2.2. partially guaranteed	328,607	328,507	6,975	—	16,368	11,721	—	—	—	—	—	—	—	—	33,440	68,504
- of which non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.4 Prudential consolidation - Financial and non-financial assets obtained by taking possession of collaterals

	Derecognized credit exposures	Gross amount	Gross write-downs	Book value	
					of which: obtained during the period
A. Tangible assets	67,476	67,030	(16,938)	50,092	526
A.1 Core assets	82	76	—	76	76
A.2 Held for investment purpose	58,191	57,997	(15,998)	41,999	—
A.3 Inventories	9,203	8,957	(940)	8,017	450
B. Equity and debt securities	—	—	—	—	—
C. Other assets	—	—	—	—	—
D. Assets held for sale	—	—	—	—	—
D.1 Tangible assets	—	—	—	—	—
D.2 Other assets	—	—	—	—	—
Total 30/6/19	67,476	67,030	(16,938)	50,092	526

As at 30 June 2019, assets received through enforcement of guarantees received derived exclusively from leasing operations, and largely regarded tangible assets held for investment purposes.

B. Exposures distribution and concentration

B.1 Prudential consolidation - 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	—	—	675	(9,026)	—	—	88,643	(25,540)	379,307	(385,120)
- of which: forborne exposures	—	—	*153*	*(4,041)*	—	—	*9,296*	*(7,890)*	*4,237*	*(70,572)*
A.2 Unlikely to pay	11,762	(3,377)	2,193	(1,342)	—	—	467,731	(285,435)	188,481	(261,619)
- of which: forborne exposures	—	—	*106*	*(226)*	—	—	*401,844*	*(260,070)*	*104,610*	*(109,577)*
A.3 Overdue exposures (NPLs)	1,580	(138)	103	(59)	—	—	10,699	(3,163)	45,608	(108,254)
- of which: forborne exposures	—	—	—	—	—	—	*46*	*(82)*	*6,455*	*(22,317)*
A.4 Performing exposures	8,202,315	(3,010)	7,821,488	(7,708)	1,045,585	(1,846)	15,037,960	(45,763)	23,542,734	(459,653)
- of which: forborne exposures	—	—	*202,013*	*(5)*	—	—	*208,122*	*(3,227)*	*195,018*	*(44,090)*
Total (A)	8,215,657	(6,525)	7,824,459	(18,135)	1,045,585	(1,846)	15,605,033	(359,901)	24,156,130	(1,214,646)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	13,239	(2,153)	694	(201)
B.2 Performing exposures	4,077,024	—	5,122,563	(798)	529,118	—	9,402,361	(3,287)	1,620,363	(4,097)
Total (B)	4,077,024	—	5,122,563	(798)	529,118	—	9,415,600	(5,440)	1,621,057	(4,298)
Total (A+B) 30/6/19	12,292,681	(6,525)	12,947,022	(18,933)	1,574,703	(1,846)	25,020,633	(365,341)	25,777,187	(1,218,944)

B.2 Prudential consolidation - Cash and off-balance sheet exposures to customers by geography

Exposures/Geographical	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	463,069	(417,227)	4,521	(2,332)	374	(73)	64	(15)	597	(39)
A.2 Unlikely to pay	626,576	(539,785)	43,426	(11,931)	158	(55)	—	—	7	(2)
A.3 Overdue exposures (NPLs)	53,885	(111,538)	1,815	(72)	2,249	(2)	—	—	41	(2)
A.4 Performing exposures	41,692,284	(487,842)	10,168,718	(17,502)	2,446,322	(8,442)	90,142	(162)	207,031	(2,186)
Total (A)	42,835,814	(1,556,392)	10,218,480	(31,837)	2,449,103	(8,572)	90,206	(177)	207,676	(2,229)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	13,933	(2,354)	—	—	—	—	—	—	—	—
B.2 Performing exposures	10,550,039	(5,455)	8,591,022	(2,294)	854,669	(156)	156,150	(276)	70,431	(1)
Total (B)	10,563,972	(7,809)	8,591,022	(2,294)	854,669	(156)	156,150	(276)	70,431	(1)
Total (A+B) 30/6/19	53,399,786	(1,564,201)	18,809,502	(34,131)	3,303,772	(8,728)	246,356	(453)	278,107	(2,230)

B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks by geography

Exposures/Geographical Area	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.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2,977,023	(1,656)	5,756,788	(871)	49,723	(11)	5,357	(2)	399	(3)
Total (A)	2,977,023	(1,656)	5,756,788	(871)	49,723	(11)	5,357	(2)	399	(3)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	853,362	—	9,973,901	—	16	—	—	—	—	—
Total (B)	853,362	—	9,973,901	—	16	—	—	—	—	—
Total (A+B) 30/6/19	3,830,385	(1,656)	15,730,689	(871)	49,739	(11)	5,357	(2)	399	(3)

B.4a Credit risk indicators

	30/6/19	30/6/18
a) Gross bad loans/total loans	1.72%	1.67%
b) NPLs/cash exposures	4.09%	4.00%
c) Net bad loans/regulatory capital[1]	5.80%	4.94%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €281.8m to €366.6m, and the portfolio of bad debts originated by Micos Banca, now booked as non-current assets held and discontinued operations under IFRS 5 in an amount of €22.2m.

B.4b Large risks

	30/6/19	30/6/18
a) Book value	11,220,374	10,964,196
b) Weighted value	7,767,800	7,773,030
c) No. of exposures	8	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (one more than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11.2bn (€7.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2018 (which were €11bn and €7.8bn respectively). In detail the eight exposures are to two industrial groups, one insurance company and five banking groups.

C. Securitization

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €247.8m, €156.4m of which as part of the banking book (almost all HTC recognized at amortized cost) and €91.4m as part of the trading book.

The banking book consists of four senior deals with NPLs as the underlying instrument, as follows: in Italy, Unicredit-FINO, €55.4m (down from €75.6m last year), and Intesa/ICCREA, a deal originated during the year under review in which Mediobanca acted as sponsor (€65.6m); and elsewhere, one security issued against Spanish NPLs in an amount of €21.6m (down from €32.8m last year), and a new deal issued against Dutch NPLs for €9.6m, where again Mediobanca acted as sponsor. Another deal involving Italian NPLs deriving from Intesa worth €49m at 30 June 2018 was wound up during the year under review. The banking book also includes mezzanine deals worth €3.3m and junior deals of €0.8m, which are the retention shares of transactions in which Mediobanca acted as sponsor.

The trading book increased in value from €21m to €91.4m, on trading of €68.2m and gains realized on disposal totalling €2m, with virtually the whole book renewed. Just under two-thirds of the trading book is accounted for by the senior tranche of the securitization of Italian NPLs originated by Intesa/ICCREA, whereas the remainder consists of CLOs, €23.1m of which in the form of mezzanine tranches.

In general terms the ABS segment performed well, helped by the strong asset quality (minor arrears and delinquencies among the underlying instruments led to an upgrade in the rating) and the expansionist monetary policies announced by the ECB which attracted new investors. Thus there was an increase in the number of ABS issues on the primary market, in 2Q 2019 especially, following clarifications on the new EU regulation on securitizations and renewal of the Italian state guarantee for securitization of non-performing loans (known as "GACS").

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 S.p.A., 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 €28m.

QUANTITATIVE INFORMATION

C.2 Prudential consolidation - exposures from main customer securitizations by asset type/ exposure

Type of securitized assets/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Italy NPLs	179,806	148	2,001	—	643	—
B. Spain NPLs (residential mortgages and real estates)	21,643	—	—	—	—	—
C. Netherlands NPLs (residential mortgages and real estates)	9,684	—	1,289	(1)	198	—
D. Other receivables	9,461	(45)	23,144	(5)	—	—
Total 30/6/19	220,594	103	26,434	(6)	841	—
Total 30/6/18	171,727	(52)	6,911	(73)	3,166	—

C.3 Prudential consolidation - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,059,241	—	254,387	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,395,645	—	110,951	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	837,461	—	68,709	747,000	—	156,735
Quarzo CQS S.r.l. (2015)	Milan	Accounting	124,000	—	35,000	49,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	505,000	—	26,000	463,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	1,048,664	—	—	860,203	—	—

C.5 Prudential consolidation – servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets		Receivables collected during the year		Percentage share of securities repaid					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non performing	Perfor-ming	Non performing	Perfor-ming	Non performing	Perfor-ming
Futuro	Quarzo CQS (2015)	4,895	124,515	—	124,945	—	93.40	—	—	—	—
Futuro	Quarzo CQS (2018)	6,819	542,617	—	156,271	—	21.51	—	—	—	—
Compass	Quarzo Srl	277,192	7,494,878	—	2,154,618	—	—	—	—	—	—

C.6 Prudential consolidation – Consolidated securitization-related SPVs

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, all of which have performing loans granted by Compass Banca as the underlying instrument, the last of which was completed during the first half of the financial year under review.

All the deals have performing loans granted by Compass Banca as the underlying instrument, and Compass Banca itself subscribed for the entire amount of the junior securities. The receivables can be sold on a revolving basis for a period of between six and 42 months, after which the amortization phase can commence.

The 2015 Quarzo securitization closed early in May of this year, with all the receivables held by the SPV being bought back for a total of €1,796m.

The three deals outstanding have the following characteristics:

– One deal, completed on 25 February 2016, with the issue of €2.64bn in senior notes (subscribed for by Group companies) and €660m in junior notes; in the twelve months ended 30 June 2019, receivables worth a further €1,810m were sold;

– Another deal, completed on 15 February 2017, with the issue of €1.215bn in senior notes (subscribed for by Group companies) and €285m in junior notes; receivables worth a further €740m were sold in the twelve months;

– A third deal, completed on 6 December 2018, with the issue of senior A1 notes of €600m, senior A2 notes of €147m (subscribed for by Group companies), and junior notes of €153m; during the twelve months, receivables worth a further €216m were sold in addition to the initial sale.

Quarzo CQS S.r.l. (Futuro)

The SPV has two different operations outstanding, originated during the former periods, with receivables granted by Futuro (salary backed finance) as underlying and sold in a unique, non-revolving tranche. Senior notes are listed on the Dublin exchange and are subscribed for the major part, whereas the junior notes have been completely subscribed by Futuro.

The two deals outstanding have the following characteristics:

- One deal, completed in March 2018, with the issue of €598m in senior notes and €52m in junior notes; at 30 June 2019, senior notes outstanding are worth €463.4m (including the related accruals);
- One deal, completed in April 2015, with the issue of €738m in senior notes (€200m of which subscribed for by Group companies) and €82m in junior notes; at 30 June 2019, senior notes outstanding are worth €48.7m (including the related accruals); the parent company does not hold senior notes anymore.

MB Funding Lux S.A. (Mediobanca)

This vehicle company was set up by Mediobanca S.p.A. in 2016, with the purposes of completing secured deals with as underlying pools of corporate receivables originated by Mediobanca International (Luxembourg) S.A. or Mediobanca S.p.A., maintaining the exposure to their credit risk. Notes issued are totally subscribed by Group companies and are used as collateral in the interbank market; they form part of the "Medium Term Note" program secured by the parent company.

The five deals outstanding have the following characteristics:

- Issue in an amount of €200m, with a duration of five years and maturing on 25 June 2022;
- Issue in an amount of €100m, with a duration of seven years and maturing on 20 December 2024;
- Issue of €400m, with a duration of five years and maturing on 30 October 2023;

– Issue of €140m, with a duration of five years and maturing on 15 March 2024;
– Issue of €10m, with a duration of three years and maturing on 8 June 2021 and guaranteed by corporate loans originated by parent company Mediobanca S.p.A.

There is also an unsecured issue in an amount of €10m, with a duration of 5 years and maturing on 20 June 2023.

* * *

Accounts between the originator and the SPVs during the period under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	295.0	0.9	1.4	54.9
Quarzo S.r.l.	4,309.7	4,300.3	14.6	45.6	488.8
MB Funding Lux	450.1	187.2	—	—	1.7

D. Disposals

A. Financial assets sold but not entirely derecognized

D.1 Prudential consolidation – Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement	of which non-performing	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	3,147,167	—	3,147,167	X	3,162,166	—	3,162,166
1. Debt securities	2,312,251	—	2,312,251	X	2,306,214	—	2,306,214
2. Equities	834,916	—	834,916	X	855,952	—	855,952
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	529,449	—	529,449	—	521,999	—	521,999
1. Debt securities	529,449	—	529,449	—	521,999	—	521,999
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets at amortized cost	6,379,396	6,049,062	330,334	61,416	2,598,140	2,359,845	238,295
1. Debt securities	158,760	—	158,760	—	671,018	510,775	160,243
2. Loans	6,220,636	6,049,062	171,574	61,416	1,927,122	1,849,070	78,052
Total 30/6/19	10,056,012	6,049,062	4,006,950	61,416	6,282,305	2,359,845	3,922,460

D.3 Prudential consolidation – Disposals related to financial liabilities with repayment exclusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total
A. Financial assets held for trading	3,147,167	—	3,147,167
1. Debt securities	2,312,251	—	2,312,251
2. Equities	834,916	—	834,916
3. Loans	—	—	—
4. Derivatives	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—
1. Debt securities	—	—	—
2. Equities	—	—	—
3. Loans	—	—	—
C. Financial assets designated at fair value	—	—	—
1. Debt securities	—	—	—
2. Loans	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	529,449	—	529,449
1. Debt securities	529,449	—	529,449
2. Equities	—	—	—
3. Loans	—	—	—
E. Financial assets measured at amortized cost (fair value)	7,433,408	—	7,433,408
1. Debt securities	162,126	—	162,126
2. Loans	7,271,282	—	7,271,282
Total financial assets	11,110,024	—	11,110,024
Total associated financial liabilities	6,280,041	—	X
Net value 30/6/19	4,829,983	—	11,110,024

B. Financial assets sold and fully derecognized with continuing involvement recorded

D.4 Prudential consolidation – Covered bond issues

Mediobanca Covered Bond Srl, an SPV set up in accordance with the provisions of Article 7-bis of Italian law 130/99, is 90%-owned by CheBanca!, with the other 10% owned by SPV Holding (Studio Dattilo).

The company forms part of the €5bn, ten-year program of issuance realized pursuant to Italian law 130/99, and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;
– CheBanca! as the seller (including on a revolving basis), of assets eligible for sale under the regulations in force, up to the limits on Mediobanca's regulatory capital ratios, and servicer for the transaction;
– Mediobanca Covered Bond Srl, an SPV and non-recourse recipient of the assets and guarantor of the covered bonds.

Four deals are outstanding under the current programme as at 30 June 2019 (plus another carried out after the reporting date). All the issues (€3bn) are addressed to institutional investors rated "AA" by Fitch, and involve:

– One bond issued with a nominal value of €750m issued in October 2013 at a fixed rate of 3.625%, expiring at ten years and with underlying assets totalling €1.2bn;

– One bond issued with a nominal value of €750m issued in November-December 2015 at a fixed rate of 1.375%, expiring at ten years and with underlying assets totalling €852m;

– One bond issued with a nominal value of €750m issued in October 2017 at a fixed rate of 1.25%, expiring in twelve years and with underlying assets totalling €1.3bn;

– One bond issued with a nominal value of €750m issued in the current year (between August and October 2018 at a fixed rate of 1.125%, expiring in six years and with underlying assets totalling €820m.

The €750m covered bond issued in 2014 at an interest rate of 1.125% expired in June 2019, and was replaced with a new issue made in July for a nominal amount of €750m, at a fixed rate of 0.5% and expiring in seven years (with underlying assets totalling €1.2bn).

Considering this last operation, at the reference date there were five outstanding issues with a nominal value of €3,750m faced by assets for €5.5bn (€300m in cash and the remainder in mortgage loans).

The following events also took place, as part of ordinary operations:

– On 1 March 2018 assets worth €353.5m were sold;

– On 1 June 2018 a sale of €170.2m was made, with €46.3m in assets bought back at the same time;

– On 1 December 2018 a sale of €404.7m was made, with €32.1m in assets bought back at the same time;

– On 1 March 2019 a sale of €234.6m was made, with €16.8m in assets bought back at the same time;

– On 1 June 2019 a sale of €195.9m was made, with €20.4m in assets bought back at the same time.

* * *

E. Prudential consolidation – Models for measuring credit risk

The Mediobanca Group uses the AIRB model (PD and LGD parameters) for quantifying the capital requirement for the credit risk of Mediobanca and Mediobanca International corporate portfolio and for the Italy mortgages portfolio of CheBanca!. Moreover, it has also been prepared a plan for the progressive passage to internal models for the various credit exposures (Roll-out plan). With regards to these exposures, which are still subject to the Standard methodology for assessing the regulatory capital requirements, the Group has anyway equip itself, for internal management purposes, with internal models. The Group has also equip itself with a portfolio model, with the aim to calculate the economic capital for the credit risk, which allows to monitor concentration and diversification effects, by geography and by activity sector. For further information, see "Section 1.1 Credit risk" of this Part of the Consolidated Accounts.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

– Sensitivity – mainly Delta and Vega – in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;
– Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) 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 changes in market variables.

Other complementary but more specific risk indicators are also used in order to capture other risks on trading positions not fully measured by VaR and sensitivity analysis. The weight of the products requiring use of these supplementary metrics is in any case extremely limited compared to the overall size of the Mediobanca trading book.

The aggregate value-at-risk on the trading book ranged from a low of €2.4m (end-July 2018) and a high of €9.1m in early June 2019. Overall, in the course of the year trading showed an increase in directional positions taken mainly by the proprietary trading desk through positions in derivatives of government securities issued by core Eurozone member countries plus the United Kingdom and through positions in exchange rates. The market scenario reflected especially low volatility levels in all asset classes, except for the temporary increases recorded in exchange rates and equities, driven by the commercial war between the United States and China and by the uncertainties caused by Brexit and the European elections. The average VaR value for FY 2018-19, €4.3m, was therefore much higher than last year (€2.3m). The point-in-time reading for VaR at 30 June 2019 was €6.3m (30/6/18: €2.8m).

The expected shortfall also showed a sharp rise in the average value, from €3m to €5.4m, due to the directional positions mentioned above.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) showed only two occasions, during the 12 months under review, on which the VaR value was departed from. The first occurred in early December 2018, chiefly in the equity segment, following the G20 summit in Buenos Aires at the same time as the extraordinary closure of Wall Street; while the second, at end-March 2019, was due to tensions on the forex and government securities markets in particular in the aftermath of the Federal Reserve's fence-sitting comments and the advent of Brexit.

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

€ '000

Risk factors	**12 mths to 30/6/19**				**12 mths to 30/6/18**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	4,394	614	4,792	2,165	559
Credit	1,441	718	2,637	1,163	784
Share prices	1,747	796	2,384	1,632	1,986
Exchange rates	1,136	607	3,091	1,740	320
Inflation	212	17	531	170	161
Volatility	2,941	579	3,104	1,271	626
*Diversification effect **	*(5,578)*	—	—	*(3,824)*	*(2,105)*
Total	6,292	2,401	9,132	4,317	2,330
Expected Shortfall	***8,279***	***2,960***	***10,225***	***5,376***	***3,080***

* Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of 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 equity volatility) which are monitored daily. Average exposures have generally increased during the year, with the exception of the equity component, which reflects pronounced swings between highs and lows consistent with the directional positions taken. The delta on interest rates also ranged from €4,000 and €823,000, with an average value of around €323,000, while the fluctuations in the equity delta were even more pronounced, ranging from a low of minus €423,000 to a high of €1.2m per percentage point. The fluctuation in the exchange rate delta was also pronounced, ranging from a low of minus €722,000 to a high of €1.9m per percentage point.

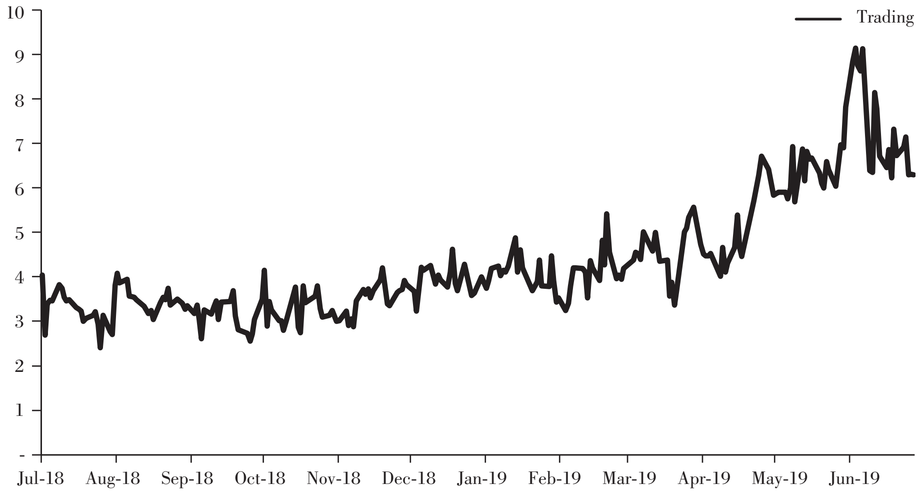
Table 2: Overview of trends in main sensitivities for trading book

€ '000

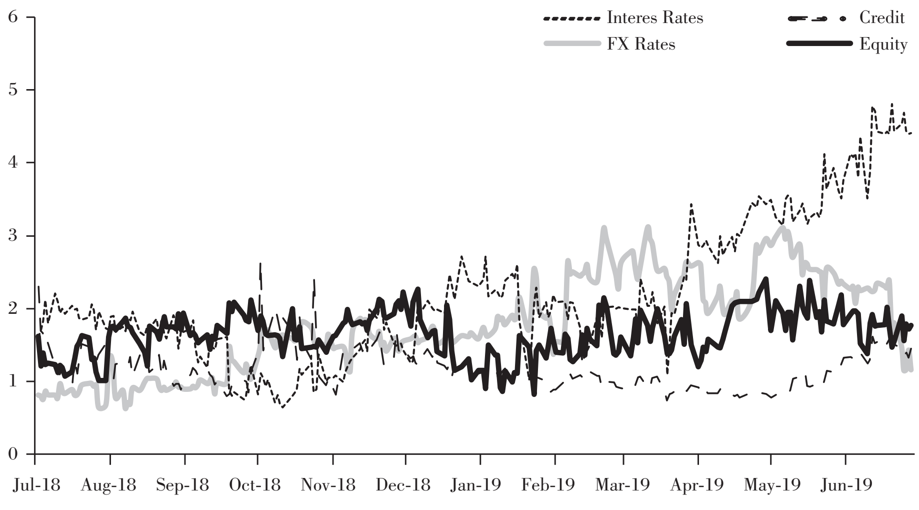
Risk factors	**12 mths to 30/6/19**				**12 mths to 30/6/18**
	30/6/19	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	270,869	(426,916)	1,236,233	664,340	1,166,546
Equity vega (+1%)	1,118,937	(179,215)	1,677,427	618,926	(131,505)
Interest rate delta(+1bp)	730,967	4,579	823,197	323,109	30,265
Inflation delta (+1 bp)	31,891	(9,264)	43,093	13,743	10,118
Exchange rate delta (+1%) *	485,849	(722,481)	1,906,315	703,114	295,358
Credit delta (1 bp)	1,002,754	398,520	1,272,147	750,825	253,825

* Refers to Euro appreciating against foreign currencies.

Trading Book VaR Trend



VaR Components Trend by Asset Class (Trading)



QUANTITATIVE INFORMATION

1. Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	65,366	1,933,119	925,358	362,435	170	—	928,208	—
1.1 Debt securities	65,093	1,933,119	925,358	362,435	170	—	928,208	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	65,093	1,933,119	925,358	362,435	170	—	928,208	—
1.2 Other assets	273	—	—	—	—	—	—	—
2. Cash liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	20,945	104,100	1,932,282	1,933,006	96,202	61,550	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	965,023	—	—	20,000	104,380	—	—
+ short positions	—	965,023	—	—	20,000	104,380	—	—
3.2 Without underlying securities								
– Options								
+ long positions	52,330	87,963,501	16,407,324	1,659,369	4,556,780	2,823,424	1,067,182	—
+ short positions	52,330	87,963,501	16,407,324	1,659,369	4,556,780	2,823,424	1,067,182	—
– Others								
+ long positions	389,344	22,055,805	8,475,549	3,025,690	15,436,199	6,067,935	2,190,631	—
+ short positions	1,117,429	19,045,466	9,402,521	2,221,748	15,694,240	7,282,611	2,877,139	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	2,291,640	—	76,336
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	—	—	6,055
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	6,055
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	245,002	—	1,057
- harmonized	224,655	—	—
- non-harmonized open	—	—	1,057
- non-harmonized closed	20,347	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	2,536,642	—	83,448

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 97% of the net exposure is to EU member states.

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of 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 EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-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 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.

With reference to the Group's banking book positions at 30 June 2019, 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 €35m (as against €3m last year).

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 up"), estimated net interest income would reduce by some €65m, due chiefly to the reduction by CheBanca! (€70m) and Compass €52m), against an increase by Mediobanca of €65m. Last year the maximum reduction was €32m in the steeper hypothesis.

The data above has been summarized in the following table:

Data at 30/6/19	**Banking Book**					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	Parallel Down	(35)	(13)	(4)	(9)	(9)
Discounted value of expected cash flows sensitivity	Parallel Up	(65)	65	(70)	(52)	(8)

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/ CET1).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months).[1]

[1] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and collateralization (CSA), and whose valuation is based on Eonia rates.

B. 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.

C. 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.

Counterparty risk

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

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

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of financial assets and liabilities

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	7,775,877	21,904,276	6,091,409	5,790,093	13,852,366	3,125,379	2,002,850	310
1.1 Debt securities	2	719,655	333,541	1,853,215	3,060,081	500,951	6,387	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	2	719,655	333,541	1,853,215	3,060,081	500,951	6,387	—
1.2 Loans to banks	2,123,449	2,205,266	493,668	1,553,750	656,289	—	403,208	60
1.3 Loans to customers	5,652,426	18,979,355	5,264,200	2,383,128	10,135,996	2,624,428	1,593,255	250
– current accounts	1,094,222	200,152	—	—	—	—	—	—
– other loans	4,558,204	18,779,203	5,264,200	2,383,128	10,135,996	2,624,428	1,593,255	250
– with early repayment option	113,268	6,897,016	946,267	1,740,062	8,463,542	2,366,115	1,552,107	—
– others	4,444,936	11,882,187	4,317,933	643,066	1,672,454	258,313	41,148	250
2. Cash liabilities	19,833,184	15,785,129	2,703,577	8,195,242	8,409,605	2,522,474	1,113,234	—
2.1 Due to customers	17,541,011	3,772,580	1,217,666	1,089,771	462,162	5,000	—	—
– current accounts	14,456,968	327,441	—	—	—	—	—	—
– other amounts due	3,084,043	3,445,139	1,217,666	1,089,771	462,162	5,000	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	3,084,043	3,445,139	1,217,666	1,089,771	462,162	5,000	—	—
2.2 Due to banks	2,012,892	5,012,964	443,203	2,667,115	3,892,548	—	369,106	—
– current accounts	609,446	—	—	—	—	—	—	—
– other amounts due	1,403,446	5,012,964	443,203	2,667,115	3,892,548	—	369,106	—
2.3 Debt securities	279,281	6,999,585	1,042,708	4,438,356	4,054,895	2,517,474	744,128	—
– with early repayment	—	—	—	—	—	—	—	—
– others	279,281	6,999,585	1,042,708	4,438,356	4,054,895	2,517,474	744,128	—
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	—	—	—	—	—	—	—
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ long positions	—	—	—	100,000	130,000	—	—	—
+ short positions	—	—	—	100,000	130,000	—	—	—
– Others								
+ long positions	293,066	13,786,045	2,192,672	1,962,744	9,541,780	3,606,976	1,022,000	—
+ short positions	860,899	17,021,036	1,495,000	2,380,000	6,979,548	2,153,300	1,515,500	—
4. Other OTC trades								
+ long positions	26,083	2,002,624	91,199	50,011	5,275,399	19,668	38,525	97
+ short positions	1,277,203	447,351	80,117	64,212	5,593,315	40,788	—	—

2. Banking book: internal models and other sensitivity analysis methodologies

Type of exposure/Amounts	**Book value**		
	Level 1	**Level 2**	**Level 3**
A. Equities [1]			
A.1 Shares	114,487	—	26,450
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	46,437	—	131,167
- harmonized open	46,437	—	—
- non-harmonized open	—	—	—
- closed	—	—	123,078
- reserved	—	—	—
- speculative	—	—	8,089
B.2 Other EU states	190,385	—	209,375
- harmonized	4,986	—	—
- non-harmonized open	8,636	—	—
- non-harmonized closed	176,763	—	209,375
B.3 Non-EU states	—	—	2,228
- open	—	—	—
- closed	—	—	2,228
Total	351,309	—	369,220

[1] Of which 43% Italian and 56% other EU member states.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 286 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

At the reference date, the hedging of the exchange rate difference with regard to the RAM equity interest accounts for CHF 165m, in accordance with what is prescribed by relevant accounting standards for the hedging of "Net investments of foreign operations", with the aim of eliminating the volatility of the equity reserve, which refers to the difference at consolidated level from the historical rate of first-time recognition and the subsequent goodwill. The hedging is made thanks to a CHF-denominated bond security, whose variations due to exchange rates fluctuations are on hold into a Net Equity reserve, thus offsetting the consolidation impact of the company as well as the impact of the goodwill. This reserve will be on hold until the possible sale of the equity interest.

QUANTITATIVE INFORMATION

1. Assets, liabilities and derivatives by currency

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish krona	Swiss franc	Other currencies
A. Financial assets	3,294,780	2,748,949	23,359	76,032	395,981	90,103
A.1 Debt securities	858,271	607,970	—	—	99,392	—
A.2 Equity securities	107,605	787,637	3,770	—	448	1,584
A.3 Due from banks	190,356	793,990	16,062	1,515	103,698	31,433
A.4 Due from customers	1,742,223	559,352	3,517	74,517	187,274	57,026
A.5 Other financial assets	396,325	—	10	—	5,169	60
B. Other assets	36,851	10,419	153	243	19,134	17,646
C. Financial liabilities	(4,273,382)	(2,286,905)	(4,277)	(1,599)	(207,261)	(68,904)
C.1 Due to banks	(179,611)	(1,492,655)	—	—	(3,979)	(13)
C.2 Due to customers	(1,319,434)	(122,631)	(3,438)	(1,599)	(55,059)	(68,707)
C.3 Debt securities	(2,339,719)	(666,996)	—	—	(81,576)	—
C.4 Other financial liabilities	(434,618)	(4,623)	(839)	—	(66,647)	(184)
D. Other liabilities	(3,587)	(1,832)	(1,765)	(243)	(12,911)	(17,243)
E. Financial derivatives						
- Options						
+ Long positions	123,465	28,337	20,691	—	13,651	5,301
+ Short positions	(121,567)	(47,510)	(27,888)	—	(12,596)	(5,333)
- Other derivatives						
+ Long positions	3,986,826	478,143	175,026	51,485	320,123	313,362
+ Short positions	(3,084,055)	(936,830)	(212,255)	(73,867)	(563,495)	(298,995)
Total assets	7,441,922	3,265,848	219,229	127,760	748,889	426,412
Total liabilities	(7,482,591)	(3,269,413)	(242,655)	(75,223)	(770,441)	(390,475)
Difference (+/-)	(40,669)	(3,565)	(23,426)	52,537	(21,552)	35,937

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level reflected a stable trend in the first half of the financial year, followed by a pronounced increase in absolute terms until early March, after which they gradually returned to just above the levels recorded in the first six months. Volatility remained at relatively low levels for all the main currencies, with temporary increases at year-end 2018 triggered primarily by commercial tensions. The VaR for the forex component at the aggregate level showed a stable trend until end-November, after which the increase in volatility for certain currencies, together with the increased exposure, drove an increase in VaR which subsequently reduced in line with the lower volatility, which preceded the gradual reduction in the exposure. The average VaR value was around €11.7m, largely unchanged from last year (€11.2m). The VaR figure recorded at 28 June 2019 was €9.2m (30/6/18: €13.2m).

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterpartsi	Senza controparti centrali		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	24,330,615	38,947,552	1,767,838	99,014,423
a) Options	—	8,025,805	280,000	96,703,913
b) Swap	24,330,615	22,811,367	1,487,838	—
c) Forward	—	124,380	—	—
d) Futures	—	—	—	2,310,510
e) Others	—	7,986,000	—	—
2. Equities and stock indexes	—	14,396,817	2,182,737	14,159,122
a) Options	—	12,277,206	2,182,737	13,822,601
b) Swap	—	2,002,462	—	—
c) Forward	—	117,149	—	—
d) Futures	—	—	—	336,521
e) Others	—	—	—	—
3. Currencies and gold	—	9,087,175	112,866	—
a) Options	—	1,534,191	—	—
b) Swap	—	2,912,799	105,448	—
c) Forward	—	4,640,185	7,418	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	24,330,615	62,431,544	4,063,441	113,173,545

A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	**30/6/19**			
	Over the counter			**Established markets**
	Central Counterparts	**Without central counterparties**		
		With clearing arrangements	**Without clearing arrangements**	
1. Positive fair value				
a) Options	—	568,610	6,427	487,169
b) Interest rate swap	2,489	743,161	73,492	—
c) Cross currency swap	—	323,693	10,067	—
d) Equity swap	—	9,181	—	—
e) Forward	—	43,299	6,165	—
f) Futures	—	—	—	10,352
g) Others	—	—	—	—
Total	2,489	1,687,944	96,151	497,521
2. Negative fair value				
a) Options	—	677,049	60,315	629,169
b) Interest rate swap	228,968	413,582	7,946	—
c) Cross currency swap	—	97,932	—	—
d) Equity swap	—	20,436	—	—
e) Forward	—	159,058	988	—
f) Futures	—	—	—	20,479
g) Others	—	—	—	—
Total	228,968	1,368,057	69,249	649,648

A.3 OTC trading financial derivatives: notional values, positive and negative fair values 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	180,000	1,012,467	575,371
- positive fair value	X	68,934	—	7,341
- negative fair value	X	1,258	6,727	467
2) Equities and stock indexes				
- notional value	X	1,519,396	663,318	22
- positive fair value	X	3,461	488	5,859
- negative fair value	X	60,323	15	356
3) Currencies and gold				
- notional value	X	3,106	4,312	105,448
- positive fair value	X	—	—	10,067
- negative fair value	X	—	103	—
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	24,330,615	23,036,181	8,257,400	7,653,971
- positive fair value	2,489	283,043	170,551	309,790
- negative fair value	228,968	332,604	274,526	41,916
2) Equities and stock indexes				
- notional value	—	8,646,191	4,097,407	1,653,219
- positive fair value	—	296,403	135,791	93,995
- negative fair value	—	358,369	169,121	26,363
3) Currencies and gold				
- notional value	—	4,921,685	2,374,082	1,791,408
- positive fair value	—	259,408	55,328	83,634
- negative fair value	—	98,649	15,927	50,581
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC financial derivatives: notional amounts

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	14,440,269	31,750,399	18,855,337	65,046,005
A.2 Financial derivative contracts on equity securities and stock indexes	7,751,122	8,726,432	102,000	16,579,554
A.3 Financial derivatives on currencies and gold	5,548,196	2,653,504	998,341	9,200,041
A.4 Financial derivatives on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	27,739,587	43,130,335	19,955,678	90,825,600

B. Credit derivatives

B.1 1 Trading credit derivatives: average and 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	4,491,875	17,549,942
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	873,520	—
Total 30/6/19	5,365,395	17,549,942
2. Security sales		
a) Credit default products	3,380,660	17,549,944
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 30/6/19	3,380,660	17,549,944

([1]) Of which certificates totaling € 873,520,000

The column "basket" includes the skew positions, which tackles the issues still outstanding, between reference index and the underlying single name, which are balanced between purchases and sales. The embedded derivative of these issues is represented, for protection purchases, on single subjects with a notional amount equal to the nominal amount of issues.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/19
1. Positive fair value	
a) Credit default products	490,498
b) Credit spread products	—
c) Total rate of return swap	—
d) Other	—
Total	490,498
2. Negative fair value	
a) Credit default products	549,896
b) Credit spread products	—
c) Total rate of return swap	—
d) Other [1]	864,440
Total	1,414,336

[1] Of which certificates totaling € 864,440,000.

B.3 Trading book OTC credit derivatives: notional values and gross positive/negative fair value, by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
- notional value [1]	X	3,058,444	300,000	—
- positive fair value	X	39,344	7,158	—
- negative fair value [1]	X	864,459	—	—
2) protection sale				
- notional value	X	14,526	—	—
- positive fair value	X	23,448	—	—
- negative fair value	X	54,123	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
- notional value	4,093,799	8,605,639	6,857,456	—
- positive fair value	—	42,824	10,162	—
- negative fair value	13,943	219,584	188,337	—
2) protection sale				
- notional value	4,045,557	10,351,698	6,518,822	—
- positive fair value	—	200,354	167,207	—
- negative fair value	—	69,829	4,062	—

[1] Of which certificates with a notional value of €873,520,000 and a fair value of €864,440,000.

B.4 Outstanding life of OTC trading credit derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Sale protection	676,808	18,714,116	1,539,679	20,930,603
2 Buy protection	872,958	18,946,677	1,796,630	21,616,265
Total 30/6/19	1,549,766	37,660,793	3,336,309	42,546,868

1.3.2 HEDGING DERIVATIVES

A. Financial hedging derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	30/6/19			
	Over the counter			Established markets
	Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	26,470,556	5,821,291	35,000	—
a) Options	—	130,000	—	—
b) Swap	26,470,556	5,591,291	35,000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	100,000	—	—
2. Equities and stock indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Currencies and gold	—	308,436	—	—
a) Options	—	—	—	—
b) Swap	—	308,436	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
Total	26,470,556	6,129,727	35,000	—

A.2 Hedge financial derivatives: positive and negative fair values by product

Types of derivatives	*Positive and negative fair values*				Variation in the value used to valuate the ineffectiveness of the hedging
	30/6/19				30/6/19
	Over the counter			Organized markets	
	Central counterparties	Without central counterparties			
		With clearing arrangements	Without clearing arrangements		
1. Positive fair value					
a) Options	—	6,505	—	—	—
b) Interest rate swap	305,510	98,618	463	—	356,619
c) Cross currency swap	—	1,138	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	305,510	106,261	463	—	356,619
Negative fair value					
a) Options	—	14,209	—	—	—
b) Interest rate swap	50,302	343,986	5,643	—	57,495
c) Cross currency swap	—	101	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
Total	50,302	358,296	5,643	—	57,495

A.3 OTC hedge financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entitiesi
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	35,000	—	—
- positive fair value	X	463	—	—
- negative fair value	X	5,643	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	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	26,470,556	5,144,021	327,270	350,000
- positive fair value	305,510	104,468	655	—
- negative fair value	50,302	342,465	2,647	13,083
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	293,497	14,938	—
- positive fair value	—	1,138	—	—
- negative fair value	—	—	101	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 Outstanding life of OTC hedging financial derivatives: notional values

Underlying / residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	6,816,866	17,834,496	7,675,485	32,326,847
A.2 Financial derivative contracts on equity securities and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	308,436	—	308,436
A.4 Financial derivative on goods	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/19	6,816,866	18,142,932	7,675,485	32,635,283

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

	Book Value			Change in the value used to calculate the ineffectiveness of the hedge		
	Fair value hedge	Cash flow hedge	Foreign investments hedge	Fair value hedge	Cash flow hedge	Foreign investments hedge
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading activities	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/19	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	135,086	—	5,417	—
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	135,086	—	5,417	—
Total 30/6/19	—	—	135,086	—	5,417	—

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with an impact on total profitability - hedges of:	1,417,736	—	12,219	—	19,199	—
1.1 Debt securities and interest rate	1,417,736	—	12,219	—	19,199	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	3,290,169	2,699,965	175,389	—	196,562	—
1.1 Debt securities and interest rate	590,204	—	12,338	—	10,901	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	2,699,965	2,699,965	163,051	—	185,661	X
1.5 Other	—	—	—	—	—	X
Total 30/6/19	4,707,905	2,699,965	187,608	—	215,761	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	14,731,229	—	304,272	—	270,791	—
1.1 Debt securities and interest rate	14,731,229	—	304,272	—	270,791	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/19	14,731,229	—	304,272	—	270,791	—

D.2 Cash flow and foreign investments hedges

	Change in value used to calculate hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Cash flow hedges			
1. Assets	—	—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indices	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits	—	—	—
1.5 Other	—	—	—
2. Liabilities	(42.704)	(41.843)	—
1.1 Debt securities and interest rate	(42.704)	(41.843)	—
1.2 Currencies and gold	—	—	—
1.3 Other	—	—	—
Total (A) 30/6/19	(42.704)	(41.843)	—
B. Foreign Investments hedges	X	(3.196)	—
Total (A+B) 30/6/19	(42.704)	(45.039)	—

E. Effects of hedging operations to net equity

E.1 1 Reconciliation of net equity constituents

	Cash flow hedges reserve					Foreign investment hedges reserve				
	Debt securities and interest rate	Equity securities and stock price	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock price	Currencies and gold	Credits	Others
Initial balance	(13,261)	—	—	—	—	—	—	641	—	—
Changes in Fair Value	(28,582)	—	—	—	—	—	—	(3,838)	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction not expected	—	—	—	—	—	X	X	X	X	X
Other variations	—	—	—	—	—	—	—	—	—	—
of which: transfer to initial book value	—	—	—	—	—	X	X	X	X	X
Final balance	(41,843)	—	—	—	—	—	—	(3,197)	—	—

1.3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING INSTRUMENTS)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparty	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	50.801.172	28.395.203	9.597.136	8.579.341
- positive fair value	307.999	462.540	171.207	317.131
- negative fair value	279.269	684.440	283.900	55.467
2) Equity instrument and stock index				
- notional amount	—	10.157.487	4.760.725	1.653.241
- positive fair value	—	299.863	136.279	99.854
- negative fair value	—	418.691	169.136	26.719
3) Currency and gold				
- notional amount	—	5.218.287	2.393.332	1.896.856
- positive fair value	—	260.546	55.328	93.701
- negative fair value	—	98.649	16.131	50.581
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchase				
- notional amount	4.093.799	10.365.009	7.157.456	—
- positive fair value	—	44.314	17.320	—
- negative fair value	13.943	1.083.351	188.337	—
2) Hedge sale				
- notional amount	4.045.557	10.408.534	6.518.822	—
- positive fair value	—	219.471	167.207	—
- negative fair value	—	124.520	4.062	—

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process.

In defining liquidity risk, a distinction is usually made 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 defined as 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 defined as 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.

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Mediobanca Group and the financial system in general, given that a single bank's difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

To meet this objective, the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. stipulates that an adequate level of highly liquid assets must be maintained to cover the cash flows anticipated in the short and medium/long term.

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, and 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's Risk Appetite Framework.

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, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management which, in accordance 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 non-recurring losses. The Mediobanca Group short-term liquidity policy is intended 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 for monitoring is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds, receivables eligible for refinancing with the ECB and marketable securities available post-haircut) and cumulative net cash flows.

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:* a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on uncommitted credit lines. The counterbalancing capacity is impacted by the adverse changes to Italian government securities observed during the crisis period referred to;

– *Name crisis*: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Major outflows from demand deposits are also assumed. The counterbalancing capacity is impacted by the adverse change to the securities issued by Mediobanca (ABS and covered bonds) during the crisis period;

– Combined: Combined between Name Crisis, Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the Group's assets eligible for refinancing with the European Central Bank.

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 on average the cumulative inflows cover the cumulative outflows for maturities of more than one and up to 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 indicator measured in accordance with the provisions of Commission Delegated Regulation (EU) 2015/61 was 143% (30/6/18: 186%), and the NSFR indicator was 107% (108%). The LCR includes the prudential estimate of "additional liquidity outflows for other products and services" as required by Article 23 of Commission Delegated Regulation (EU) 2015/61.

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

Alongside the previous indicators, an event governance model has also been provided 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 and/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.

The first six months of the financial year saw high volatility on financial markets, due to monetary policy factors (i.e. the ECB gradually exiting its quantitative easing programme) as well as international tensions (commercial war between the United States and China, plus Brexit). In Italy the volatility was still higher, on account of the unstable political situation, which drove a widening of the spreads on Italian sovereign debt versus that of the other EU member states, impacting negatively on the cost of refinancing for banks.

The situation improved at the start of 2019, despite the uncertainty over the outcome of the European elections, helped by the more accommodative monetary policies announced by the central banks, plus the TLTRO III programme. In Italy, concerns over the political situation also diminished, which led to spreads on sovereign and bank debt narrowing once again.

The Mediobanca Group was able to complete its funding plan by diversifying the sources of financing, with priority being given to secured funding in the first six months in particular. Such diversification had only limited effects on the cost of funding and access to markets.

During the year under review, against redemptions of securities totalling €3.8bn, issues were placed in an amount of some €3.2bn, €1.8bn of which senior unsecured, €600m in securitizations of Compass receivables, and €750m in covered bonds with CheBanca! mortgages as the underlying instrument. Bank funding of over €1.9bn was used, with maturities of at least 24 months, €1.2bn of which secured. Funding raised by refinancing assets with the European Central Bank was unchanged at €4.3bn.

As at 30 June 2019, the counterbalancing capacity stood at €9.89bn, €8.9bn of which in the form of bonds exchangeable for cash from the ECB (30/6/18: €10.1bn, €8.7bn of which eligible bonds); the balance of liquidity reserves established at the European Central Bank amounted to approx. €5.8bn, some €1.5bn of which in the form of cash not used, and hence qualifying as part of the counterbalancing capacity.

QUANTITATIVE INFORMATION

1 Financial assets and liabilities by contractual outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	6,719,451	454,499	1,244,313	1,297,473	2,664,008	3,353,875	8,351,493	29,274,341	12,465,883	227,188
A.1 Government securities	440	788	32,785	58,608	34,991	152,184	1,958,191	4,439,223	695,389	—
A.2 Other debt securities	1	713	30,744	27,218	79,828	53,950	578,380	1,743,959	719,922	—
A.3 UCITS units	32,255	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	6,686,755	452,998	1,180,784	1,211,647	2,549,189	3,147,741	5,814,922	23,091,159	11,050,572	227,188
– to banks	2,123,000	121,442	680,825	288,601	28,389	392,196	1,670,275	1,006,631	903,899	226,341
– to customers	4,563,755	331,556	499,959	923,046	2,520,800	2,755,545	4,144,647	22,084,528	10,146,673	847
Cash liabilities	19,809,033	799,810	863,689	1,286,233	7,087,506	2,536,700	6,454,024	16,704,813	6,582,032	—
B.1 Deposits and currentaccounts	17,733,981	682,491	413,785	724,611	1,159,128	825,027	1,012,135	391,326	26,503	—
– to banks	609,446	1,336	5,322	10,168	11,322	11,810	33,135	218,576	21,503	—
– to customers	17,124,535	681,155	408,463	714,443	1,147,806	813,217	979,000	172,750	5,000	—
B.2 Debt securities	279,287	121	47,810	26,143	830,700	1,041,422	2,332,056	9,419,501	6,085,705	—
B.3 Other liabilities	1,795,765	117,198	402,094	535,479	5,097,678	670,251	3,109,833	6,893,986	469,824	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange										
– posizioni lunghe	370,036	232,821	339,474	570,471	789,685	754,549	167,982	2,012,765	563,268	—
– posizioni corte	14,817	71,547	155,955	310,370	322,405	246,539	319,629	2,364,152	435,072	—
C.2 Derivati finanziari senza scambio di capitale										
– long positions	2,965,698	6,324	10,695	5,993	25,120	47,836	97,803	9,530	—	—
– short positions	3,156,271	2,213	5,286	10,474	34,759	64,955	76,683	—	—	—
C.3 Deposits and loans for collection										
– long positions	2,423,145	235,827	164,565	199,402	—	183,622	1,409,360	166,173	47,965	—
– short positions	—	—	—	130,027	—	473,961	2,049,741	1,508,770	667,558	—
C.4 Irrevocable commitments to disburse funds*										
– long positions	1,095	90	9,872	73,911	1,214,893	70,541	1,475,515	903,676	347,147	97
– short positions	1,513,343	32,190	158,647	277,914	70,068	188,177	1,401,799	326,787	127,814	97
C.5 Financed guarantees issued	8	1,150	107	1,294	622	4,871	7,972	643	558	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	825,000	36,344	155,972	1,487,516	87,089	—
– short positions	—	—	—	—	43,681	59,585	23,787	2,343,383	121,484	—
C.8 Credit derivatives without exchange of principal										
– long positions	570,767	—	—	—	—	—	—	—	—	—
– short positions	672,233	—	—	—	—	—	—	—	—	—

1.5 OPERATIONAL RISK

Definition

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

Capital requirements

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at 30 June 2019 was €321.6m (30/6/18: €311.8m).

Risk mitigation

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

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

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

The operating losses recorded in the course of the financial year have been low and account for approx. 0.5% 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	% su Total Loss
Clients, products and business practices	53%
Execution, delivery and process management	26%
External fraud	7%
Employment practices and workplace safety	13%
Other	1%

During the twelve months under review, half of the operating losses due to the "Clients, products and business practices" event type, which includes losses deriving form complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products, while one-quarter were due to instances relating to process risk ("Execution, delivery and process management"); the remainder were due to external fraud on retail financing products (fake documentation and/or cards) and the employment relationship.

Potential operational risks (based on estimates) will continue to be relevant as a result of growth in the Wealth Management and Consumer businesses, the commercial networks and the acceleration of new types of risk, notably cyber. The Group continues to be exposed to the potential risk of low frequency/high severity inherent in businesses which feature non-standard and large-sized transactions, such as CIB and Wealth Management. Operational risks are mitigated on an ongoing basis by enhanced governance and first-level controls, and by continuously adapting the frameworks used for valuation and monitoring.

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.

* * *

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

- 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, i.e. exposure to 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);
- Risk from equity investments held as part of the "Hold to collect and sell" banking book ("HTC&S"), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);
- Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;
- Compliance risk, attributable to the possibility 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, due to 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.

* * *

The Mediobanca Group continues to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. (investment banking services) and Group company Cairn Capital (alternative fund management), generating a relatively low percentage of its total revenues (approx. 3%). Mediobanca is monitoring the state of progress in the negotiations and the potential impact in regulatory terms through an inhouse working group which is co-operating with the JST and local regulators. The target operating moel to be applied in the event of a "hard" Brexit is in the process of being identified, along with the clearance procedure required (deadlines and methods) to apply for authorization with the FCA (the third country branch application process).

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

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

	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
1. Share capital	460,237	—	—	—	460,237	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	5,962,296	—	—	—	5,962,296	70,823
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(141,989)	—	—	—	(141,989)	—
6. Valuation reserves:	594,679	—	—	—	594,679	(2,825)
- Equity instruments valued at fair value with impact taken to comprehensive income	60,415	—	—	—	60,415	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	24,161	—	—	—	24,161	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(3,197)	—	—	—	(3,197)	—
- Hedging of cash flows	(44,572)	—	—	—	(44,572)	(2,730)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	(5,086)	—	—	—	(5,086)	(4)
- Non-current assets and group of assets being sold		—	—	—	—	
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	—	—	—	—	—	—
- Actuarial gains (losses) on defined benefits pension schemes	(7,269)	—	—	—	(7,269)	(91)
- Valuation reserves share of equity-accounted interests	560,595	—	—	—	560,595	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	826,208	—	—	—	826,208	3,183
Total	9,898,885	—	—	—	9,898,885	89,658

* Includes Compass RE (insurance) and R&S, equity-method consolidated (Other companies).

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	30,599	(6,438)	—	—	—	—	—	—	30,599	(6,438)
2. Equity securities	61,045	(630)	—	—	—	—	—	—	61,045	(630)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 30/6/19	91,644	(7,068)	—	—	—	—	—	—	91,644	(7,068)
Total at 30/6/18 *	153,930	(32,086)	1,239	(1,543)	—	—	—	—	155,169	(33,629)

* Includes UCITS stock units (cf. IAS 39).

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	47,340	53,140	—
2. Additions	33,605	14,674	—
2.1 Increases in fair value	28,662	9,210	—
2.2 Adjustment for credit risk	574	X	—
2.3 Profit and loss reversal of negative reserves from realize	4,369	X	—
2.4 Transfers to other equity components (equity instruments)	—	5,464	—
2.5 Other increases	—	—	—
3. Reductions	56,784	7,399	—
3.1 Reductions in fair value	13,384	5,365	—
3.2 Recoveries for credit risk	29	—	—
3.3 Profit and loss reversal from positive reserves: from disposal	43,371	X	—
3.4 Transfers to other equity components (equity instruments)	—	2,034	—
3.5 Other decreases	—	—	—
4. Closing balance	24,161	60,415	—

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently 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 2018.

At 30 June 2019, the authority asked Mediobanca to maintain a CET ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes an additional Pillar 2 ("P2R") requisite of 1.25%, unchanged from last year, with a capital conservation buffer of 2.50%.

2.1 Scope of application for regulations

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/CRR2[1]) issued by the European Parliament starting from 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 CRR2, which extended the effectiveness of the phase-in period until 31 December 2024.[2]

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of spreading the impact of introducing IFRS 9 on own funds over a transitional period of five years, by including a decreasing amount of loan loss provisions in CET1 over that time. The Mediobanca Group has applied the static approach

[1] The new Regulation was approved by the European Parliament on 16 April 2019 after being published in the Official Journal of the European Union.

[2] Application of Article 471 is limited to the book value as at December 2012 and to compliance with the concentration limit versus the insurer, i.e. 20% of the limit versus related parties.

to neutralize the effect of the increase in loan loss provisions starting from the financial statements for the year ended 30 June 2018 (IFRS 9 FTA) and for the next five years thereafter[3].

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €815.2m of the positive FVOCI financial assets reserves, €6.6m of which in government securities and €730.5m deriving from Assicurazioni Generali being equity-consolidated) and the profit for the period (€826.2m) net of the dividend for the year (€416.5m) which represents a €0.47 dividend per share (for a payout ratio of 49.8%, calculated based on the number of shares in circulation). The deductions regard: treasury shares (€234m), including €136m already owned as at 30 June 2019 and commitments to buy back shares totalling €98m to reach 3% of the share capital (as approved by shareholders in annual general meeting and authorized by the ECB in October 2018), intangible assets (€133m), goodwill of €772.4m (€149m of which in respect of newly-acquired MMA), and other prudential adjustments of €48.3m (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €2,004.9m were deducted, €1,704m of which in respect of the Assicurazioni Generali investment and €121.2m of Compass RE (30/6/18: €1,515.7m and €90.8m respectively).

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

Tier 2 capital includes subordinated liabilities, down from €1,819.4m to €1,522.7m due to amortization. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

[3] Year 1: 95%; Year 2: 85%; Year 3:70%; Year 4: 50%; Year 5: 25%.

Issue	30/6/19		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,498
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,142	165,392
MB OPERA 3.75 2026	IT0005188351	299,820	291,228
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	391,365	151,501
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,881
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,617	375,223
Total subordinated debt securities		2,351,944	1,522,724

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus of €38.5m is higher than the €9.2m buffer reported last year due to the CheBanca! mortgage loan book models being validated.

QUANTITATIVE INFORMATION

	30/6/19	30/6/18
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,351,118	9,285,623
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	7,317	(12,852)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,358,435	9,272,771
D. Items to be deducted from CET1	(3,834,987)	(3,518,758)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,000,929	992,586
F. Total common equity tier 1 (CET1) (C-D+/-E)	6,524,377	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	1,561,228	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)	1,561,228	1,828,666
Q. Total own funds (F+L+P)	8,085,605	8,575,265

* The adjustments include application of the transitional arrangements for the introduction of IFRS 9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2019, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.09%, lower than at 30 June 2018 (14.24%) due chiefly to the treasury share buyback scheme launched (which accounted for 65 bps, including the shares used during the period), and the recent acquisition of MMA (15 bps, considering that the upfront price was paid for in Mediobanca shares), which more than absorbed the capital generated from current activities (consisting of the difference between retained earnings, growth in RWAs and recalibration of the buffers for the deductions) and the benefit deriving from introduction of the AIRB models for the CheBanca! mortgage loan book (which added approx. 40bps, corresponding to an average weighting of below 20%). A prudential filter has been applied to the reduction in net equity which emerged on first-time adoption of IFRS 9 (€80.9m net of the tax effect), in an amount of €76.4m (equal to 95% of the higher loan loss provisions booked), in line with the phase-in regime.

RWAs fell by approx. €1bn in the twelve months, due principally to the CheBanca! mortgage models mentioned above being applied, which removed some €1.4bn. This reduction was only in part offset by growth in RWAs in the other segments: CIB (up €0.6bn, €160m of which due to the higher risk weight assigned to purchased defaulted assets (from 100% to 150%) following EBA clarification no. 2017_3270) and Consumer Banking (up €0.7bn). There were also reductions in Principal Investing (€0.6bn) and Holding Functions (€0.5bn).

Conversely, the total capital ratio reduced from 18.11% to 17.46%, in part due to the amortization of the Tier 2 instruments.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted and with full application of the IFRS 9 effect (approx. 19bps), the CET1 ratio was 12.83% and the total capital ratio 16.46%, lower than the figures reported at end-June last year, which were 13.15% and 17.32% respectively.

The other indicators performed as follows during the year under review:

- The Liquidity Coverage Ratio (LCR) declined from 186% to 143%, remaining comfortably above the regulatory limit of 100%;
- The Leverage Ratio too decreased from 8.8% to 8.4%, but once again was well above the regulatory limit set (3%).

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts [5]		Weighted amounts/requirements	
	30/6/19	30/6/18	30/6/19	30/6/18
A. RISK ASSETS				
A.1 Credit and counterpart risk	66,599,488	65,110,914	39,194,427	40,479,850
1. Standard methodology	40,763,545	49,338,183	27,909,222	31,415,612
2. Internal rating methodology	25,679,325	15,611,090	11,165,086	8,936,201
2.1 Basic	—	—	—	—
2.2 Advanced	25,679,325	15,611,090	11,165,086	8,936,201
3. Securitization	156,617	161,641	120,120	128,037
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,135,554	3,238,388
B.2 Credit valuation risk			42,695	49,724
B.3 Settlement risk			—	—
B.4 Market risk			204,897	189,093
1. Standard methodology			204,897	189,093
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			321,647	311,808
1. Basic Indicator Approach (BIA)			321,647	311,808
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,704,793	3,789,013
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			46,309,918	47,362,665
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.09%	14.24%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.09%	14.24%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			17.46%	18.11%

[5] For the standardized methodology, the "unweighted amounts", as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the "unweighted amounts" correspond to the "exposure at default" (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G - Combinations involving Group companies or business units

SECTION 1: TRANSACTIONS COMPLETED DURING THE PERIOD

On 10 April 2019, Mediobanca S.p.A. completed the acquisition of a 66.4% stake in Messier Maris & Associés. The consideration of €107.9m was paid entirely in Mediobanca shares from the buyback scheme currently in progress. A put-and-call option has also been taken out to increase the stake to 100%. Goodwill, including the liability for the put-and-call option, totals €149m, pending the purchase price allocation process which, as required by the international accounting standards, must take place within twelve months of the acquisition date (March 2020).

The following transactions also took place during the period under review:

– On 20 December 2018 Spafid Connect sold Market Connect, the IT services platform it acquired from Borsa Italiana in March 2017, to Norwegian listed company Infront;
– The purchase price allocation process for the RAM AI acquisition was completed on 31 December 2018;
– Ownership of Spafid Connect was transferred from Spafid to MIS during June 2019 in a "common control" transaction at book value.

For further details, please see Part B of the Notes to the Consolidated Balance Sheet, Section 10 (Intangible Assets)".

SECTION 2: TRANSACTIONS COMPLETED SINCE THE REPORTING DATE

No transactions have taken place since the reporting date.

SECTION 3: RETROSPECTIVE ADJUSTMENTS

No adjustments have been made to the accounts in connection with previous business combinations for the period under review.

Part H - Related party disclosure

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in June 2019. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

2.1 *Regular financial disclosure: most significant transactions*

There were no such transactions to report during the period under review.

2.2 *Quantitative information*

The exposure (representing the sum of assets plus guarantees and commitments) grew to €1.4bn (30/6/18: €1.1bn), and accounts for 1.8% of total assets (1.5%), while net interest income from such items accounted for 1.3% of the total (1.1%).

Situation as at 30 June 2019

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.3	355.8	1.059.9	1.417.0
of which: other assets	—	*138.8*	*787.5*	*926.3*
loans and advances	*1.3*	*217.0*	*272.4*	*490.7*
Liabilities	18.0	0.1	393.4	411.5
Guarantees and commitments	—	10.0	—	10.0
Interest income	—	9.1	15.5	24.6
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	0.6	64.6	65.2
Other income (costs)	(41.6) [1]	0.3	(38.6)	(79.9)

1 Of which: short-term benefits amounting to €37.5m and performance shares worth €4m. The figure refers to the staff included in the definition of management with strategic responsibilities during the period..

Situation at 30 June 2018

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.2	409.3	647.4	1.057.9
of which: other assets	—	*212.1*	*393.6*	*605.7*
loans and advances	*1.2*	*197.2*	*253.8*	*452.2*
Liabilities	17.5	0.1	188.4	206.0
Guarantees and commitments	—	—	43.0	43.0
Interest income	—	9.1	12.5	21.6
Interest expense	(0.1)	—	(1.6)	(1.7)
Net fee income	—	2.8	60.9	63.7
Other income (costs)	(39.3) [1]	(1.1)	(26.2)	(66.6)

1 Of which: short-term benefits amounting to €30.4m and performance shares worth €3.7m. The figure refers to the staff included in the definition of management with strategic responsibilities during the period.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. *Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments*

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved by shareholders in extraordinary general meetings reflect the following situation:

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded	
For use in connection with stock option and performance stock option schemes					
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000	
Of which directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000*	[2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000	
For use in connection with performance share schemes					
28 October 2015	20,000,000	X	28 October 2020	5,081,612	[3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] Of these, 2,000,000 were granted to one former director.

[3] In respect of awards made in 2015, 2016, 2017, 2018 and 2019.

2. *Description of stock option and performance stock option schemes*

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with a dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allocated are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;

– Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued; the 15,445,795 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2018 financial year, a total of 1,835,703 performance shares were awarded; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches November 2021 (up to 853,721), November 2022 (up to 499,727), November 2023 (up to 369,041) and November 2024 (up to 113,214).

Beneficiaries were also awarded a total of 1,850,300 shares (1,827,063 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015).

After the reporting date, as part of staff variable remuneration for the 2019 financial year, a total of 1,574,528 performance shares were awarded, at notional cost of €12.6m in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three, four and five-year time horizon, will be made available in tranches in November 2021 (up to 756,991), November 2022 (up to 429,695), November 2023 (up to 304,522) and November 2024 (up to 83,320).

B. QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

	30/6/19			30/6/18		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Opening balance	642,500	6.51	October 18	4,442,500	6.53	August 18
B. Increases						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Decreases						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	642,500	6.43	X	3,800,000	6.54	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	—	—		642,500	6.51	October 18
E. Performance shares exercisable as at reporting date	—	—	X	642,500	6.51	X

2. Changes in performance share scheme during the year

	30/6/19		30/6/18	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,096,209	6.69	5,065,713	6.37
B. Increases				
B.1 New issues	1,835,703	6.78	1,834,484	7.93
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,850,300	6.35	1,559,507	7.09
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	—	—	244,481	6.99
D. Closing balance	5,081,612	6.84	5,096,209	6.69

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

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

(€m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Adjustments [1]	Group
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	18.1	1,395.6
Net trading income	6.2	—	126.8	18.3	45.0	0.4	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	(32.8)	611.2
Share in profits earned by equity-accounted companies	—	—	—	321.2	—	—	321.2
Total income	**547.3**	**1,026.9**	**627.1**	**332.4**	**5.3**	**(14.3)**	**2,524.7**
Personnel costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(0.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	17.7	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**17.6**	**(1,161.9)**
Gain (losses) on equity investments	—	—	—	—	—	—	—
Net loss provisions	(11.5)	(237.8)	37.1	(3.3)	(8.9)	(0.3)	(224.7)
Others	0.6	—	—	—	(54.8)	0.2	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**3.2**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(0.3)	(256.5)
Minority interest	(2.5)	—	—	—	(2.1)	—	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**2.9**	**823.0**
Cost/income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*n.m.*	*46.0*

Notes:
Divisions comprise:
- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
  - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris & Associés);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CB): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Wealth Management (WM): recently set up division, bringing together all asset management services offered to the following client segments:
  - Affluent & Premier, addressed by CheBanca!;
  - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Asset Management & Alternative, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.) with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €2.9m).

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

(€m)

Balance-sheet data	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	6.5	—	9,759.2	—	—	9,765.7
Treasury funds	—	—	2,705.0	—	7,465.2	10,170.2
Banking book debt securities	340.3	214.7	590.3	—	5,550.6	6,695.9
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Equity investments	33.5	2.3	—	3,916.5	28.0	3,980.3
Tangible and intangible assets	138.9	382.7	167.2	—	498.8	1,187.6
Other assets	367.1	708.0	46.0	—	930.2	2,051.3
Total assets	**12,240.1**	**14,530.7**	**31,133.0**	**3,916.5**	**16,424.4**	**78,244.7**
Funding	(22,449.6)	(3,030.2)	—	—	(25,913.4)	(51,393.2)
Treasury funding	—	—	(2,643.6)	—	(3,922.0)	(6,565.6)
Financial liabilities held for trading	—	—	(8,027.8)	—	—	(8,027.8)

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Abroad [1]	Group
Net interest income	1,343.7	51.9	1,395.6
Net trading income	186.7	10.0	196.7
Net fee and commission income	422.5	188.7	611.2
Share in profits earned by equity-accounted companies	321.2	—	321.2
Total income	**2,274.1**	**250.6**	**2,524.7**
Personnel costs	(457.1)	(124.6)	(581.7)
Administrative expenses	(513.9)	(66.3)	(580.2)
Operating costs	**(971.0)**	**(190.9)**	**(1,161.9)**
Gain (losses) on equity securities	—	—	—
Net loss provisions	(223.4)	(1.3)	(224.7)
Others	(52.2)	(1.8)	(54.0)
Profit before tax	**1,027.5**	**56.6**	**1,084.1**
Income tax for the period	(233.3)	(23.2)	(256.5)
Minority interest	(2.1)	(2.5)	(4.6)
Net profit	**792.1**	**30.9**	**823.0**
Cost/Income (%)	*42.7%*	*76.2%*	*46.0%*

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments and Messier Maris et Associés, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data: geographical breakdown

(€m)

Balance-sheet data	Italy	Abroad [1]	Group
Financial assets held for trading	9,666.5	99.2	9,765.7
Treasury funds	4,923.6	5,246.6	10,170.2
Banking book debt securities	5,914.5	781.4	6,695.9
Loans and advances to customers	38,041.0	6,352.7	44,393.7
Equity investments	3,960.9	19.4	3,980.3
Tangible and intangible assets	1,139.0	48.6	1,187.6
Other assets	1,780.9	270.4	2,051.3
Total assets	**65,426.4**	**12,818.3**	**78,244.7**
Funding	(40,619.7)	(10,773.5)	(51,393.2)

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments and Messier Maris et Associés, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13. Situation at 30 June 2019

(€m)

Business Line	Composition	Heading 120 Total income*			Full Time Employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	488	46	534	196	166	362
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions (formerly Creditech)	105	—	105	255	—	255
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	884	3	887	1,357	1	1,358
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	296	2	298	1,311	5	1,316
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investments	77	169	246	96	331	427
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	8	—	8	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	(3)	—	(3)	893	25	918
Adjustments [2]		(18)	(17)	(35)	—	—	—
Group total		1,837	203	2,040	4,119	528	4,647

* As per P&L heading 120 according to Bank of Italy circular 262/05, which differs from "Total income" of P&L scheme in pagg. 337 and 338 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

[2] The row headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Situation at 30 June 2018

(€m)

Business Line	Composition	Heading 120 Total income*			Full Time Employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	476	38	514	185	156	341
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions (formerly Creditech)	90	—	90	243	—	243
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	853	2	855	1,363	1	1,364
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	292	—	292	1,271	5	1,276
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking (deriving from the merger of Banca Esperia) and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investments	90	142	232	112	325	437
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	111	—	111	12	—	12
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); ; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment)	(26)	—	(26)	880	24	904
Adjustments [2]		(20)	5	(15)	—	—	—
Group total		1,866	187	2,053	4,066	511	4,577

* As per P&L heading 120 according to Bank of Italy circular 262/05, which differs from "Total income" of P&L scheme in pagg. 337 and 338 of the Notes to the accounts (which better reflects the Group operating activity). Heading 120 according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

[2] The row headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

ANNEXES

Consolidated financial statements Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth update

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

– The heading "Treasury financial assets" includes "Cash and cash equivalents" (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively), plus certain items booked as "Other assets" (heading 130);

– The heading "Banking book securities" includes the debt securities booked as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);

– The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";

– The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (heading 60) for loans and receivables;

– The heading "Other assets" includes the amounts booked under headings 130 "Other assets", 110 "Tax assets" and 50 "Hedging derivatives", and the sundry debtor items booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b);

As for Liabilities:

- The heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
- The heading “Treasury financial liabilities” includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
- The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

Balance sheet as at 30 June 2019 - Assets

(€m)

Assets	**Financial assets held for trading**	**Treasury financial assets**	**Banking book securities**	**Customer loans**	**Equity Investments**	**Tangible and intangible assets**	**Other assets**	**Total assets**
10. Cash and cash equivalents	—	738.4	—	—	—	—	—	738.4
20. Financial assets at fair value with impact taken to profit and loss	9,765.7	—	55.6	219.8	581.9	—	—	10,623.0
a) Financial assets held for trading	*9,765.7*	—	—	—	—	—	—	*9,765.7*
b) Financial assets designated at fair value	—	—	*52.0*	—	—	—	—	*52.0*
c) Other financial assets mandatorily at fair value	—	—	*3.6*	*219.8*	*581.9*	—	—	*805.3*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,748.1	—	138.6	—	—	3,886.7
40. Financial assets at amortized cost	—	9,420.8	2,892.2	44,173.9	—	—	113.0	56,599.9
50. Hedging derivatives	—	—	—	—	—	—	412.2	412.2
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,259.8	—	—	3,259.8
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	285.8	—	285.8
100. Intangible assets	—	—	—	—	—	901.8	—	901.8
110. Tax assets	—	—	—	—	—	—	806.0	806.0
120. Assets classified as held for sale	—	—	—	—	—	—	22.2	22.2
130. Other assets	—	11.0	—	—	—	—	697.9	708.9
Total assets	**9,765.7**	**10,170.2**	**6,695.9**	**44,393.7**	**3,980.3**	**1,187.6**	**2,051.3**	**78,244.7**

Balance sheet as at 30 June 2019 - Liabilities

(€m)

Liabilities and net equity	**Funding**	**Treasury financial liabilities**	**Financial liabilities held for trading**	**Other liabilities**	**Provisions**	**Net equity and minority interests**	**Total liabilities and net equity**
10. Financial liabilities at amortized cost	51,337.3	6,561.1	—	38.5	—	—	57,936.9
a) Due to banks	*8,501.7*	*5,364.8*	—	*4.3*	—	—	*13,870.8*
b) Due to customers	*22,757.6*	*1,196.3*	—	*34.0*	—	—	*23,987.9*
c) Debt securities in issue	*20,078.0*	—	—	*0.1*	—	—	*20,078.1*
20. Trading financial liabilities	—	—	8,027.8	—	—	—	8,027.8
30. Financial liabilities designated at fair value	55.9	—	—	—	—	—	55.9
40. Hedging derivatives	—	—	—	414.2	—	—	414.2
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	600.9	—	—	600.9
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	4.5	—	944.5	—	—	949.0
90. Staff severance indemnity provision	—	—	—	—	27.8	—	27.8
100. Provisions	—	—	—	—	162.5	—	162.5
110. Insurance reserves	—	—	—	170.8	—	—	170.8
120. Revaluation reserves	—	—	—	—	—	597.5	597.5
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—	—	—	—
150. Reserves	—	—	—	—	—	5,891.5	5,891.5
160. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
170. Share capital	—	—	—	—	—	443.6	443.6
180. Treasury share (-)	—	—	—	—	—	(142.0)	(142.0)
190. Minority interests (+/-)	—	—	—	—	—	89.7	89.7
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	823.0	823.0
Total liabilities and net equity	**51,393.2**	**6,565.6**	**8,027.8**	**2,168.9**	**190.3**	**9,898.9**	**78,244.7**

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, fifth update

The profit and loss account shown on p. 24 reflects the following restatements:

– "Net interest income" includes the items stated under headings 10 "Interest and similar income", 20 "Interest and similar expense", the margins on derivatives trading stated under heading 80 "Net trading income", and the net profit or loss on hedges of customer loans and funding stated under heading 90 "Net hedging income";

– "Net treasury income" contains the amounts stated under heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for amounts booked as Net interest income and considering that the heading includes €18.1m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 "Net gains (losses) on disposals/repurchases", the share of securities lending transactions stated under headings 40 "Fee and commission income" and 50 "Fee and commission expense", and the share of heading 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" not related to lending funds;

– The heading "Net fee and commission income" contains the amounts stated under heading 60 "Net fee and commission income", the operating income stated under heading 230 "Other operating income (expense)", and the writebacks due to collections on NPLs acquired stated under heading 130 "Net writeoffs (writebacks) for credit risk" and the "Net profit from insurance activities" of headings 160 and 170;

– The heading "Loan loss provisions" contains the amounts relating to loans stated under headings 130 "Net value adjustments for credit risk" (net of the writebacks to NPLs), 100 "Net gains (losses) on disposals/repurchases", 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" and 140 "Gain (losses) from contractual modifications without derecognition" and the share of heading 200 "Net transfers to provisions – a) commitments and guarantees issued" related to leasing;

– The heading "Gains (losses) on disposal of equity holdings" contains the earnings effects of the Group's holdings in equity investments stated under headings 250 "Gains (losses) on equity investments" while the effects of securities and funds stated under heading 110 “Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value” are reclassified under heading “Provisions for other financial assets”;

- The heading “Operating costs” includes amounts booked under heading 190 “Administrative expenses”, net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading “Other income (losses)” contains the non-recurring costs stated under heading 190 “Administrative expenses”, in particular contributions to the Single Resolution Fund and Deposit Guarantee scheme, amounts set aside in respect of refurbishments, and depreciation/amortization of tangible and/or intangible assets.

Profit and loss account as at 30 June 2019

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	1,886.0	—	—	—	—	—	—	—	—	—	—	1,886.0
20. Interest expense and similar charges	(481.8)	—	—	—	—	—	—	—	—	—	—	(481.8)
30. Net interest income	**1,404.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,404.2**
40. Fee and commission income	(0.2)	10.5	574.4	—	—	—	—	—	—	—	—	584.7
50. Fee and commission expense	—	(8.0)	(136.3)	—	—	—	—	—	—	—	—	(144.3)
60. Net fee and commission income	**(0.2)**	**2.5**	**438.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**440.4**
70. Dividends and similar income	—	105.8	—	—	—	—	—	—	—	—	—	105.8
80. Net trading income	(13.8)	1.7	—	—	—	—	—	—	—	—	—	(12.1)
90. Net hedging income (expense)	5.4	—	—	—	—	—	—	—	—	—	—	5.4
100. Gain (loss) on disposal/repurchase	—	86.5	—	—	—	—	(7.2)	—	—	—	—	79.3
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	0.2	—	—	—	—	17.0	(0.8)	—	—	—	16.4
120. Total income	**1,395.6**	**196.7**	**438.1**	**—**	**—**	**—**	**9.8**	**(0.8)**	**—**	**—**	**—**	**2,039.4**
130. Net writeoffs (writebacks) for credit risk	—	—	26.9	—	—	—	(235.9)	(1.3)	—	—	—	(210.3)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	(0.2)		—	—	—	(0.2)
150. Net income from financial operations	**1,395.6**	**196.7**	**465.0**	**—**	**—**	**—**	**(226.3)**	**(2.1)**	**—**	**—**	**—**	**1,828.9**
160. Premiums earned (net)	—	—	59.1	—	—	—	—	—	—	—	—	59.1
170. Other income (net) from insurance activities	—	—	(12.7)	—	—	—	—	—	—	—	—	(12.7)
180. Net profit from financial and insurance activities	**1,395.6**	**196.7**	**511.4**	**—**	**—**	**—**	**(226.3)**	**(2.1)**	**—**	**—**	**—**	**1,875.3**
190. Administrative expenses	—	—	(0.3)	—	(1,179.9)	—	—	—	(53.5)	—	—	(1,233.7)
200. Net transfers to provisions	—	—	—	—	(4.2)	—	3.7	—	0.5	—	—	—
210. Net adjustments to tangible assets	—	—	—	—	(13.9)	—	—	—	—	—	—	(13.9)
220. Net adjustments to intangible assets	—	—	—	—	(29.1)	—	—	—	(1.2)	—	—	(30.3)
230. Other operating income (expense)	—	—	100.1	—	65.2	—	—	—	—	—	(1.4)	163.9
240. Operating costs	**—**	**—**	**99.8**	**—**	**(1,161.9)**	**—**	**3.7**	**—**	**(54.2)**	**—**	**(1.4)**	**(1,114.0)**
250. Gain (loss) on equity investments	—	—	—	321.2	—	—	—	—	—	—	—	321.2
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill writeoffs	—	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	0.2	—	—	0.2
290. Profit (loss) on ordinary activity before tax	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**—**	**(1.4)**	**1,082.7**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(256.5)	—	(256.5)
310. Profit (loss) on ordinary activities after tax	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(1.4)**	**826.2**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(1.4)**	**826.2**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	—	(3.2)	(3.2)
350. Net profit (loss) for the period attributable to Mediobanca	**1,395.6**	**196.7**	**611.2**	**321.2**	**(1,161.9)**	**—**	**(222.6)**	**(2.1)**	**(54.0)**	**(256.5)**	**(4.6)**	**823.0**

GLOSSARY

GLOSSARY

The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB – Foundaton Internal Rating Based), and the "advanced" internal ratings-based method (AIRB – Advanced Internal Rating Based). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

- Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;
- Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

Amortized cost (financial assets measured at amortized cost): this is one of the categories for financial assets and liabilities provided for in IFRS 9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

– The instrument is held according to a business model consisting of collection of the contractual cash flows (Hold to collect, see definition); and

– The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the bail-in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail-in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) Basel II: The short name given to the document entitled International Convergence of Capital Measurement and Capital Standards signed in Basel in 2004 which came into force in 2008.
b) Basel III: This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).
c) Basel IV: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages until 2025.

Benchmark test: a qualitative and quantitative analysis, to be carried out to verify whether the conditions of the SPPI test (see definition) are met, according to paragraph B4.1.9Aff of IFRS9 standard; it regards those financial instruments which show an interest rate mismatch between the duration and the interest rate, thus for them it results a modified remuneration related to the time value of money. In order to carry out the benchmark test, an hypothetical instrument is considered (the "benchmark" instrument), identical to the instrument for which the test is carried out apart from the characteristic which modifies the interest rate. Then, it is necessary to compare the undiscounted contractual cash flows of the instrument subject of the analysis with those of the benchmark instrument; the SPPI test is considered not to be met, whether the difference arising is significant.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: Hold to collect, Hold to collect and sell, and Other.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk-weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk, as expressed by a single risk factor, namely beta (see definition).

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR): Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IAS 39 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS 36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition)

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Collateralized Loan Obligation (CLO): A particular type of CDO (see definition), in which the collateral is made up by receivables.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio): The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/long-term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

– Exposures to SMEs;
– Leveraged finance (see definition);
– Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enables a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS 9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage 1 comprises:
   a. Credit exposures originated or acquired;
   b. Exposures with no significant increase in credit risk compared to their initial recognition;
   c. Exposures subject to the low credit risk exemption.

b) Stage 2: significant increase in credit risk compared to initial recognition;

c) Stage 3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over-the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS) – Deposit Insurance Fund (DIF): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD *(Fondo di garanzia dei Depositanti del Credito Cooperativo).* At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Discounted Cash Flows Model: it's a valuation method, alternative to the Dividend Discount Model (see definition), suited for those companies which do not have to comply with capital strength requirements, and based on the assumption that the value of asset depends on cash flows generated by the asset, by the time horizon and by their riskiness. Also in this valuation model, cash flows are discounted using the Ke rate (determined pursuant to the CAPM methodology, see definition) over a time horizon forecast by the company into its plans and budgets, and taking also into account a terminal value obtained by using a constant growth rate "g".

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution, agency in charge of assessing the credit risk whortiness.

Earnings per share – EPS: the ratio between the net income and the average number of shares outstanding during the period, possibly adjusted for taking into account potential equity instruments such as options and convertible bonds.

Effective Interest Rate: the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

EUro Interbank Offered Rate – EURIBOR: it means the short-term interbank rate, calculated on a daily basis, at which the most important banks exchange among them euro-denominated funds.

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro-prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

External Rating: Valuation formulated by a specialist private agency of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Fairness/Legal opinion: it means an opinion, given at request, by professionals of sure and certain competence and professionalism, in order to ensure the correctness of economic conditions and/or of the legitimacy and/or of technical aspects of a certain operation at a certain moment.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS 39 to neutralize exposure to changes in a balance-sheet item's fair value.

FTA – First Time Adoption: Governed by IFRS 1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS 9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

– The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Hold to collect and sell; see definition); and

– The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): A international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

Forward looking information: According to the new impairment model introduced by IFRS 9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Funds Transfer Pricing (FTP): FTP is the rate to which each branch of the Institution resells the gathered funds to the central treasury; mirror-like it can also be the rate to which branches buy funds required to finance their own loans. FTP scheme aims to rebalance the profitability among each branch/area of the institution, rebalancing both funding and loans rates.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

Global Systemically Important Banks (G-SIBs): These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Global Systemically Important Institutions (G-SIIs): These are the largest financial institutions, of global systemic importance, which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value (obtained as the difference between acquired assets and assumed liabilities, both valued at fair value) at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

Grand-fathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS 9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (stage 1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to stage 1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Impairment test: Test aimed at checking the book value of each financial assets: in case of a permanent reduction in the value, the value of the assets should be reduced (with impact taken to profit and loss). This test should take place once a year both for intangible assets with indefinite life and for goodwill originated by a business combination (see definition); in all other cases, the entity should check, at the end of each reporting date, whether there are evidences of permanent reduction in value.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice (see definition): i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital

Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord (see definition) requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Leveraged Finance: Type of financing which comprises transactions aimed at:

- Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
- Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
- Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

London InterBank Offered Rate – LIBOR: it represents a reference rate for the interbank market transactions, calculated on a daily basis by the British Bankers' Association, and represents the rate at which most important English and European banks exchange funds with short term horizon.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings-based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Loan To Value Ratio – LTV ratio: obtained as the ratio between the amount lended and the value of the asset which is supposed to be bought with this amount. The LTV Ratio is commonly used by banks as an indicator of credit risk.

Low credit risk exemption: Pursuant to paragraph 5.5.10ff of IFRS 9, a company can assume that for a certain instrument the credit risk has not experienced a significant increase when this instruments shows, at the reporting date, a low credit risk. This definition is met for Stage 1 exposures, which show a low insolvency risk since they can be qualified as investment grade instruments.

Low value (IFRS 16 definition): Pursuant to paragraph 5 of IFRS 16, it represents one of two cases in which the lessee can choose not to apply the standard provisions. The standard (paragraph B3) indicates 5,000$ (ca. 5,000 Euros) as the presumption for considering an asset of low value.

Markets In Financial Instruments Directive (MiFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Maturity: it indicates the reimbursement date or the expiring date of the instrument.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
MREL = (own funds + eligible liabilities) / (total liabilities + own funds).

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiry and amount of the exposure.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

Options: Derivative contracts which include the right, but not the obligation, for the option holder, by paying a premium, to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

Overtime (OVT) and Point in Time (PIT): According to IFRS 15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

- The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;
- The entity's performance creates or enhances the activity (e.g. work in

progress) which the client is able to monitor in the process of its being created or enhanced; or

– The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.
  If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non-performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS 15 which refers to "each promise to transfer to the client:

– A distinct good or service (or a combination of both); or
– A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

Pillar III: Pillar III is a disclosure document come into force with EU Regulation n. 575/2013 (CRR, see definition) which introduces into European Union the bank supervisory rules of Basel Committee (see definition) known as "Basel 3". This includes both capital adequacy (Pillar I) and disclosure to the public (Pillar III). These disclosures enable market operators to make a more accurate assessment of banks' capital solidity and exposure to risks.

Plain Vanilla (derivatives): Plain vanilla derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS 3 (Business combinations).

POCI – "Purchased or Originated Credit Impaired": POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as stage 3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined; in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Provisioning (loans): This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

- if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;
- if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Right of Use: According to IFRS 16 (Appendix A) it is defined as "An asset that represents a lessee's right to use an underlying asset for the lease term".

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two of them.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Significant Increase in Credit Risk – SICR: Pursuant to paragraph 5.5.3ff of IFRS 9 standard, it is necessary to assess at each reporting date whether an instrument has experienced a significant increase in credit risk since the date of initial recognition. This assessment has to take into account qualitative as well as quantitative factors, typical of each facility. The granting of forbearance measures as well as the failing of the 30-days past-due period criterion are considered backstop events. Exposures showing a significant increase in credit risk at the reference date are classified into Stage2.

Short term: according to para. 5 of IFRS 16, it represents one of the two cases when the lessee can decide not to apply the requirements of the principle itself. The lessee can make use of this faculty if the lease has a lease term of 12 months or less.

Significant bank: The EU Regulation n. 1024/2013 (this regulation establishes the Single Supervisory Mechanism, see definition) states three criteria to define whether the financial institution can be considered significant (if even one of this requirements is met):

- Total asset over 30 billions;
- The ratio between total assets and GDP of the EU state in which it resides is more than 20%, unless total assets value is below 5 billions;

– The ratio between total assets/liabilities of the institution and total assets/liabilities of at least another EU state is more than 20%.

A financial institution is also considered to be significant when it has applied for or has received financial aid. Significant Institution are subject to direct supervision of ECB (see definition).

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS 9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II). SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stress Test: A stress test is a simulation procedure used to measure the impact of extreme market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Structured Notes: A structured note is a debt obligation whose return performance is related to one or more embedded derivative components such as stock index, single securities or currency.

Sublease: According to IFRS 16 (Appendix A) it is "A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and the lessee remains in effect".

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell'Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the "Draghi" law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity's operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – Targeted Long Term Refinancing Operation: The T-LTRO is a non-conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses. The new requirements set the TLAC at 16 percent of RWAs and at 6 percent of leverage exposure by 1 January 2019.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS 15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS 15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

- Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and
- SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely to be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

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