

Basel III pillar 3
Disclosure to the public

Situation as at 30 June 2018



MEDIOBANCA

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



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Introduction

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

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

- Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation No (EU) 575/2013);
- Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013), to improve and enhance the consistency and comparability of institutions' disclosures to be provided as part of Pillar III starting from 31 December 2017.

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

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

This document published by the Mediobanca Group (the "Group") has been drawn up by the parent company Mediobanca on a consolidated basis with reference to the prudential area of consolidation, including information regarding capital adequacy,



exposure to risks and the general characteristics of the systems instituted in order to identify, measure and manage such risks.

Much of the information in the document has been excerpted from the Group's consolidated financial statements for the twelve months ended 30 June 2018 (a document signed by the Head of Company Financial Reporting as required by Article 154-bis, paragraph 2 of Italian Legislative Decree 58/98 – the Italian Finance Act – and subject to external audit by PricewaterhouseCoopers S.p.A.) as well as the consolidated supervisory reporting. Also used in the preparation of this document were items in common with the capital adequacy process (i.e. the ICAAP and ILAAP reports for FY 2017/18), and information taken from the Remuneration Policies also published on the Bank's website. The contents are also consistent with the Annual Statement on Corporate Governance and Ownership Structure", and with the reporting used by the senior management and Board of Directors in their risk assessment and management.

The document covers all the articles of Parts 8 and 10 of the CRR, providing qualitative and quantitative information where considered applicable to the Group, and is published within the term set for the publication of the financial statements. Unless stated otherwise, figures are in €'000.

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



Section 1 – General disclosure requirement

Qualitative information

Description of risk governance organization

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

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

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

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

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

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and



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

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

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the coordination of the Risk Management unit at parent company Mediobanca (the Group Risk Management unit), which also performs specific activities for the Mediobanca S.p.A. 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 direction, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in strategic planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and is responsible for carrying 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 itself is



responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Group's Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

Establishment of risk propensity and process for managing relevant risks

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

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

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

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

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

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



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

The Board of Directors plays a proactive role in defining the RAF, ensuring the risk profile expected is consistent with the strategic plan, the budget, the ICAAP and the recovery plan, and is structured into risk metrics and limits which are adequate and effective.

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

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

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

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

The Group's objective is to maintain a liquidity level which allows it to meet the payment commitments ith as entered into, ordinary and extraordinary, while at the same time minimizing costs. The Group's liquidity management strategy is based on the



desire to maintain an appropriate correlation between potential inflows and outflows, in the short term and the medium/long term, by monitoring regulatory and operating metrics, in accordance with the risk profile defined in connection with the RAF.

Credit risk

With reference to the authorization process to use AIRB models to calculate the regulatory capital requirements for credit risk, on 1 February 2018 the Group was 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, starting from the reporting as at end-March 2018.

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

In accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks (customers mostly targeted by Mediobanca S.p.A.), Mid-corporate and Small businesses (customers targeted mostly by the leasing companies), and Private individuals (targeted by Compass for consumer credit, CheBanca! for mortgage lending, and MBFacta for instalment factoring). The validation process for the AIRB models to be adopted for mortgage lending by CheBanca! is currently in progress.

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

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



Corporate lending (Mediobanca)

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

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, or also exclusively in order to quantify the balance-sheet adjustments.

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

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval to the Lending & Underwriting Committee or to the Executive Committee, depending on the nature of the counterparty, the Probability of Default (PD) and Loss Given Default (LGD) indicators, and on the amount of finance required.

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

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



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

Provisioning for non-performing items, which until 30 June 2018 followed the rules established by IAS 39,¹ is calculated analytically and is based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Leasing (SelmaBipiemme)

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

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

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

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and

¹ For details on the Group's first-time adoption of IFRS 9, please refer to part A, “Accounting Standards”, of Mediobanca's annual report for the year ended 30 June 2018 which is published on the Bank's website.



control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

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

Consumer credit (Compass)

Applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit *bureaux*. Points of sale are linked electronically to the company's headquarters, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Under the system of powers for approval assigned by the company's Board of Directors, for increasing combinations of amount and expected loss, approval is required from by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards of Directors.

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



Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. The PD class is assigned on the basis of the acquisition data and subsequent repayment data (including forbearance measures, if any), and the model is fine-tuned based on the default rates observed in each rating class in the last three years. The LGD parameters are based on data for amounts recovered and written off in the last five years. To calculate the provisions for the performing portfolio, losses defined as “incurred but not reported” are quantified by using loss confirmation period of twelve months which is increased to two years for forbore accounts and positions in arrears.

Factoring (MBFACTA)

Factoring includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by borrower whose account has been sold, who in virtually all cases is a retail customer).

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

Provisioning for instalment-based factoring is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last fifteen months, beyond which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

NPL business (MBCredit Solutions)

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



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

Private banking (Mediobanca and CMB)

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

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

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

Provisioning for all non-performing is made on an individual basis, and takes into account the value of the real guarantees provided. Any provisions set aside in respect



of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.

Mortgage lending (CheBanca!)

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

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert. A new valuation is generally requested for properties established as security for positions which have become non-performing.

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

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

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

Provisioning is determined analytically for non-performing items and collectively for probable default, other overdue and performing accounts. For the analytical provisions



for the non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. For the performing accounts in the Italian loan book, the Bank uses risk parameters (PD and LGD), which are estimated via the internal rating model, to determine the collective risk provisions.

* * *

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

In particular, for real guarantees the so-called "integral" method has been adopted, with the standard regulatory adjustments for volatility being applied, while for personal guarantees the replacement principle has been adopted. With respect to the authorized AIRB methodology for corporate exposures, when in presence of loans guaranteed by eligible real estates specific parameters of secured LGD are applied.

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

Credit Value Adjustment risk ("CVA")

With reference to the capital requirement for CVA, defined as adjustment to the mid-market valuation of the portfolio of transactions with a counterparty, the Group has applied the standardized methodology provided for by Article 384 of the CRR, considering all counterparties with and without CSA.

Counterparty risk

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



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

Market risks

Exposure to financial risks on the trading book (faced entirely within the Group by Mediobanca S.p.A., since on 1 January 2018, CMB wound up its trading book versus the parent company as part of the project to centralize Group treasury operations) is measured on a daily basis by calculating the following main indicators:

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

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

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

Operational risk

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



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Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator.

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

On the basis of the Group operational risk management Policy, and pursuant to the principle of proportionality, within the parent company and the main subsidiaries are defined and applied processes for identifying and evaluating operational risks, for gathering and analyzing data related to losses and to operational risk mitigation.

Further information on the operational risk is provided in Section 10.



Interest rate risk on the banking book

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

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

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

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

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

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

With reference to the Group's banking book positions at 30 June 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would reduce by some €3m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the shock which produces the worst change occurs if the interest rate curve steepens as a result of the short-term rates falling and the long-term rates increasing ("steepener"). The reduction in net interest income in this case would



be €32m, which is chiefly due to the decreases attributable to CheBanca! (€30m) and Compass (€32m), against an increase of (€23m) for Mediobanca.

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).

– **Fair value hedges.**

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

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

– **Cash flow hedges.**

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the 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.



Mediobanca S.p.A. also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Financial leverage risk

The leverage ratio, which is calculated as the ratio between an entity's CET1 equity and its aggregate borrowings, measures the extent to which capital is able to cover its total exposures (including cash exposures net of any deductions from CET equity and off-balance-sheet exposures).

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

The Basel Committee has introduced a minimum regulatory limit of 3%, in force since 1 January 2018, the definitive stipulations for which are expected to be issued by year-end 2018, and to come into force starting from 2019.

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

Liquidity risk

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

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 the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;
- Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to



meet its own financial requirements without incurring an excessive increase in the cost of financing.

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

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

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

The Regulations assign various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, 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 RAF.

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

- Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
- The Accounting and Financial Reporting unit supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget



objectives;

- Risk Management, in compliance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

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

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring 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 is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB and marketable securities) and the cumulative net cash outflows.

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

The short-term liquidity monitoring is supplemented by stress testing which assumes three scenarios:

- Italy downgrade: 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 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 movements in both directions on the interbank market and a table showing the Group's funding balances by individual form.

Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that inflows cover at least 90% of outflows for maturities of more than one and three years.

Throughout the entire twelve months 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 twelve months under review, these indicators, including those which form part of the Group Risk Appetite Framework, were well above the set limits at all times. In particular, the LCR as at 30 June 2018 stood at 186%, compared to a minimum regulatory threshold of 100%.

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 or from situations which are specific to the Banking Group itself.

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

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

In a market scenario characterized by the announcement of a gradual reduction in quantitative easing by the European Central Bank and the need to refinance the T-LTRO facilities expiring, the Group has continued to focus attention on diversifying its sources of funding and optimizing its costs, consistent with the durations of the applications in a management scenario marked by increasingly integrated asset and liability management.

Other risks

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

- **Concentration risk**, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties (“single name concentration risk”) or to counterparties operating in the same economic sector or which operate in the



- same business or belong to the same geographical area (geographical/sector concentration risk);
- **Strategic risk**, both in the sense of risk deriving from current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
 - **Equity investments risk**, i.e. the risk of incurring losses deriving from negative fluctuations in the market value of Group controlled entities;
 - **Equity shares risk** for the AFS portfolio, related to the potential value reduction of equity investments, listed or unlisted, included within the AFS portfolio deriving from negative fluctuations of financial markets or from certain counterparties downgrade (when not already considered into other risk categories);
 - **Sovereign risk**, related to the possible downgrade of countries or Central Banks to whom the Group is exposed;
 - **Country and transfer risk** – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency (into which he earns much part of its income) into the currency in which the exposure is denominated.
 - **Residual risk**, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
 - **Basis risk**: in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;
 - **Compliance risk**, i.e. the risk of incurring legal or administrative penalties, significant financial losses or damages to the Bank's reputation as a result of breaches of external laws and regulations or self-imposed regulations;
 - **Reputational risk**, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers,



counterparties, shareholders, investors or regulatory authorities;

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

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

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

Risk management objectives and policies

- In accordance with the provisions of Article 435, paragraph 1, letter e) and Article 435, paragraph 1, letter f), of Regulation (EU) no. 575/2013, the Board of Directors of Mediobanca, on 20 September 2018, having reviewed the Risks Committee report and having taken due account of the control units' reports, found that the structure of the internal controls and risk management was adequate and in line with the Group's profile and strategy.

- On 12 July 2018, the BoD approved the revised version of the Group Policy on Risk Appetite Framework Definition, which sets out the general principles, organizational model and application process. In the Framework, having taken account of the strategic plan and defined the maximum risk that can be taken, the Group indicates the level and type of risk which the Bank intends to assume, defining the objectives, tolerance thresholds if any and operating limits in normal operating and stress conditions. The Group has identified the following general principles as issues which contribute to defining the RAF:
 - a. Maintain a high market standing, guaranteeing conditions of capital solidity, solvency and liquidity;
 - b. Sustainable risk objectives, profitability and growth of business;
 - c. Full awareness of risks taken and those which can be taken;



- d. Understanding of risk measures adopted, to promote their application and effectiveness of operation through a “culture of risk” to be embedded across the whole Group;
 - e. Compliance with external regulations.
- In particular the following recommendations have been formalized:
 - a. Maintain a solid capital base with a strong CET1 component;
 - b. Maintain a strong liquidity profile, guaranteeing an adequate relationship between potential inflows and outflows in the short and medium-long term, including in stress conditions;
 - c. Preserve profitability in the long run consistent with its own business profile, limiting portfolio concentration, maintaining high asset quality, progressively reducing the equity component, and limiting changes in capital due to variations in interest rates in stress situations;
 - d. Safeguard reputational capital, minimizing the risks of inadequate business conduct.
 - The RAF constituents are translated into appropriate quantitative and/or qualitative indications which help to specify the Group’s target risk profile more clearly. The structure of the anticipated risk profile is guaranteed by limited risk-taking through the definition of thresholds representing the level of riskiness considered to be acceptable and consistent with the earnings objectives.
 - The risk profiles are subject to thresholds established solely for purposes of the obligation to provide reporting to the Board of Directors (“early warning” thresholds) and to limits over and above the objectives set (“Risk appetite limits”). In general terms, the process of fine-tuning the metrics is driven by stress testing, in order to guarantee the Group’s operations up to the maximum level of risk that can be taken, even in particularly adverse conditions and scenarios.
 - The quarterly monitoring of the indicators shows that all the risk appetite limits established for FY 2017-18 have been complied with. For FY 2018-19, definition of these limits was approved by the Board of Directors on 12 July 2018.

The set of specific parameters subject to monitoring includes the following:

- a. With reference to capital adequacy, the CET1 ratio (minimum limit of 9.25% compared with a point-in-time reading at end-June 2018 of 14.2%) and the



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- regulatory leverage ratio (minimum limit of 4%, compared with a point-in-time reading at end-June 2018 of 8.8%);
- b. In the area of liquidity, the short-term Liquidity Coverage Ratio (LCR), which has a minimum limit of 110% compared with a point-in-time reading at end-June 2018 of 186%);
 - c. Among the idiosyncratic factors, the cost of risk for the main client segments, the concentration versus the principal groups of clients, the amount of the expected loss on leveraged lending, and the exposure to equities issued by corporate clients held as part of the banking book;
 - d. With reference to the market risks, the VaR for positions held as part of the trading book;
 - e. With reference to operational risks, operating losses as a percentage of total income.



Section 2 – Scope of application

Qualitative information

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

Based on the combined provisions of IFRS10 “Consolidated financial statements”, IFRS11 “Joint arrangements” and IFRS12 “Disclosure of interests in other entities”, the Group has proceeded to consolidate its subsidiaries on a line-by-line basis, and its associates and joint arrangements using the net equity method.

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

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

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

The merger of Banca Esperia S.p.A. into Mediobanca was completed during the twelve months under review; at the same time, the former Banca Esperia subsidiaries Duemme SGR and Duemme International Luxembourg have come under the parent company's direct control and have been renamed Mediobanca SGR and Mediobanca Management Company respectively. The other former Banca Esperia



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subsidiary, "Esperia Servizi Fiduciari" have been spun off to Spafid in September 2017 and incorporated in Spafid Spa with accounting effect starting from 1 July 2017.

On 28 February 2018, RAM Active Investments was acquired and put & call options entered into (exercisable from year 3 to year 10); Mediobanca S.p.A. now owns 89.3% of the company. RAM AI has its headquarters in Geneva and has 100% ownership of RAM Active Investments Luxembourg.

On 14 November 2017, Prominvestment's liquidation arrangement with creditors was approved under a decree issued by the Milan court. The requisite formalities have not all been completed during the past twelve months, but are at a very advanced stage. The liquidation procedure for Quarzo Leas S.r.l. has now been completed.



Quantitative information

Table 2.1 – Area of consolidation

	Name	Registered office	Type of relationship ¹	Shareholding		% voting rights ²
				Investor company	% Interest	
A. Companies included in area of consolidation						
A.1 Line-by-line						
1.	Mediobanca - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2.	Prominvest S.p.A. - in liquidation	Milan	1	A.1.1	100.-	100.-
3.	Spafid S.p.A.	Milan	1	A.1.1	100.-	100.-
4.	Spafid Connect S.p.A.	Milan	1	A.1.3	100.-	70.-
5.	Mediobanca Innovation Services - S.c.p.A.	Milan	1	A.1.1	100.-	100.-
6.	Compagnie Monegasque de Banque - CMB S.A.M.	Montecarlo	1	A.1.1	100.-	100.-
7.	C.M.G. Compagnie Monegasque de Gestion S.A.M.	Montecarlo	1	A.1.6	99,92	99,92
8.	SMEF Société Monegasque des Etudes Financiere S.A.M.	Montecarlo	1	A.1.6	99,96	99,96
9.	CMB Asset Management S.A.M.	Montecarlo	1	A.1.6	99,3	99,4
10.	CMB Wealth Management Limited	London	1	A.1.1	100.-	100.-
11.	Mediobanca International (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.-	99.-
				A.1.12	1.-	1.-
12.	Compass Banca S.p.A.	Milan	1	A.1.1	100.-	100.-
13.	CheBanca! S.p.A.	Milan	1	A.1.1	100.-	100.-
14.	MBCredit Solution S.p.A.	Milan	1	A.1.12	100.-	100.-
15.	SelmaBipiemme Leasing S.p.A.	Milan	1	A.1.1	60.-	60.-
16.	MB Funding Luxembourg S.A.	Luxembourg	1	A.1.1	100.-	100.-
17.	Ricerche e Studi	Milan	1	A.1.1	100.-	100.-
18.	Mediobanca Securities USA LLC.	New York	1	A.1.1	100.-	100.-
19.	MBFACTA S.p.A.	Milan	1	A.1.1	100.-	100.-
20.	Quarzo S.r.l.	Milan	1	A.1.12	90.-	90.-
21.	Futuro S.p.A.	Milan	1	A.1.12	100.-	100.-
22.	Quarzo CQS S.r.l.	Milan	1	A.1.21	90.-	90.-
23.	Quarzo MB S.r.l.	Milan	1	A.1.1	90.-	90.-
24.	Mediobanca Covered Bond S.r.l.	Milan	1	A.1.13	90.-	90.-
25.	Compass RE (Luxembourg) S.A.	Luxembourg	1	A.1.12	100.-	100.-
26.	Mediobanca International Immobiliere S.A R.L.	Luxembourg	1	A.1.11	100.-	100.-
27.	MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	Istanbul	1	A.1.1	100.-	100.-
28.	Caim Capital Group Limited	London	1	A.1.1	100.-*	51.-
29.	Caim Capital Limited	London	1	A.1.28	100.-	100.-
30.	Caim Capital North America Inc.	Stamford (US)	1	A.1.28	100.-	100.-
31.	Caim Capital Guarantee Limited (non operating)	London	1	A.1.28	100.-	100.-
32.	Caim Capital Investments Limited (non operating)	London	1	A.1.28	100.-	100.-
33.	Caim Investment Managers Limited (non operating)	London	1	A.1.28	100.-	100.-
34.	Amplus Finance Limited (non operating)	London	1	A.1.28	100.-	100.-
35.	Spafid Family Office SIM	Milan	1	A.1.3	100.-	100.-
36.	Spafid Trust S.r.l.	Milan	1	A.1.3	100.-	100.-
37.	Mediobanca Management Company S.A.	Luxembourg	1	A.1.1	100.-	100.-
38.	Mediobanca SGR S.p.A.	Milan	1	A.1.1	100.-	100.-
39.	RAM Active Investments S.A.	Geneva	1	A.1.1	89.3 **	69.-
40.	RAM Active Investments (Luxembourg) S.A.	Luxembourg	1	A.1.39	100.-	100.-

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

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

Legend

¹ Type of relationship:

1 = majority of voting rights in ordinary AGMs.

2 = dominant influence in ordinary AGMs.

² Effective and potential voting rights in ordinary AGMs.



Section 3 – Composition of regulatory capital

Qualitative information

Consolidated capital

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2017, which set the limit for CET1 at 7.652% and the total capital level at 11.152%, the lowest levels among Italian banks. These values reflect the new phase-regime for the capital conservation buffer (1.875%, as against 2.5% fully-phased as from 2019).

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, after receiving the relevant clearances, has weighted the investment Assicurazioni Generali at 370%, as permitted by Article 471 of the CRR (up to the book value as at end December 2012 and in compliance with the concentration limit for the insurance group, which in December 2017 was reduced to 20% from its previous level of 25% to comply with the limit on related parties).

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €937m of the positive AFS equity reserves, €18.1m of which in government securities and €827.9m deriving from Assicurazioni Generali being equity-consolidated), and the profit for the period (€455m) net of the dividend for the year (€412.8m) corresponding to a payout ratio of 48% calculated based on a dividend of €0.47 per share. From this amount the following items are deducted: treasury shares (€109.3m after the partial usage in the RAM acquisition), intangible assets (€102.8m), goodwill (€649.8m, €177m in respect of newly-acquired company RAM), and other prudential adjustments (€41.2m) in connection with the values of financial instruments (AVAs and DVAs). Interests in



financial companies (banking and insurance) worth €1,773.4m were deducted, €1,515.7m of which in respect of the Assicurazioni Generali investment.

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

Tier 2 capital includes the liabilities issued (€1,819.4m) and the surplus arising on value adjustments relative to expected losses (€9.2m). The subordinated liabilities fell from €2,036.4m to €1,819.4m, due to movements from the period plus the repayment share (€266.5m), there having been no new issues during the year under review. No subordinated Tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

Quantitative information

Table 3.1 – Bank equity

	30/6/18	30/6/18
A. Common equity tier 1 (CET 1) prior to application of prudential filters	9.285.623	8.843.333
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(12.852)	(4.460)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9.272.771	8.838.873
D. Items to be deducted from CET1	(3.518.758)	(1.779.520)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	992.586	(42.072)
F. Total common equity tier 1 (CET 1) (C-D +/- E)	6.746.599	7.017.281
G. Additional tier 1 (AT 1) 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 (AT 1) (G-H +/- I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1.819.428	2.036.402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	—	(149.070)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	9.238	(25.599)
P. Total T2 (M-N +/- O)	1.828.666	1.861.733
Q. Total own funds (F+L+P)	8.575.265	8.879.014



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

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 or prescribed residual amount of regulation (EU) No 575/ 2013
1 Capital instruments and the related share premium accounts of which: Instrument type 1	2.635.018	
2 Retained earnings	5.945.364	
3 Accumulated other comprehensive income and other reserves	764.247	
5 Minority interests	50.332	—
6. Common equity tier 1 (CET1) before regulatory adjustments	9.394.961	
Common Equity Tier 1 (CET1) capital: regulatory adjustments	(874.987)	
7 Additional value adjustments	(31.235)	
8 Intangible assets (net of related tax liability)	(752.579)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(218)	
11 Fair value reserves related to gains or losses on cash flow hedges	28.381	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(9.998)	
15 Defined-benefit pension fund assets (negative amount)	—	
16 Direct and indirect holdings by an institution of own CET1 instruments	(109.338)	
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	—	—
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(1.708.246)	
20 Empty Set in the EU		
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		
20b of which: qualifying holdings outside the financial sector (negative amount)		
20c of which: securitisation positions (negative amount)		
20d of which: free deliveries (negative amount)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)		
22 Amount exceeding the 15% threshold (negative amount)	(65.129)	
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
24 Empty Set in the EU		
25 of which: deferred tax assets arising from temporary differences		
25a Losses for the current financial year (negative amount)		
25b Foreseeable tax charges relating to CET1 items (negative amount)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment		
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	—	
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution	—	
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	(2.648.362)	
29 Total Capital Tier 1 (CET1)	6.746.599	



Table 3.2 (cont.)

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 or prescribed residual amount of regulation (EU) No 575/2013
Additional Tier 1 (AT1) capital: instruments	—	—
30 Capital instruments and the related share premium accounts	—	—
31 of which: classified as equity under applicable accounting standards		
32 of which: classified as liabilities under applicable accounting standards		
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 Public sector capital injections grandfathered until 1 January 2018		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		
35 of which: instruments issued by subsidiaries subject to phase out		
36 Additional Tier 1 (AT1) capital before regulatory adjustments		
Additional Tier 1 (AT1) capital: regulatory adjustments	—	—
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)		
41 Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)		
41a Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc		
41 Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		
b Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc		
41c Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44 Additional Tier 1 (AT1) capital		
45 Tier 1 capital (T1 = CET1 + AT1)	6.746.599	
Tier 2 (T2) capital: instruments and provisions	1.819.428	
46 Capital instruments and the related share premium accounts	1.819.428	
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		
49 of which: instruments issued by subsidiaries subject to phase out		
50 Credit risk adjustments	9.238	
51 Tier 2 (T2) capital before regulatory adjustments		
Tier 2 (T2) capital: regulatory adjustments	—	—
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	—	—
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	—	—
56 Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	—	—
56a Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	—	—
56b Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	—	—
56c Amount to be deducted from or to be added to T2 capital with respect to additional filters and deductions pursuant to pre-CRR treatment	—	—
58 Tier 2 (T2) capital	1.828.666	
59 Total capital (TC = T1 + T2)	8.575.265	
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out	—	
60 Total risk weighted assets	47.362.665	



Table 3.2 (cont.)

Information on own funds	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 or prescribed residual amount of regulation (EU) No 575/ 2013
Capital ratios and buffers		
61 Common Equity Tier 1	14,24%	
62 Tier 1	14,24%	
63 Total capital	18,11%	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.032.261	
65 of which: capital conservation buffer requirement	888.050	
66 of which: countercyclical buffer requirement	12.891	
67 of which: systemic risk buffer requirement		
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68 Common Equity Tier 1 available to meet buffers	3.032.261	
Applicable caps on the inclusion of provisions in Tier 2		
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	785.164	
73 Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	851.997	
74 Empty Set in the EU		
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	86.003	



Table 3.3.1 – Reconciliation of net equity and own funds

Equity constituents	30/6/18	30/6/17
Share capital	459.918	457.155
Share premiums	2.193.591	2.189.428
Reserves	5.559.032	5.132.771
Equity instruments	—	—
(Treasury shares)	(109.338)	(197.709)
Valuation reserves:	761.276	867.768
- AFS securities	121.540	319.356
- Property, plant and equipment	—	—
- Intangible assets	—	—
- Foreign investment hedges	—	—
- Cash flow hedges	(18.569)	(47.824)
- Exchange rate differences	(8.899)	(6.147)
- Non-current assets being sold	—	—
- Actuarial profits (losses) on defined-benefit pension schemes	(6.163)	(5.812)
- Equity-accounted companies' share of valuation reserves	663.735	598.563
- Special revaluation laws	9.632	9.632
Profit (loss) for the period attributable to the Group and minorities	867.726	742.249
Net equity	9.732.205	9.191.662
Dividends	(412.814)	(320.226)
Share attributable to ineligible minorities	(33.768)	(28.103)
CET1 pre-application of prudential filters, phase-in adjustments and deductions	9.285.623	8.843.333
Prudential filters	(765.649)	(568.769)
Phase-in adjustments	—	(200.099)
Deductions ¹	(1.773.375)	(1.057.184)
CET1	6.746.599	7.017.281
Subordinated loans eligible as Tier 2 instruments	1.819.428	2.036.402
Phase-in adjustments ²	9.238	97.845
Deductions ¹	—	(272.513)
Tier 2 equity	1.828.666	1.861.733
Own funds	8.575.265	8.879.014

¹ Includes deductions on equity investments (investments in financial sector).

² Includes the surplus of writedowns over expected losses, entirely attributable to counterparty risk exposure.



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

Other asset items	Book values *	of which deducted from:	
		CET1	T2
Heading 20 - Financial assets held for trading	8.204.911	—	—
Headings 40/50 - AFS and HTM financial assets	8.138.822	(146.211)	—
Headings 60/70 - Due to banks and customers	48.454.160	—	—
Heading 100 - Equity investments	3.345.322	(1.627.164)	—
Heading 130 - Intangible assets	739.864	(739.864)	—
Heading 140 - advance tax assets	634.606	(218)	—
Other assets	2.646.371	(12.715)	—
Total	72.164.056	(2.526.172)	—

* Data refer to FINREP supervisory reporting.

Table 3.4 - Subordinated issues

Name	ISIN	Currency	30/6/17		30/6/18	
			Nominal Value	Calculated value ¹	Nominal Value	Calculated value ¹
MB Subordinato Mar 29	XS1579416741	EUR	50.000	48.501	50.000	48.500
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	EUR	613.502	404.679	615.570	285.377
MB OPERA 3.75 2026	IT0005188351	EUR	298.666	291.163	299.960	291.450
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	EUR	395.636	305.158	393.884	228.804
MB VALORE Tasso Variabile con minimo 3% 2025 Tier 2	IT0005127508	EUR	499.701	491.347	499.930	491.436
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	EUR	495.691	495.554	495.242	473.861
Total Subordinated Debt Securities			2.353.196	2.036.402	2.354.586	1.819.428

¹ Includes fair value component not considered for regulatory purposes.

The subordinated liabilities fell from €2,036.4m to €1,819.4m, due to movements from the period plus the repayment share (€266.5m), there having been no new issues during the year under review. No subordinated Tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.



Table 3.5 – Description of subordinated issues

Capital instruments main features template	Tier2 IT0004720436	Tier2 IT0004917842	Tier2 IT0004645542	Tier2 IT0005127508	Tier2 XS1579416741	Tier2 IT0005188351
1 Issuer	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.	Mediobanca S.p.a.
2 Unique identifier	IT0004720436	IT0004917842	IT0004645542	IT0005127508	XS1579416741	IT0005188351
3 Governing law(s) of the instrument	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law	Whole instrumen - Italian law
<i>Regulatory treatment</i>	-	-	-	-	-	-
4 Transitional CRR rules	Tier2	Tier2	Tier2	Tier2	Tier2	Tier2
5 Post-transitional CRR rules	Tier2	Tier2	Tier2	Tier2	Tier2	Tier2
6 Eligible at only (sub-)consolidated/ only (sub-) consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated	Single entity and consolidated
7 Instrument type	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR	Bond - Art.62 CRR
8 Amount recognised in regulatory capital	385	485	597	485	49	291
	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment	Buybacks and repayment
9 Nominal amount of instrument	500	500	750	500	50	300
9a Issue price	100	100	100	100	100	99
9b Redemption price	100	100	100	100	100	99
10 Accounting classification	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost
11 Original date of issuance	13/06/2011	18/04/2013	15/11/2010	10/09/2015	22/03/2017	16/06/2016
12 Perpetual or dated	At maturity	At maturity	At maturity	At maturity	At maturity	At maturity
13 Original maturity date	13/06/2021	18/04/2023	15/11/2020	10/09/2025	22/03/2029	16/06/2026
14 Issuer call subject to prior supervisory approval	NO	NO	NO	NO	NO	NO
<i>Coupons / dividends</i>	-	-	-	-	-	-
17 Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Floating and then Fixed	Fixed
18 Coupon rate and any related index	Euribor 3M + 2% p.a., min. rate 4.5% and max rate 7.5%	5.75% p.a.	5% p.a.	3% p.a.	y1, y2, y3: fix rate 3.5%; then: Euribor 6 months + 235 bps floored @ zero	3.75% p.a.
19 Existence of a dividend stopper	NO	NO	NO	NO	NO	NO
20a Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	NO	NO	NO	NO	NO	NO
22 Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30 Write-down features	NO	NO	NO	NO	NO	NO
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior	Senior	Senior	Senior	Senior
36 Non-compliant transitioned features	NO	NO	NO	NO	NO	NO



Section 4 – Capital adequacy

Qualitative information

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

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

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

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

* * *

As at 30 June 2018, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.24%, higher than last year (13.31%). The improvement in the ratios was helped by application of the AIRB models to calculate RWAs for the Large Corporate portfolio (adding 140bps, which translates to a reduction of some €5bn in RWAs), only in part offset by the RAM Active Investments SA acquisition which absorbed 30bps of capital representing the balance between goodwill (minus 40bps), seed capital (minus 5bps) and delivery of treasury shares by way of partial consideration (adding 15bps). Prudential treatment of the Assicurazioni Generali investment, in accordance with the new, 20% concentration limit, drove a €1.4bn reduction in RWAs, against a €0.5bn increase in deductions. There was also an equivalent rise in the total capital ratio, from 16.85% to 18.11%.



Quantitative information

Table 4.1 - Capital adequacy

Categories/Values	Unweighted amounts ¹		Weighted amounts/requirements	
	30/6/18	30/6/17	30/6/18	30/6/17
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	65.110.914	62.865.854	40.479.850	46.158.581
1. Standardized methodology	49.338.183	62.553.175	31.415.612	45.873.175
2. Methodology based on internal ratings	15.611.090	—	8.936.201	—
2.1 Basic	—	—	—	—
2.2 Advanced	15.611.090	—	8.936.201	—
3. Securitizations	161.641	312.679	128.037	285.406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3.238.388	3.692.686
B.2 Credit value adjustment risk			49.724	60.699
B.3 Settlement risk			—	—
B.4 Market risks			189.093	179.130
1. Standard methodology			189.093	179.130
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risks			311.808	284.144
1. Basic method			311.808	284.144
2. Standardized method			—	—
3. Advanced method			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			3.789.013	4.216.660
C. RISK-WEIGHTED ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47.362.665	52.708.249
C.2 CET1/RWAs (CET1 capital ratio)			14,24%	13,31%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14,24%	13,31%
C.4 Total capital/RWAs (total capital ratio)			18,11%	16,85%

¹ Exposure value equals the gross originary exposure net of write-offs, CRM techniques and CCF for off-balance exposures.



Table 4.2 – Credit risk: exposures by portfolio – standard method

Portfolios	Amounts as at 30/6/18				
	Value of exposure gross of CRM ¹	Exposure values net of CRM ²	Unweighted amounts ³	Guaranteed exposures	
				Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7.259.661	7.727.776	7.684.957	—	—
Exposures to or guaranteed by regional entities	8.631	8.631	8.631	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	168.521	168.521	168.519	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	—	—	—	—
Exposures to or guaranteed by international organizations	—	—	—	—	—
Exposures to or guaranteed by regulated intermediaries	16.921.179	7.035.225	7.032.621	9.850.630	327.662
Exposures to or guaranteed by companies	9.267.711	7.412.984	6.927.694	1.786.844	204.523
Retail exposures	15.106.752	14.935.279	13.792.659	113.527	57.946
Exposures guaranteed by properties	8.126.129	8.122.262	8.113.467	188	3.679
Overdue exposures	793.647	788.887	785.961	2.038	2.722
High-risk exposures	288.183	288.183	288.183	—	—
Exposures in the form of guaranteed bank debt securities	291.407	291.407	291.407	—	—
Short-term exposures to companies	—	—	—	—	—
Exposures to OICRs	318.623	318.623	318.623	—	—
Exposures to equity instruments	2.193.111	2.193.111	2.193.111	—	—
Other exposures	1.732.460	1.732.460	1.732.350	—	—
Total cash risk assets	45.086.654	43.909.144	43.909.144	1.058.176	582.367
Total guarantees issued and commitments to disburse funds	3.544.467	3.364.652	1.679.485	180.249	14.164
Total derivatives contracts	1.446.931	1.097.522	1.097.522	349.409	—
Total SFTs and trades with long-term settlement	12.397.963	2.652.032	2.652.032	10.165.393	—
Grand Total	62.476.014	51.023.349	49.338.183	11.753.226	596.531

¹ Exposure value equals the gross originary exposure net of writedowns.

² Exposure value equals the gross originary exposure net of writedowns and CRM techniques and gross of CCF for off-balance exposures.

³ Exposure value equals the gross originary exposure net of writedowns and CRM techniques and gross of CCF for off-balance exposures.

Comparative figures as at 30 June 2017 are shown below.

Portfolios	Amounts as at 30/6/17			
	Value of exposure gross of CRM	Exposure values net of CRM	Guaranteed exposures	
			Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7.578.412	7.984.164	—	—
Exposures to or guaranteed by regional entities	6.242	6.242	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	80.252	83.925	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	272	—	—
Exposures to or guaranteed by international organizations	521	521	—	—
Exposures to or guaranteed by regulated intermediaries	17.471.014	7.341.159	10.447.689	70.229
Exposures to or guaranteed by companies	24.730.486	22.508.726	2.035.870	331.608
Retail exposures	13.991.552	13.888.638	86.374	16.539
Exposures guaranteed by properties	7.672.707	7.670.798	30	1.880
Overdue exposures	1.107.414	1.102.347	2.048	3.019
High-risk exposures	165.283	165.283	—	—
Exposures in the form of guaranteed bank debt securities	376.949	376.949	—	—
Short-term exposures to companies	—	—	—	—
Exposures to OICRs	404.283	404.283	—	—
Exposures to equity instruments	2.787.424	2.787.424	—	—
Other exposures	2.137.151	2.207.958	—	—
Total cash risk assets	54.950.432	53.970.408	1.059.106	410.653
Total guarantees issued and commitments to disburse funds	8.170.747	7.670.950	508.347	12.621
Total derivatives contracts	2.078.941	1.712.218	366.723	—
Total SFTs and trades with long-term settlement	13.309.572	3.175.113	10.637.836	—
Grand Total	78.509.692	66.528.689	12.572.012	423.274



Table 4.3 – Credit risk: exposures by portfolio – standard method (CR4)

Portfolios	Amounts as at 30/6/18					
	Exposure amount gross of CRM and CCF ¹		Exposure amount net of CRM and CCF ²		RWA and RWA density	
	Cash	Off-balance	Cash	Off-balance	RWA	RWA density
Exposures to or guaranteed by central administrations and central banks	7.183.661	76.000	7.642.137	42.820	314	0%
Exposures to or guaranteed by regional entities	8.631	—	8.631	—	1.726	20%
Exposures to or guaranteed by non-profit-making or public-sector entities	168.518	3	168.518	1	162.907	97%
Exposures to or guaranteed by multilateral development banks	—	—	—	—	—	0%
Exposures to or guaranteed by international organizations	—	—	—	—	—	0%
Exposures to or guaranteed by regulated intermediaries	3.360.619	909.421	2.835.151	911.751	1.300.020	30%
Exposures to or guaranteed by companies	7.060.594	1.015.801	6.082.808	383.490	6.351.394	79%
Retail exposures	13.726.577	1.380.175	13.602.471	190.188	10.244.296	68%
Exposures guaranteed by properties	8.108.537	17.591	8.104.671	8.796	2.893.193	36%
Overdue exposures	788.105	3.103	783.345	177	823.536	104%
High-risk exposures	147.135	141.048	147.135	141.048	432.274	150%
Exposures in the form of guaranteed bank debt securities	291.407	—	291.407	—	35.096	12%
Short-term exposures to companies	—	—	—	—	—	0%
Exposures to OICRs	317.436	1.187	317.436	1.187	658.255	207%
Exposures to equity instruments	2.193.111	—	2.193.111	—	5.975.242	272%
Other exposures	1.732.323	137	1.732.323	27	1.365.459	79%
Grand Total	45.086.654	3.544.466	43.909.144	1.679.485	30.243.712	

¹ Exposure value equals the gross originary exposure net of write-offs.

² Exposure value equals the gross originary exposure net of write-offs, CRM techniques and CCF for off-balance exposures.

Table 4.4 – Variation of RWAs related to credit exposures calculated according to AIRB models (CR8)

In February 2017, authorization was received from the European Central Bank to adopt the AIRB for measuring capital requirements in relation to credit risk for the Mediobanca Large Corporate portfolio.

The authorization, effective as from 31 March 2018, entailed a saving in RWAs of €5.1bn (from the stock as at 31 December 2017, with an average weighting for the corporate exposures of approx. 60%) confirming the high quality of the lending processes, which has always been a hallmark of Mediobanca. The corresponding increase in CET1 of some 140 bps allowed the Group's already high capital solidity to be strengthened even further to support robust business growth in accordance with the strategic plan objectives.

Subsequently the benefit of the internal models compared to the standard calculation increased by over €0.6bn per quarter, due to the improved credit quality.

The table shows the change in total RWAs in respect of the credit exposures from 31 March 2018 to 30 June 2018, calculated through application of the IRB models, showing a breakdown for the reasons driving this change.



		RWA amounts	Capital requirements
1	RWAs as at the end of the previous reporting period (31 March 18)	8.773.740	701.899
2	Asset size	(132.171)	(10.574)
3	Asset quality	15.680	1.254
4	Model updates	—	—
5	Methodology and policy	—	—
6	Acquisitions and disposals	—	—
7	Foreign exchange movements	31.826	2.546
8	Other	—	—
9	RWAs as at the end of the reporting period (30 June 2018)	8.689.075	695.126

During the quarter under review, total IRB RWAs changed slightly, due chiefly to a reduction in the exposures. The credit quality of the exposures is virtually unchanged from both end-March and end-June. There was also a slight increase attributable to movements in exchange rates, in particular the appreciation of the US dollar.

Table 4.5 – Capital requirement for market risks

Capital requirement for market risk	30/6/18	30/6/17
Position risk	189.093	179.130
<i>of which relating to positions in respect of securitizations</i>	<i>587</i>	<i>96</i>
Concentration risk	—	—
Regulatory risk for DVP transactions	—	—
Exchange rate risk	—	—
Risk on positions in commodities	—	—
Total Market Risk	189.093	179.130



Table 4.6 – Risk-weighted assets and requirements by strategic business area *

Business Line	30/6/18										
	Group Capital Requirements	CIB Requirements	%	WM Requirements	%	Consumer Requirements	%	PI Requirements	%	HF Requirements	%
Total requirement	3.789.013	1.560.868		460.573		945.762		500.526		321.284	
of which: Credit and Counterparty Risk	3.288.112	1.282.363	39,00%	393.448	11,97%	809.601	24,62%	500.526	15,22%	302.174	9,19%
of which: Market Risk	189.093	183.914	97,26%	5.179	2,74%	—	0,00%	—	0,00%	—	0,00%
of which: Operational Risk	311.808	94.591	30,34%	61.947	19,87%	136.161	43,67%	—	0,00%	19.110	6,13%
Regulatory Capital	47.362.665	19.510.847	41,19%	5.757.167	12,16%	11.822.026	24,96%	6.256.578	13,21%	4.016.047	8,48%

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

* Divisions comprise:

- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
 - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
 - Specialty Finance: comprises factoring and credit management (including NPL portfolios) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CheBanca!): 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): new division which brings together all asset management services offered to the following client segments:
 - Affluent & Premier, addressed by CheBanca!;
 - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque and CMB Asset Management;
 - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion and RAM Active Investments;
- 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).



Countercyclical capital buffer

The table below shows the “Countercyclical capital buffer” disclosure prepared on the basis of the rates applicable as at 30 June 2018.

Table 4.7 – Amount of the specific countercyclical capital buffer of the institution

Row	Description	30/6/18	30/6/17
010	Total risk exposure amount	47.362.665	52.708.249
020	Specific countercyclical ratio of the institution	0,03%	0,01%
030	Specific countercyclical capital buffer requirement of the institution	12.891	4.086



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Table 4.8 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

The following table sets out credit exposures as at 30 June 2018, split by geographical distribution, relevant for the calculation of the countercyclical capital buffer according to the EU Regulation no. 1152/2014.



(€m)

30/6/18	Generic credit exposures		Exposure in the trading book		Exposure to securitisation		Own fund requirements				Weighting factors of own funds requirements	Countercyclical ratio
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	Of which: Generic credit exposures	Of which: Exposures in the trading book	Of which: Exposures to securitisations	Total		
010 Geographical breakdown												
Italy	28.860	6.740	—	—	4.046	—	2.098	—	168	2.266	—	—
Abu Dhabi	4	—	—	—	—	—	—	—	—	—	—	—
Australia	1	—	—	—	—	—	—	—	—	—	—	—
Austria	0	—	—	—	—	—	—	—	—	2	—	—
Belgium	4	29	—	—	—	—	2	—	—	2	—	—
Canada	—	32	—	—	—	—	5	—	—	5	—	—
China	1	—	—	—	—	—	—	—	—	—	—	—
Denmark	2	25	—	—	—	—	1	—	—	1	—	—
Ethiopia	1	—	—	—	—	—	—	—	—	—	—	—
Finland	0	—	—	—	—	—	—	—	—	3	—	—
France	334	1.576	—	—	—	—	95	—	—	95	—	—
Germany	3	1.079	—	—	—	—	55	—	—	55	—	—
Japan	0	150	—	—	—	—	8	—	—	8	—	—
Greece	3	—	—	—	—	—	—	—	—	—	—	—
Hong Kong	1	—	—	—	—	—	—	—	—	—	—	—
Ireland	190	154	—	—	—	—	22	—	—	22	—	—
Iceland	1	—	—	—	—	—	—	—	—	—	—	—
Cayman Islands	43	64	—	—	—	—	7	—	—	7	—	—
British Virgin Islands	40	48	—	—	—	—	4	—	—	4	—	—
Liechtenstein	0	75	—	—	—	—	2	—	—	2	—	—
Luxembourg	79	705	—	—	—	—	40	—	—	40	—	—
Mexico	36	—	—	—	—	—	3	—	—	3	—	—
Norway	2	—	—	—	—	—	—	—	—	—	—	—
Netherlands	197	1.070	—	—	—	—	79	—	—	79	—	—
Portugal	0	120	—	—	—	—	6	—	—	6	—	—
Monaco	20	—	—	—	—	—	2	—	—	2	—	—
United Kingdom	108	1.129	—	—	—	—	74	—	—	74	—	—
Romania	1	—	—	—	—	—	—	—	—	—	—	—
Russian Federation	1	—	—	—	—	—	—	—	—	—	—	—
Singapore	6	—	—	—	—	—	—	—	—	—	—	—
Spain	318	1.144	—	—	—	—	70	—	—	70	—	—
Sweden	0	85	—	—	—	—	5	—	—	5	—	—
Switzerland	84	126	—	—	—	—	8	—	—	8	—	—
Turkey	278	318	—	—	—	—	38	—	—	38	—	—
United States	184	746	—	—	—	—	41	—	—	41	—	—
Other countries	4	78	—	—	—	—	5	—	—	4	—	—
020 Total	30.805	15.630	—	—	4.046	—	2.673	—	168	2.840	—	—



Section 5 – Financial leverage

Qualitative information

In January 2015, the Basel Committee introduced the leverage ratio as an indicator to keep down borrowings and reduce excessive recourse financial leverage in the banking sector. The indicator is calculated from the ratio between regulatory Tier 1 capital and the Group's overall aggregate exposure, which includes assets net of any deductions from Tier 1, and the off-balance-sheet exposures as well. The minimum regulatory level set by the Committee is 3%, which will come into force as a minimum Pillar I requisite starting from 1 January 2019.

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

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

- Derivative contracts must be valued using the Current Exposure Method, i.e. the sum between net market value, if positive, and potential future exposure, with the possibility if certain conditions are met of deducting the margin of change in cash from the value of the exposure; for credit derivatives sold, the ratio can be measured on the basis of the gross notional amount rather than at fair value, with the possibility of deducting the changes in fair value recorded through the profit and loss account from the notional amount (as negative components); protection sold can also be offset by protection acquired if given criteria are respected;
- Secured financing transactions are valued by considering the value attributed to the collateral under credit risk mitigation rules; real guarantees received cannot be used to reduce the value of the exposure for such transactions, whereas cash receivables and payables deriving from such transactions can be offset if certain very strict criteria are met and providing the transaction are with the same counterparty;
- The other off-balance-sheet exposures reflect the credit conversion factors;



- The other exposures are recognized at the book value remaining following application of the specific loan loss provisions, supplementary value adjustments and other reductions to own funds in respect of the asset item.

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

Quantitative information

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



Table 5.1 – LRCom – Harmonized information over leverage ratio

On-balance-sheet exposures (excluding derivatives and SFTs)		30/6/18	30/6/17
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	66.360.445	62.298.919
2	Asset amounts deducted in determining Basel III Tier 1 capital - phase-in regime	(1.773.375)	(1.057.185)
3	Total on-balance-sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	64.587.070	61.241.734
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.252.200	1.382.391
5	Add-on amount for PFE associated with all derivatives transactions (mark-to-market method)	1.311.100	999.720
EU-5a	Exposure determined under Original Exposure Method	—	—
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	—	—
7	(Deduction of receivables assets for cash variation margin provided in derivatives transactions)	(461.896)	(366.723)
8	(Exempted CCP leg of client-cleared trade exposures)	(188.730)	(3.514)
9	Adjusted effective notional amount of written credit derivatives	—	—
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
11	Total derivative exposures (sum of lines 4 to 10)	1.912.674	2.011.874
Securities financing transaction exposures (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	5.360.479	6.889.904
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(2.308.771)	(2.148.508)
14	CCR exposure for SFT assets	2.015.560	2.072.813
EU-14a	Exemption for SFTs: CCR exposure pursuant to Article 429-ter, para. 4, and Article 222 of regulation EU 575/2013	—	—
15	Agent transaction exposures	—	—
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	(202.117)	—
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	4.865.151	6.814.209
Other off-balance-sheet exposures			
17	Off-balance-sheet exposure at gross notional amount	10.628.200	7.973.328
18	(Adjustments for conversion to credit equivalent amounts)	(5.134.756)	(3.999.329)
19	Off-balance-sheet items (sum of lines 17 and 18)	5.493.444	3.973.999



(Exposures exempt pursuant to Article 429, paras. 7 and 14 of EU regulation 575/2013 (on- and off-balance-sheet))			
EU-19a	Intra-group exposures (solo basis) exempted pursuant to Article 429, para. 7 of EU regulation 575/2013 (on- and -off-balance-sheet)	—	—
EU-19b	Exposures exempted pursuant to Article 429, para. 14 of EU regulation 575/2013 (on- and -off-balance-sheet)	—	—
Capital and total exposures			
20	Tier 1 capital	6.746.599	7.017.281
21	Total exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	76.858.339	74.041.816
Leverage ratio			
22	Basel III leverage ratio	8,78%	9,48%
Choice of transitional arrangements and amount of derecognized fiduciary items			
EU-23	Choice of transitional arrangements for definition of capital measure	Fully loaded with Danish Compromise	Phase-in
EU-24	Amount of derecognized fiduciary items pursuant to Article 429, para. 11 of EU regulation 575/2013	—	—



The leverage ratio as at 30 June 2018, calculated in accordance with the new provisions of Commission Delegated Regulation 62/2015 and those for defining the measurement of capital was 8.78% (fully-loaded, with Danish Compromise), lower than the 9.48% ratio recorded at 30 June 2017, due chiefly to the reduction in CET1 capital as a result of the phase-in calculation period ending and the increased deduction of the Assicurazioni Generali investment.¹ The fully-loaded ratio (i.e. without the Assicurazioni Generali investment being weighted at 370% for purposes of calculating CET capital) stood at 7.49%.

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

Summary comparison of accounting assets vs leverage ratio exposure		30/6/18	30/6/17
1	Total consolidated assets as per published financial statements *	72.300.522	70.445.564
2	Adjustment for investments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	136.468	125.650
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure pursuant to Article 429 (13) of EU regulation 575/2013 (CRR)	—	—
4	Adjustment for derivative financial instruments	(753.476)	629.483
5	Adjustment for securities financing transactions (SFTs)	1.813.443	(75.695)
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	5.134.756	3.973.999
EU-6a	(Adjustment for intra-group exposures excluded from calculation of financial leverage pursuant to Article 429 (7) of EU regulation no. 575/2013)	—	—
EU-6b	(Adjustment for exposures excluded from calculation of financial leverage pursuant to Article 429 (14) of EU regulation no. 575/2013)	—	—
7	Other exposures **	(1.773.375)	(1.057.185)
8	Leverage ratio exposure	76.858.339	74.041.816

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

** The heading entitled "Other adjustments" chiefly includes the amounts in respect of assets deducted from the calculation of core tier 1 equity – fully loaded with Danish compromise.

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

	CRR leverage ratio exposures 30/6/18	CRR leverage ratio exposures 30/6/17
EU-1 Total on-balance-sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	66.360.445	62.298.919
EU-2 Trading book exposures	4.497.313	5.438.022
EU-3 Banking book exposures, of which:	61.863.132	56.860.897
EU-4 Covered bonds	291.407	376.949
EU-5 Exposures treated as sovereigns	7.183.661	7.578.079
EU-6 Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	177.149	27.015
EU-7 Institutions	3.360.619	3.384.551
EU-8 Secured by mortgages of immovable properties	8.108.537	7.672.707
EU-9 Retail exposures	13.726.577	12.730.075
EU-10 Corporate	17.171.958	16.656.340
EU-11 Exposures in default	788.105	1.075.360
EU-12 Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	11.055.119	7.359.819

¹ Starting from 31 December 2017 the concentration limit passed from 25% to 20% to comply with the limit towards related parties.



Section 6 – Credit risk

6.1 Credit risk: general information for all banks

Qualitative information

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

The classification of impaired exposures may be summarized as follows:

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

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

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

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



borrower has been made unemployed, cases of serious illness and/or divorce and separation).

6.1.1 Description of methodologies adopted to determine loan loss provisions

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

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The amortized cost method is not used for short-term receivables, for which the effects of applying the discounting criteria are negligible; hence such assets are recognized at historical cost. The 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.

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

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates,



including non-interest-bearing loans. The relevant value adjustment is taken through the profit and loss account.

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

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

IAS17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period.

Exposure to sovereign debt risk

The securities portfolio chiefly consists of financial instruments with Italy country risk worth €2.9bn (55% of the total, with an average maturity of approx. 3.2 years. The exposure to German bonds remains substantial (at 22% of the total – the total book value is equal to €1,157m corresponding to a notional value of €1,100m). Trading operations include short selling (that is to say, the sale of a security without owing the asset), conventionally indicated with the minus sign (see the table below).



Quantitative information

Exposure to sovereign debt

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

Asset portfolio/quality	In bonis			Total (Net exposure) ¹
	Gross exposure	Specific adjustments	Net exposure	
1. Financial assets held for trading	X	X	(129.249)	(129.249)
Italy	X	X	165.202	165.202
Spain	X	X	219.896	219.896
Germany	X	X	(75.564)	(75.564)
France	X	X	(223.950)	(223.950)
Others	X	X	(214.833)	(214.833)
2. AFS securities	3.543.504	—	3.543.504	3.543.504
Italy	1.612.855	—	1.612.855	1.612.855
Germany	1.081.683	—	1.081.683	1.081.683
United States	468.407	—	468.407	468.407
France	218.626	—	218.626	218.626
Spain	161.933	—	161.933	161.933
3. Financial assets held to maturity	1.871.380	—	1.871.380	1.871.380
Italy	1.132.125	—	1.132.125	1.132.125
France	353.013	—	353.013	353.013
Spain	202.626	—	202.626	202.626
Germany	151.006	—	151.006	151.006
Others	32.610	—	32.610	32.610
Total	5.414.884	—	5.285.635	5.285.635

* Does not include financial and credit derivatives.

¹ The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €6.7m.

Table 6.1.2 - Exposures to sovereign debt securities by portfolio

Asset Portfolio / quality	Trading book ¹			Banking book ²			
	Nominal Value	Book value	Duration	Nominal Value	Book value	Fair value	Duration
Italy	157.933	165.202	2,64	2.696.552	2.744.980	2.735.130	2,69
Germany	(74.500)	(75.564)	2,21	1.175.000	1.232.689	1.234.185	4,01
Spain *	203.220	219.896	25,05	360.000	364.559	367.056	3,51
United States	—	—	—	467.490	468.407	468.407	1,94
France	(199.440)	(223.950)	2,71	565.400	571.639	574.882	2,75
Others	(212.827)	(214.833)	—	39.467	32.610	41.966	—
Total	(125.614)	(129.249)		5.303.909	5.414.884	5.421.626	

* Figures do not include forward sales for a notional value of €220m.

¹ Does not include sales of €518m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €4m, and sales of €136.8m on the BPT future (Italy) with a negative fair value of €3m. Net hedge buys of €637m (€608m of which on France country risk and €28m on Italy country risk) have also not been included.

² Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.5m.



Quantitative information

Table 6.1.3 - Counterparty credit risk

Counterparty credit risk	30/6/18				30/6/17				Quarterly average data			
	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements
A. CREDIT RISK AND COUNTERPARTY RISK												
A.1 Standardized methodology - RISK ASSETS												
A.1.1. Exposures to or guaranteed by central administrations and central banks	7.259.661	7.684.957	314	25	7.578.412	7.978.458	866	69	6.645.720	7.126.655	456	37
A.1.2. Exposures to or guaranteed by regional entities	8.631	8.631	1.726	138	6.242	6.242	1.248	100	6.343	6.343	1.269	102
A.1.3. Exposures to or guaranteed by non-profit-making and public sector entities	168.521	168.519	162.907	13.033	80.252	53.334	34.951	2.796	157.378	157.376	148.315	11.865
A.1.4. Exposures to or guaranteed by multilateral development banks	—	—	—	—	—	272	54	4	—	66	13	1
A.1.5. Exposures to or guaranteed by international organizations	—	—	—	—	521	521	—	—	—	—	—	—
A.1.6. Exposures to or guaranteed by regulated intermediaries	16.921.179	7.032.621	2.006.863	160.549	17.471.014	7.303.421	2.100.899	168.072	17.676.906	7.920.750	2.225.400	178.032
A.1.7. Exposures to or guaranteed by companies	9.267.711	6.927.694	6.812.790	545.023	24.730.488	19.673.293	19.509.321	1.560.746	17.931.695	13.539.398	13.469.947	1.077.596
A.1.8. Retail exposures	15.106.752	13.792.659	10.244.296	819.544	13.991.552	12.835.849	9.541.588	763.327	14.643.009	13.387.606	9.941.719	795.338
A.1.9. Exposures guaranteed by properties	8.126.129	8.113.467	2.893.194	231.455	7.672.707	7.670.798	2.755.342	220.427	7.928.198	7.919.373	2.834.846	226.787
A.1.10. Overdue exposures	793.647	785.961	827.194	66.176	1.107.414	1.091.025	1.206.996	96.560	971.358	958.995	1.023.617	81.890
A.1.11. High-risk exposures	288.183	288.183	432.274	34.582	165.283	165.283	577.924	46.234	218.283	218.283	327.424	26.194
A.1.12. Exposures in the form of guaranteed bank obligations	291.407	291.407	35.097	2.808	376.949	376.949	50.368	4.029	329.627	291.610	34.058	2.725
A.1.14. Exposures to collective investment and savings organizations (OICRs)	318.623	318.623	658.255	52.660	404.283	404.283	520.621	41.650	364.883	364.883	767.432	61.395
A.1.15. Exposures to equity instruments	2.193.111	2.193.111	5.975.242	478.019	2.787.424	2.787.424	7.707.819	616.626	2.152.860	2.152.860	6.086.430	486.914
A.1.16. Other exposures	1.732.460	1.732.350	1.365.460	109.237	2.137.151	2.206.023	1.865.176	149.214	1.799.270	1.811.627	1.526.367	122.109
Total	62.476.015	49.338.183	31.415.612	2.513.249	78.509.692	62.553.175	45.873.173	3.649.854	70.825.528	55.855.822	38.387.292	3.070.983
A.2 AIRB methodology - RISK ASSETS												
A.2.5. Exposures to or guaranteed by companies - other companies	—	15.611.090	8.936.201	714.896	—	—	—	—	—	15.437.714	9.007.063	720.565
Total	—	15.611.090	8.936.201	714.896	—	—	—	—	—	15.437.714	9.007.063	720.565



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

Type of exposure/counterparty area	30/6/18						
	Gross cash exposures						Off-balance-sheet exposures
	Financial assets held for trading	Financial assets recognised at fair value	AFS securities	Financial assets held to maturity	Due from banks	Non-current assets and groups of assets being sold	
A. Cash exposures							
a) Bad loans	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—
d) Other exposures	120.733	—	719.707	177.142	7.490.298	—	—
Total A	120.733	—	719.707	177.142	7.490.298	—	—
B. Off-balance-sheet exposures							
a) Impaired	—	—	—	—	—	—	—
b) Other	—	—	—	—	—	—	45.289.350
Total B	—	—	—	—	—	—	45.289.350
Total A+B	120.733	—	719.707	177.142	7.490.298	—	45.289.350



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

Type of exposure/counterparty area	30/6/18						
	Gross cash exposures						Off-balance-sheet exposures
	Financial assets held for trading	Financial assets recognised at fair value	AFS securities	Financial assets held to maturity	Due from banks	Non-current assets and group of assets being sold	
A. Cash exposures							
a) Bad loans	—	—	—	—	812.338	—	—
b) Unlikely to pay	—	—	—	—	1.252.562	—	—
c) Overdue exposures (NPLs)	—	—	—	—	166.146	—	—
d) Other exposures	2.711.064	—	4.051.100	2.425.097	39.889.155	—	—
Total A	2.711.064	—	4.051.100	2.425.097	42.120.201	—	—
B. Off-balance-sheet exposures							
a) Impaired	—	—	—	—	—	—	12.266
b) Other	—	—	—	—	—	—	31.800.121
Total B	—	—	—	—	—	—	31.812.387
Total A+B	2.711.064	—	4.051.100	2.425.097	42.120.201	—	31.812.387

As at 30 June 2018 forborne non-performing exposures amounted to €551.1m, with a coverage ratio of 50%, while forborne performing exposures amounted to €703m with a coverage ratio of 9%. Overall the non-performing forborne positions represent 1.34% of the total customer loan book, and the performing forborne exposures 1.72%.



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

Type of exposure/Counterparty area	30/6/18									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
a) Bad loans	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
d) Other exposures	2.509.586	2.508.976	5.941.741	5.940.528	50.300	50.281	6.017	6.017	233	233
Total A	2.509.586	2.508.976	5.941.741	5.940.528	50.300	50.281	6.017	6.017	233	233
B. Off-balance-sheet exposures										
a) Bad loans	—	—	—	—	—	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
d) Other exposures	9.217.180	9.217.180	36.044.112	36.044.112	516	516	—	—	—	—
Total B	9.217.180	9.217.180	36.044.112	36.044.112	516	516	—	—	—	—
Total A + B	11.726.766	11.726.156	41.985.853	41.984.640	50.816	50.797	6.017	6.017	233	233



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

Type of exposure/Counterparty area	30/6/18									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
a) Bad loans	790.826	413.738	21.095	9.236	401	300	15	15	1	1
b) Unlikely to pay	1.242.754	639.195	9.125	4.915	391	256	293	193	—	—
c) Overdue exposures (NPLs)	160.651	56.908	2.210	2.191	3.269	3.025	1	—	15	15
d) Other exposures	36.281.724	35.885.093	11.005.832	10.985.293	1.832.255	1.825.541	55.875	55.685	265.013	264.876
Total A	38.475.955	36.994.934	11.038.262	11.001.635	1.836.316	1.829.122	56.184	55.893	265.029	264.892
B. Off-balance-sheet exposures										
a) Bad loans	93	93	—	—	—	—	—	—	—	—
b) Unlikely to pay	12.020	9.619	—	—	—	—	—	—	—	—
c) Overdue exposures (NPLs)	153	152	—	—	—	—	—	—	—	—
d) Other exposures	10.571.072	10.563.886	19.523.727	19.518.631	1.297.500	1.297.324	154.379	153.915	241.795	241.715
Total B	10.583.338	10.573.750	19.523.727	19.518.631	1.297.500	1.297.324	154.379	153.915	241.795	241.715
Total A + B	49.059.293	47.568.684	30.561.989	30.520.266	3.133.816	3.126.446	210.563	209.808	506.824	506.607



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

Type of exposure/counterparty area	30/6/18																	
	Governments			Other public entities			Financial companies			Insurances			Non-financial undertakings			Other entities		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. Cash exposures																		
a) Bad loans	—	—	—	—	—	—	289	—	289	—	—	—	123.592	(35.569)	88.023	686.420	(351.442)	334.978
b) Unlikely to pay	—	—	—	15.494	(2.854)	2.640	18.693	—	18.693	—	—	—	767.292	(339.529)	427.763	443.629	(258.166)	185.463
c) Overdue exposures (NPLs)	—	—	—	1.542	(42)	1.500	139	—	139	2	(2)	—	14.657	(2.681)	11.976	149.723	(101.939)	48.524
d) Other exposures	7.249.813	(2.845)	7.246.968	758.721	—	758.721	4.515.144	—	4.515.144	855.397	(1.561)	853.836	13.264.599	(41.232)	13.223.367	22.784.622	(366.170)	22.418.452
Total A	7.249.813	(2.845)	7.246.968	775.757	(2.896)	772.861	4.534.265	—	4.534.265	855.399	(1.563)	853.836	14.170.140	(419.011)	13.751.129	24.064.394	(1.076.977)	22.987.417
B. Off-balance-sheet exposures																		
a) Bad loans	—	—	—	—	—	—	—	—	—	—	—	—	87	—	87	6	—	6
b) Unlikely to pay	—	—	—	—	—	—	4.181	819	5.000	—	—	—	7.493	(3.200)	4.293	346	(20)	326
c) Overdue exposures (NPLs)	—	—	—	—	—	—	0	—	0	—	—	—	102	—	102	51	(1)	50
d) Other exposures	1.844.556	—	1.844.556	3.895	—	3.895	14.594.358	(2.377)	14.591.981	717.391	—	717.391	19.077.024	(7.549)	13.069.475	1.551.249	(3.076)	1.548.173
Total B	1.844.556	—	1,844,556	3,895	—	3,895	14,598,539	(1,558)	14,596,981	717,391	—	717,391	13,084,706	(10,749)	13,073,957	1,551,652	(3,097)	1,548,555
Total A + B	9,094,369	(2,845)	9,091,524	779,652	(2,896)	776,756	19,132,804	(1,558)	19,131,246	1,572,790	(1,563)	1,571,227	27,254,846	(429,760)	26,825,086	25,616,046	(1,080,074)	24,535,972



Table 6.1.9 - Financial assets by outstanding Maturity

Type	30/6/18										Total
	On demand	From 1 day to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Unspecified duration	
Cash assets	4.447.798	1.239.501	697.169	1.057.615	4.121.724	3.308.224	5.366.022	26.498.081	12.192.158	189.622	59.117.914
A.1 Government securities	—	850	874	225.129	192.129	376.425	405.494	5.006.700	1.125.415	—	7.333.016
A.2 Other debt securities	1.170	24.844	51.399	10.297	171.761	138.997	278.203	1.824.434	1.109.982	—	3.611.087
A.3 OICR units	119.492	—	—	—	—	—	—	19	—	—	119.511
A.4 Loans and advances	4.327.136	1.213.807	644.896	822.189	3.757.834	2.792.802	4.682.325	19.666.928	9.956.761	189.622	48.054.300
- to banks	2.619.853	794.206	153.096	209.397	1.433.824	236.666	576.372	1.473.501	276.380	177.783	7.951.078
- to customers	1.707.283	419.601	491.800	612.792	2.324.010	2.556.136	4.105.953	18.193.427	9.680.381	11.839	40.103.222
Cash liabilities	12.674.679	3.808.101	571.241	854.744	2.226.302	3.590.662	4.601.668	22.351.562	4.487.110	1.659	55.167.728
B.1 Financial derivatives with exchange of principal	11.935.280	2.792.649	218.971	445.718	900.519	1.018.065	1.815.432	758.498	68.503	—	19.953.635
- to banks	483.557	100	1.368	2.859	6.287	10.584	17.209	—	—	—	521.964
- to customers	11.451.723	2.792.549	217.603	442.859	894.232	1.007.481	1.798.223	758.498	68.503	—	19.431.671
B.2 Deposits and loans	1.261	216	995	5.825	616.731	2.297.333	2.266.247	10.888.542	4.260.740	—	20.337.890
B.3 Other liabilities	738.138	1.015.236	351.275	403.201	709.052	275.264	519.989	10.704.522	157.867	1.659	14.876.203
Off-balance-sheet transactions	6.572.396	5.570.920	634.077	1.344.486	2.886.996	2.102.944	2.219.665	16.738.715	4.983.028	70.000	43.123.227
C.1 Financial derivatives with exchange of principal	6.994	1.667.720	406.372	1.006.770	1.621.907	1.205.378	624.807	4.149.665	1.227.168	—	11.916.781
- long positions	3.497	905.571	323.491	521.719	779.905	787.116	181.411	1.003.647	64.693	—	4.571.050
- short positions	3.497	762.149	82.881	485.051	842.002	418.262	443.396	3.146.018	1.162.475	—	7.345.731
C.2 Financial derivatives without exchange of principal	4.857.097	10.720	4.299	12.698	113.447	106.580	145.056	40.104	—	—	5.290.001
- long positions	2.506.632	4.565	2.741	4.408	49.816	37.098	72.286	40.104	—	—	2.717.650
- short positions	2.350.465	6.155	1.558	8.290	63.631	69.482	72.770	—	—	—	2.572.351
C.3 Deposits and financing receivables	—	1.754.969	116.111	156.415	767.688	12.187	792.586	4.373.852	924.463	—	8.898.271
- long positions	—	1.753.405	116.111	156.415	767.688	—	713.985	941.531	—	—	4.449.135
- short positions	—	1.564	—	—	—	12.187	78.601	3.432.321	924.463	—	4.449.136
C.4 Irrevocable commitment to disburse funds *	1.468.849	2.137.451	107.295	168.503	382.714	571.871	353.953	4.878.756	815.479	—	10.884.871
- long positions	181.899	116.825	864	60.583	157.424	13.920	91.710	4.022.169	797.041	—	5.442.435
- short positions	1.286.950	2.020.626	106.431	107.920	225.290	557.951	262.243	856.587	18.438	—	5.442.436
C.5 Financial guarantees issued	5.622	60	—	100	340	1.228	76.463	998	70	70.000	154.881
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	900	205.700	226.800	3.295.340	2.015.848	—	5.744.588
- long positions	—	—	—	—	450	90.700	93.400	1.647.896	1.039.848	—	2.872.294
- short positions	—	—	—	—	450	115.000	133.400	1.647.444	976.000	—	2.872.294
C.8 Credit derivatives without exchange of principal	233.834	—	—	—	—	—	—	—	—	—	233.834
- long positions	114.508	—	—	—	—	—	—	—	—	—	114.508
- short positions	119.326	—	—	—	—	—	—	—	—	—	119.326

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



Table 6.1.10 - Cash exposures: trends in overall value adjustments

Description/category	30/6/18							
	Exposures to banks				Exposures to customers			
	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Total	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Total
A. Overall adjustments at start of period	—	—	—	—	370.076	666.352	95.272	1.131.700
<i>of which: exposures sold but not derecognised</i>	—	—	—	—	22.447	65.996	37.359	125.802
B. Additions	—	—	—	—	177.544	297.219	171.433	646.196
B.1 value adjustments	—	—	—	—	85.392	150.426	77.941	313.759
B.2 losses incurred on disposals	—	—	—	—	689	15.271	1.257	17.217
B.3 transferred from other categories of non-performing exposures	—	—	—	—	70.444	86.578	20.929	177.951
B.4 other additions	—	—	—	—	21.019	44.944	71.306	137.269
C. Reductions	—	—	—	—	158.572	355.567	162.698	676.837
C.1 amounts reversed following changes in valuation	—	—	—	—	9.076	38.228	6.087	53.391
C.2 amounts reversed following collection	—	—	—	—	13.493	55.917	2.611	72.021
C.3 gains realised on disposals	—	—	—	—	3.940	2.180	17	6.137
C.4 writeoffs	—	—	—	—	120.067	138.945	4.025	263.037
C.5 transferred to other categories of non-performing exposures	—	—	—	—	993	81.454	95.504	177.951
C.6 other reductions	—	—	—	—	11.003	38.843	54.454	104.300
D. Overall adjustments at end of period	—	—	—	—	389.048	608.004	104.007	1.101.059
<i>of which: exposures sold but not derecognised</i>	—	—	—	—	45.559	101.752	46.316	193.627



6.2 ECAIs

Qualitative information

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

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

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

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

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



Quantitative information

Table 6.2.1 - Standardized methodology: risk assets

Portfolios	30/6/18		
	Value of exposure*	Exposures guaranteed	
		Real guarantee	Personal guarantee
Exposures to or guaranteed by central administrations and central banks	7.259.661	—	—
credit rating class 1	7.259.045	—	—
credit rating class 2	—	—	—
credit rating class 3	603	—	—
credit rating classes 4 and 5	13	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by regional entities	8.631	—	—
credit rating class 1	—	—	—
credit rating class 2	8.631	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	—	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by non-profit-making or public-sector entities	168.521	—	—
credit rating class 1	—	—	—
credit rating class 2	7.017	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	161.504	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by Banche multilateral development banks	—	—	—
credit rating class 1	—	—	—
credit rating class 2	—	—	—
credit rating class 3	—	—	—
credit rating classes 4 and 5	—	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by international organizations	—	—	—
Exposures to or guaranteed by regulated intermediaries	16.921.179	9.850.630	327.662
credit rating class 1	—	—	—
credit rating class 2	14.349.154	—	—
credit rating class 3	2.127.863	—	—
credit rating classes 4 and 5	444.162	—	—
credit rating class 6	—	—	—
Exposures to or guaranteed by companies	9.267.711	1.786.844	204.523
credit rating class 1	64.689	—	—
credit rating class 2	47.094	—	—
credit rating classes 3 and 4	9.155.928	—	—
credit rating classes 5 and 6	—	—	—
Retail exposures	15.106.752	113.527	57.946
Exposures guaranteed by properties	8.126.129	188	3.679
Overdue exposures	793.647	2.038	2.722
High-risk exposures	288.183	—	—
Exposures in the form of guaranteed bank debt securities	291.407	—	—
Short-term exposures to companies	—	—	—
Exposures to UCITs	318.623	—	—
credit rating class 1	—	—	—
credit rating class 2	—	—	—
credit rating classes 3 to 4	289.090	—	—
credit rating classes 5 to 6	29.533	—	—
Exposures to equity instruments	2.193.111	—	—
Other exposures	1.732.460	—	—
Total cash risk assets	45.086.654	1.058.176	582.367
Total guarantees issued and commitments to disburse funds	3.544.467	180.249	14.164
Total derivatives contracts	1.446.931	349.409	—
Total SFTs and trades with long-term settlement	12.397.963	10.165.393	—
Grand total	62.476.014	11.753.226	596.531

* Exposure value equals the gross originary exposure net of write-offs.



6.3 Credit risk: disclosure on portfolios subject to IRB methods

Qualitative information

6.3.1 Disclosure on portfolios to which IRB approaches apply

6.3.1.1 Authorization and Roll-Out Plan for internal models

As part of the pathway to achieving authorization to use internal models to calculate the regulatory capital requirement for credit risk, on 1 February 2018 the Group was authorized by the supervisory authorities to calculate its capital requisites using its own rating system (consisting of the Probability of Default and Loss Given Default indicators) for the Large Corporate portfolios of Mediobanca and Mediobanca International, to start from the reporting due in March 2018. The Large Corporate model represents one of the Group's principal segments in terms of credit exposure, and is the first model for which authorization has been obtained to use the AIRB models to calculate the capital requisites.

In compliance with the regulations in force on prudential requirements for credit institutions (Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013), the Group has devised a scheme for progressive adoption of the different credit exposures (the "Roll-Out Plan"). In line with this plan, the process of validating the internal models for CheBanca! mortgages is currently in progress, and the internal models to be used for all the Group's most significant asset portfolios for regulatory purposes will be adopted progressively.

The Roll-Out Plan does not include certain non-significant portfolios on the grounds that authorization has already been received to use the standard, PPU approach on a permanent basis.

6.3.1.2 IRB model scope of application

The scope of application for which the Group requested and obtained authorization to use internal model consists of the Corporate portfolio established as part of the Wholesale Banking operations of Mediobanca and Mediobanca International, including exposures generated by extraordinary financing transactions.



Not included, however, are the sub-portfolios consisting of specialized lending and real estate deals which, on account of their non-material nature, have been authorized to receive standard treatment on a permanent basis.

6.3.1.3 Corporate PD model structure

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

The model consists of:

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

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

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

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

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



6.3.1.4 Corporate LGD model structure

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

For the performing exposures, the model returns a Loss Given Default reading which differs according to type of transaction (i.e. different values are assigned to bonds and loans), taking into account the level of seniority of the debt and the possible existence of real or financial guarantees. If personal guarantees have been issued, the substitution method is applied. Account is also taken of the counterparty's characteristics in terms of industrial sector in assigning an LGD indicator.

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

6.3.1.4 Rating system uses

The internally estimated parameters are a vital component of Mediobanca's decision-making framework.

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

The Credit Risk Management unit is responsible for the assignment process. This unit is made up of the analysts responsible for assessing the credit standing of all counterparties featured in the Group's portfolio. The parameters used for regulatory purposes are incorporated with potential adjustments into the Bank's various processes, and are at the centre of the assessment process at the loan granting stage.

Risk-adjusted pricing

The risk-adjusted return on a specific transaction takes account of the counterparty's credit risk parameters in the calculation of the ROAC (Return On Allocated Capital). This incorporates the expected loss calculated via the management PD and LGD readings in line with the calculation of the loan loss provisions, which are then revised



on a point-in-time basis. LGD in particular, apart from reflecting the operational risk mitigation through the existence of collateral, excludes the downturn factor and indirect costs. The ROAC formula also includes a simulation of the capital absorbed according to the AIRB approach.

ROAC is a vital component in assessing the sustainability of a given transaction, and contributes to the final decision as to whether to approve or reject the deal in question. It is also consistent with the Economic Profit metric used in the performance assessment process.

Delegated powers to approve, reject and renew credit

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

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

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

Credit monitoring

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

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

Internal reporting

The internal reporting process supports the credit risk monitoring process at the portfolio level. Group Risk Management provides a structured and integrated representation of the principal risks facing the Group. A dashboard of indicators is provided to the Board of Directors regularly, showing the portfolio's distribution by rating classes and its change over time. This report also illustrates the trend in the LGD values.



Monitoring the analysis and the changes in the exposures entered in the watchlist are regularly submitted to the attention of the Group Risk Management Committee.

Value adjustments for impairment

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

ICAAP and Risk Appetite Framework

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

6.3.2.1 Control and review of the internal models

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

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

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

The Group Audit Unit is responsible for the internal rating system revision process. The audits, in the same way as the validation activity, are not confined to modelling issues but also regard every component of the rating system: models, processes, IT systems



and data quality. The Group Audit Unit too reports to the Board once a year on the audits it has carried out, and gives its assessment of the adequacy of the entire system

Quantitative information

Table 6.3.1 – Credit risk exposures by class and PD scale (CR 6)

AIRB Exposure class	PD scale	a Original on balance-sheet gross exposure	b Offbalancesheet exposures pre-CCF	c Average CCF	d EAD post CRM and post CCF	e Average PD	f Number of obligors	g Average LGD	h Average maturity	i RWAs	j RWA density	k EL	l Value adjustments and provision
Exposures to corporates - Others	0.00 to <0.15	1.190.819	2.553.217	50%	2.479.076	0,08%	39	38,2%	2,50	563.337	23%	739	
	0.15 to <0.25	1.196.759	965.476	52%	1.702.497	0,17%	30	37,0%	2,50	595.132	35%	1.070	
	0.25 to <0.50	4.702.732	2.579.165	53%	5.998.591	0,38%	124	41,4%	2,50	3.564.233	59%	9.589	
	0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to <2.50	3.007.937	729.502	50%	3.384.383	0,99%	96	39,8%	2,50	2.880.575	85%	13.294	
	2.50 to <10.00	627.691	289.458	53%	781.673	3,16%	51	41,8%	2,50	999.155	128%	10.377	
	10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	647.950	11.647	51%	653.912	100,00%	7	48,3%	2,50	86.643	13%	308.623		
Sub-total		11.373.888	7.128.464	52%	15.000.131	4,93%	347	40,3%	2,50	8.689.075	58%	343.691	343.572
Total		11.373.888	7.128.464	52%	15.000.131	4,93%	347	40,3%	2,50	8.689.075	58%	343.691	343.572

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

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

	a Pre-credit derivatives RWAs	b Actual RWAs
1	Exposures under FIRB	
2	Central governments and central banks	-
3	Institutions	-
4	Corporates – SMEs	-
5	Corporates – Specialised lending	-
6	Corporates – Other	-
7	Exposures under AIRB	
8	Central governments and central banks	-
9	Institutions	-
10	Corporates – SMEs	-
11	Corporates – Specialised lending	-
12	Corporates – Other	8.936.201
13	Retail – Secured by real estate SMEs	-
14	Retail – Secured by real estate nonSMEs	-
15	Retail – Qualifying revolving	-
16	Retail – Other SMEs	-
17	Retail – Other non-SMEs	-
18	Equity IRB	-
19	Other non-credit obligation assets	-
20	Total	8.936.201



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

Table 6.3.3 – IRB: PD backtesting by class of exposure (CR 9)

The table below shows a comparison between the PD values and default rates observed internally for the Large Corporate portfolio. As can be seen, no borrowers have entered default in the last year. Furthermore, by comparing the average PD readings by credit rating class against the historical default rates observed (calculated as the average default rates recorded in the last five years), it may be noted that the historical rates are in line with (or indeed, slightly lower than) the theoretical PD values. The scope of application for backtesting shown in the table above is the same as the entire portfolio of Large Corporate credit exposures shown in table 6.3.1 (EU CR 6) (with the non-performing exposures excluded), equivalent to approx. 96% of the total AIRB RWAs for this segment.

a AIRB Exposure class	b PD range	c External rating equivalent	d Weighted average PD	e Arithmetic average PD by obligors	f Number of obligors		g Defaulted obligors in the year	h Of which: new obligors	i Average historical annual default rate
					End of previous year	End of the year			
Exposures to corporates - Others	classe 1 - 0.00 to <0.15	AAA to BBB+	0.08%	0.08%	25	39	-	-	0.00%
	classe 2 - 0.15 to <0.25	BBB	0.17%	0.17%	27	30	-	-	0.00%
	classe 3 - 0.25 to <0.50	BBB- to BB+	0.38%	0.39%	114	123	-	-	0.00%
	classe 4 - 0.50 to <0.75	-	-	-	-	-	-	-	0.00%
	classe 5 - 0.75 to <2.50	BB to BB-	0.99%	1.04%	101	96	-	-	0.00%
	classe 6 - 2.50 to <10.00	B+ to B-	3.16%	3.63%	44	51	-	-	0.00%
	classe 7 - 10.00 to <100.00	CCC to C	-	-	-	-	-	-	0.00%

6.4 Unencumbered assets

Table 6.4.1 - Information on committed assets recognized in the balance sheet

Form	Committed		Uncommitted		Total as at 30/6/18	Total as at 30/6/17
	Book value	Fair value	Book value	Fair value		
1. Cash and cash equivalents	—	—	1.237.998	—	1.237.998	1.330.221
2. Debt securities *	4.451.577	4.462.560	5.921.124	5.646.479	10.372.701	10.977.794
3. Equities	981.924	981.923	1.600.165	1.552.361	2.582.089	2.566.183
4. Loans and advances *	14.089.939	—	34.189.872	—	48.279.811	46.346.336
5. Other financial assets	—	—	7.134.429	—	7.134.429	6.848.228
6. Non-financial assets	83.407	—	2.473.621	—	2.557.028	2.251.152
Total	19.606.847	5.444.483	52.557.209	7.198.840	72.164.056	70.319.914

* €7.8m of which in securities and €11.392m in loans established as collateral with the ECB.



Table 6.4.2 - Information on proprietary committed assets derecognized from the balance sheet

Form	Committed	Uncommitted	Total as at 30/6/18	Total as at 30/6/17
1. Financial assets	5.270.940	3.218.478	8.489.418	7.549.455
- Securities	5.270.940	3.218.478	8.489.418	7.549.455
- Others	—	—	—	—
2. Non-financial assets	—	—	—	—
Total	5.270.940	3.218.478	8.489.418	7.549.455

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

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

The ratio was 31.45% as at 30 June 2018, substantially equal to former year value of 29.57%.



Section 7 – Counterparty risk

7.1 - Counterparty risk

Qualitative information

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

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

Mediobanca downgrade effects

The amount of collateral which Mediobanca would have to provide if its credit rating is downgraded is analysed on the basis of a scenario in which the rating is downgraded by two notches. A single ISDA contract makes provision the value of the collateral to be reduced in the event of a downgrade, with a potential impact in the region of €61.1m (the deal expired on 27 July 2018). Another four ISDA contracts (three of which with no exposures) provide for the contracts to be closed following events in which Mediobanca's rating is downgraded, the impact of which is confined to the costs of replacing the contract, which may be debted in case the counterparty exercise the termination right because the exposure at 30 June 2018 is in favour of Mediobanca.

Fair Value Adjustment (FVA)

Fair Value Adjustment is the correction made to the price observed on the market or to the theoretical price generated by the model in order to obtain the sale price of an actually possible market transaction. Such adjustments reflect the difficulty of valuing or



selling particular instruments by quantifying counterparty risk, internal funding spread risk and other uncertainty factors on estimates generated by marking-to-model (changes in financing rates, illiquid products being held, uncertain market parameters or models chosen).

In particular the adjustments involve:

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

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

* * *

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

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

**Quantitative information****Table 7.1.1 - Counterparty risk – real guarantees held**

Counterparty risk - Real guarantees held	Amounts as at 30/6/18	Amounts as at 30/6/17
Standardized approach		
- derivatives contracts	349.409	366.723
- SFTs and trades with long-term settlement	10.165.393	10.637.836
IRB approaches		
- derivatives contracts	22.540	—
- SFTs and trades with long-term settlement	28.686	—

Table 7.1.2 - Counterparty risk – risk assets

Counterparty risk	Amounts as at 30/6/18	Amounts as at 30/6/17
Standardized approach		
- derivatives contracts	1.097.522	1.712.218
- SFTs and trades with long-term settlement	2.652.032	3.175.113
IRB approaches		
- derivatives contracts	506.790	—
- SFTs and trades with long-term settlement	28.787	—



Table 7.1.3 – Regulatory trading book: reporting-date notional values

Type of transaction	30/6/18		30/6/17	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	88.266.541	41.323.280	89.599.408	31.570.511
a) Options	9.259.836	40.445.401	—	30.721.864
b) Swaps	76.216.325	—	86.903.408	—
c) Forwards	654.380	—	—	—
d) Futures	—	877.879	—	848.647
e) Others	2.136.000	—	2.696.000	—
2. Equities and share indexes	17.670.798	14.505.823	14.537.682	11.250.774
a) Options	16.625.425	14.108.938	13.586.813	11.011.994
b) Swaps	928.224	—	833.720	—
c) Forwards	117.149	—	117.149	—
d) Futures	—	396.885	—	238.780
e) Others	—	—	—	—
3. Exchange rates and gold	15.664.893	—	8.843.295	—
a) Options	6.669.954	—	277.521	—
b) Swaps	3.702.656	—	3.578.982	—
c) Forwards	5.292.283	—	4.986.792	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	121.602.232	55.829.103	112.980.385	42.821.285

Table 7.1.4 – Banking book: reporting-date notional values- Hedge derivatives

Type of transaction	30/6/18		30/6/17	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	24.379.892	—	17.147.090	—
a) Options	130.000	—	—	—
b) Swaps	24.149.892	—	17.007.090	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	100.000	—	140.000	—
2. Equities and share indexes	—	—	240.048	—
a) Options	—	—	29	—
b) Swaps	—	—	—	—
c) Forwards	—	—	240.019	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	—	—	—	—
a) Options	—	—	—	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	24.379.892	—	17.387.138	—



Table 7.1.5 – Banking book: reporting-date notional values – Other derivatives

Type of transaction	30/6/18		30/6/17	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	1.196.939	—	1.172.835	—
a) Options	—	—	—	—
b) Swaps	1.196.939	—	1.132.835	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40.000	—
2. Equities and share indexes	1.435.116	—	1.825.557	—
a) Options	1.419.844	—	1.825.557	—
b) Swaps	—	—	—	—
c) Forwards	15.272	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and gold	—	—	—	—
a) Options	—	—	—	—
b) Swaps	—	—	—	—
c) Forwards	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	2.632.055	—	2.998.392	—



Table 7.1.6 – Financial derivatives: gross positive fair value, by product

Type of transaction	Positive Fair Value			
	30/6/18		30/6/17	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	2.723.795	520.282	2.291.303	462.562
a) Options	464.713	518.256	311.962	455.566
b) Interest rate swaps	1.973.377	—	1.645.465	—
c) Cross currency swaps	194.614	—	197.256	—
d) Equity swaps	26.405	—	30.542	—
e) Forwards	64.686	—	106.078	—
f) Futures	—	2.026	—	6.996
g) Others	—	—	—	—
B. Banking book: hedge derivatives	260.958	—	461.972	—
a) Options	4.134	—	—	—
b) Interest rate swaps	256.824	—	461.972	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	78.285	—	319.041	—
a) Options	71.215	—	122.862	—
b) Interest rate swaps	7.070	—	8.286	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	187.893	—
Total	3.063.038	520.282	3.072.316	462.562



Table 7.1.7 – Financial derivatives: gross negative fair value, by product

Type of transaction	Negative Fair Value			
	30/6/18		30/6/17	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	(1.900.692)	(560.550)	(2.332.027)	(496.834)
a) Options	(447.724)	(543.781)	(313.647)	(492.721)
b) Interest rate swaps	(1.169.165)	—	(1.563.214)	—
c) Cross currency swaps	(130.261)	—	(209.128)	—
d) Equity swaps	(1.489)	—	(21.032)	—
e) Forwards	(152.053)	—	(225.006)	—
f) Futures	—	(16.769)	—	(4.113)
g) Others	—	—	—	—
B. Banking book: hedge derivatives	(266.079)	—	(313.183)	—
a) Options	(1.897)	—	(2.452)	—
b) Interest rate swaps	(264.182)	—	(275.160)	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	(35.571)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	(90.577)	—	(325.650)	—
a) Options	(90.577)	—	(325.650)	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2.257.348)	(560.550)	(2.970.860)	(496.834)



Table 7.1.8 – OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	400.000	300.000	—	179.204	—
- positive fair value	—	—	—	—	—	172	—
- negative fair value	—	—	—	(64)	—	—	—
- future exposure	—	—	—	—	—	896	—
2. Equities and share indexes							
- notional value	—	—	—	—	150.463	—	29
- positive fair value	—	—	—	—	76	—	—
- negative fair value	—	—	—	—	(72)	—	(1)
- future exposure	—	—	—	—	13.506	—	—
3. Exchange rates and gold							
- notional value	—	—	3.883	2.946	—	102.934	—
- positive fair value	—	—	—	-	—	8.502	—
- negative fair value	—	—	(13)	(35)	—	—	—
- future exposure	—	—	31	—	—	7.720	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

Table 7.1.9 – OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	29.072.614	50.643.205	736.534	7.234.983	—
- positive fair value	—	—	1.620.614	228.801	77.333	210.469	—
- negative fair value	—	—	(921.447)	(403.871)	(41.181)	(30.143)	—
2. Equities and share indexes							
- notional value	—	—	9.527.386	4.921.733	1.486.885	1.584.303	—
- positive fair value	—	—	107.398	74.806	2.928	115.093	—
- negative fair value	—	—	(225.512)	(60.663)	(6.333)	(7.500)	—
3. Exchange rates and gold							
- notional value	—	—	10.080.521	2.787.435	284.039	2.403.134	—
- positive fair value	—	—	107.176	79.216	7.056	84.156	—
- negative fair value	—	—	(114.448)	(14.410)	(931)	(74.069)	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—



Table 7.1.10 – OTC financial derivatives: banking book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	45.850	—	—	—	—
- positive fair value	—	—	1.030	—	—	—	—
- negative fair value	—	—	(5.641)	—	—	—	—
- future exposure	—	—	333	—	—	—	—
2. Equities and share indexes							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
3. Exchange rates and gold							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

Table 7.1.11 – OTC financial derivatives: banking book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional value	—	—	7.777.656	16.206.386	—	350.000	—
- positive fair value	—	—	176.107	83.821	—	—	—
- negative fair value	—	—	(179.827)	(57.172)	—	(23.438)	—
2. Equities and share indexes							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Exchange rates and gold							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other assets							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—



Table 7.1.12 – Credit derivatives: reporting-date notional values

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Hedge buys				
a) Credit default	1.045.584	9.985.535	837.181	428.890
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total A at 30/6/18	1.045.584	9.985.535	837.181	428.890
Total A at 30/6/17	1.718.403	6.407.880	350.980	12.906
2. Hedge sales				
a) Credit default	2.083.457	9.685.235	2.020.445	6.104.821
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total B at 30/6/18	2.083.457	9.685.235	2.020.445	6.104.821
Total B at 30/6/17	1.402.802	5.816.219	28.849	4.529.278

Table 7.1.13 – OTC credit derivatives: gross positive fair value, by product

Portfolio/derivative instrument type	Positive fair value	
	30/6/18	30/6/17
A. Regulatory trading book	183.313	161.621
a) Credit default products	183.313	161.621
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	22.256	14.840
a) Credit default products	22.256	14.840
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	205.569	176.461



Table 7.1.14 – OTC credit derivatives: gross negative fair value, by product

Portfolio/derivative instrument type	Negative fair value	
	30/6/18	30/6/17
A. Regulatory trading book	(1.224.966)	(543.791)
a) Credit default products	(1.224.966)	(543.791)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
B. Banking book	(6.721)	(16.805)
a) Credit default products	(6.721)	(16.805)
b) Credit spread products	—	—
c) Total rate of returns swaps	—	—
d) Others	—	—
Total	(1.231.687)	(560.596)

Table 7.1.15 – OTC credit derivatives: gross positive and negative fair values by counterparties, contracts not forming part of netting agreements

Contracts not forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
Regulatory trading portfolio							
1. Protection purchase							
- notional value	—	—	500.000	12.251	—	—	—
- positive fair value	—	—	16.934	3.400	—	—	—
- negative fair value	—	—	(288.997)	—	—	—	—
- future exposure	—	—	25.000	613	—	—	—
2. Protection sale							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking book portfolio							
1. Protection purchase							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—



Table 7.1.16 – OTC credit derivatives: gross positive and negative fair values by counterparties, contracts forming part of netting agreements

Contracts not forming part of netting arrangements	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
Regulatory trading portfolio							
1. Protection purchase							
- notional value	—	—	4.824.039	5.494.829	200.000	—	—
- positive fair value	—	—	791	100	2.779	—	—
- negative fair value	—	—	(804.857)	(129.176)	—	—	—
2. Protection sale							
- notional value	—	—	6.338.405	5.430.286	—	—	—
- positive fair value	—	—	41.655	117.654	—	—	—
- negative fair value	—	—	(1.701)	(235)	—	—	—
Banking book portfolio							
1. Protection purchase							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

Table 7.1.17 – OTC financial and credit derivatives, net fair values and future exposure by counterparty

	30/6/18						
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Bilateral agreements - Financial derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2. Bilateral agreements - Credit derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3. "Cross products" agreements							
- positive fair value	—	—	214.735	80.241	84.255	395.177	—
- negative fair value	—	—	(363.466)	(364.823)	(42.828)	(97.300)	—
- future exposure	—	—	626.580	411.169	53.703	191.217	—
- net counterparty risk	—	—	626.028	422.927	71.292	541.736	—



7.2 - Counterparty risk – AIRB method

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

AIRB exposure class	PD scale	a	b	c	d	e	f	g
		EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Exposures to corporates - Others	0.00 to <0.15	86.257	0,09%	11	33,8%	2,50	19.662	23%
	0.15 to <0.25	44.464	0,17%	11	35,8%	2,50	15.062	34%
	0.25 to <0.50	281.433	0,32%	48	38,3%	2,50	140.841	50%
	0.50 to <0.75	—	—	—	—	—	—	—
	0.75 to <2.50	19.069	1,20%	24	41,6%	2,50	18.033	95%
	2.50 to <10.00	41.566	2,90%	10	41,9%	2,50	51.997	125%
	10.00 to <100.00	—	—	—	—	—	—	—
	100.00 (Default)	11.561	100,00%	2	15,3%	2,50	1.532	13%
Sub-total		484.350	2,90%	106	37,1%	2,50	247.126	51%
Total		484.350	2,90%	106	37,1%	2,50	247.126	51%

At 30 June 2018, the only portfolio for which Mediobanca has chosen to apply the AIRB approach is the Large Corporate segment, within the exposure class “Exposures towards companies – Other companies”. Figures into table EU-CCR4 amount to 3% of total AIRB risk-weighted assets of this segment.



Section 8 – Risk mitigation techniques

Qualitative information

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

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

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

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

Policies and processes for valuing and managing real guarantees

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

- Mortgage guarantees – the initial value of the property at the disbursement stage is based on a valuation made by independent experts. In order to ensure that the value of the collateral thus acquired is in line with the value of the underlying asset, a specific procedure has been drawn up which involves the fair value of the property being calculated and monitored on a regular basis based on market data supplied by an external information provider;
- Pledge guarantees – pledge guarantees are valued on the basis of their real value, in the sense of market value for financial instruments listed on a regulated market, or



presumed realization value in other cases. This value is then revised to reflect prudential margins, which vary according to the financial instrument used as the collateral in accordance with the provisions of regulatory requirements.

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

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

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

As at 30 June 2018, 86% of the guarantees received (€9.7bn) involve securities and cash in connection with securities financing transactions which are recorded among real financial guarantees; there is also €349m (approx. 3% of the total) in cash collateral, chiefly in respect of derivatives trading and the remainder for structured finance transactions.



Quantitative information

Table 8.1 - Risk mitigation techniques: standard method

Exposures to	Amounts as at 30/6/18			Amounts as at 30/6/17		
	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives
Exposures to or guaranteed by central administrations and central banks	—	—	—	—	—	—
Exposures to or guaranteed by regional entities	—	—	—	—	—	—
Exposures to or guaranteed by non-profit-making and public sector entities	—	—	—	—	—	—
Exposures to or guaranteed by multilateral development banks	—	—	—	—	—	—
Exposures to or guaranteed by international organizations	—	—	—	—	—	—
Exposures to or guaranteed by regulated intermediaries	9.850.630	—	327.662	10.447.689	—	70.229
Exposures to or guaranteed by companies	1.786.844	—	204.523	2.035.014	856	331.608
Retail exposures	113.527	—	57.946	86.374	—	16.539
Exposures guaranteed by properties	188	—	3.679	30	—	1.880
Overdue exposures	2.038	—	2.722	2.048	—	3.019
High-risk exposures	—	—	—	—	—	—
Exposures in the form of guaranteed bank obligations	—	—	—	—	—	—
Short-term exposures to companies and other subjects	—	—	—	—	—	—
Exposures to OICRs	—	—	—	—	—	—
Exposures to equity instruments	—	—	—	—	—	—
Other exposures	—	—	—	—	—	—
Total	11.753.226	—	596.531	12.571.156	856	423.274



Table 8.2 - Risk mitigation techniques: AIRB method

Exposures to	30/6/18		
	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives
METHODOLOGY BASED ON INTERNAL RATINGS - BASIC			
Exposures to or guaranteed by central administrations and central banks	-	-	-
Exposures to or guaranteed by central administrations, public entities, regional entities and other subjects	-	-	-
Exposures to or guaranteed by companies - SME	-	-	-
Exposures to or guaranteed by companies - Specialized lending	-	-	-
Exposures to or guaranteed by companies - Other companies	-	-	-
METHODOLOGY BASED ON INTERNAL RATINGS - ADVANCED			
Exposures to or guaranteed by central administrations and central banks	-	-	-
Exposures to or guaranteed by central administrations, public entities, regional entities and other subjects	-	-	-
Exposures to or guaranteed by companies - SME	-	-	-
Exposures to or guaranteed by companies - Specialized lending	-	-	-
Exposures to or guaranteed by companies - Other companies	126.610	438	151.264
Retail exposures secured by immovable properties: SME	-	-	-
Retail exposures secured by immovable properties: Physical persons	-	-	-
Qualified revolving retail exposures	-	-	-
Other retail exposures: SME	-	-	-
Other retail exposures: Physical persons	-	-	-
METHODOLOGY BASED ON INTERNAL RATINGS - ADVANCED			
PD/LGD method: Risk assets	-	-	-
Internal ratings method: Risk assets	-	-	-
Simplified weighting method: Risk assets	-	-	-
Total	126.610	438	151.264

Table 8.3 - Risk mitigation techniques (CR3)

	Exposure gross of CRM - UNSECURED	Exposure gross of CRM - TO BE SECURED	30/6/18		
			Guaranteed exposures		
			from real financial guarantees	from other guarantees	from personal guarantees and credit derivatives
Total receivables	17.505.030	227.085	75.383	438	151.264
Total debt securities	678.834	-	-	-	-
Total exposures	18.183.864	227.085	75.383	438	151.264
of which: defaulted	659.597	-	-	-	-



Section 9 – Securitizations

Qualitative information

The Group's portfolio of securities deriving from securitizations by other issuers totalled €181.8m (approx. 90% of which as part of the banking book), lower than the €314.3m reported last year, following disposals and redemptions totalling €300m only in part offset by new investments amounting to €161.7m. The portfolio remains concentrated in senior class securities (approx. 95%); also featured is a single mezzanine issue (carried at €6.9m) and a junior security (at €3.2m).

The balance of trading securities totalled €21m (€2.3m), and consists of two issues, including one mezzanine CLO; during the twelve months under review, securities worth a total of some €60m were disposed of, generating gains of €1.1m.

The banking book reflects a value of €160.8m (€312m) and regards three deals: FINO (originated by Unicredit), the securitization of receivables from Banca Intesa group NPLs, in which Mediobanca acted as arranger with a retention share of 5% of the assets (including the junior note), and a third deal with non-performing loans in respect of Spanish mortgages as the underlying instrument.

In addition to direct exposures, Mediobanca invested €25.8m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Italian Recovery Fund², so far drawn as to €28.5m.

Quarzo MB S.r.l. (Mediobanca)

This SPV was incorporated in June 2016 and is not yet operative.

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, subscribed for directly by Group companies with the aim of broadening the sources of funding by taking advantage of the possibility to refinance the senior bonds with the European Central Bank. The deals were all completed in previous years, and under the terms of the securitizations Compass Banca may cede further portfolios of receivables on a revolving basis for a period of up to 42 months, following which the repayment phase can commence:

² A closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four deals (Valentine, Berenice, Cube and Este).



MEDIOBANCA

- The first securitization, completed on 22 July 2015 with the issue of €1,694m in senior notes and €506m in junior notes against performing receivables in a total amount of €2,200m; in the twelve months ended 30 June 2018, receivables worth a further €1,118m were ceded;
- The second, completed on 25 February 2016 with the issue of €2.64bn in senior notes and €660m in junior notes against performing receivables in a total amount of €3,300m; in the twelve months receivables worth a further €1,763m were ceded;
- The third, completed on 15 February 2017 with the issue of €1.215bn in senior notes and €285m in junior notes against performing receivables in a total amount of €1,500m; in the twelve months receivables worth a further €661m were ceded.

Quarzo CQS S.r.l. (Futuro)

In April 2015 the first Quarzo CQS 2015 securitization was completed with Futuro receivables as the underlying instrument through SPV Quarzo CQS S.r.l. Under the terms of the securitization, performing receivables were ceded in a single, non-revolving tranche in an amount of €820m, against which senior notes of €738m were issued and listed on the Dublin stock market, plus €82m in junior notes subscribed to by the same company. The majority of the Notes to the accounts | Part E - Information on risks and related hedging policies 227 senior notes have been sold on the market, with a €200m share having been subscribed to by the Mediobanca Treasury department.

As at 30 June 2018 there were senior notes in issue worth €180.6m (including accruals). The share held by Mediobanca S.p.A. totalled €49.1m (including accruals). The share of the junior notes held by the originator was unchanged at €82m.

In March 2018 the second securitization was completed through the sale of performing receivables in a single, non-revolving tranche worth €650m, against which senior notes were issued in an amount of €598m, listed on the Dublin stock market, and junior notes subscribed to by the same company in an amount of €52m. The senior notes have all been sold on the market.

As at 30 June 2018, senior notes worth €575.9m were in issue (including accruals). The share of the junior notes held by the originator totalled €52m.

MB Funding Lux S.A.

This vehicle company was set up by Mediobanca S.p.A. in 2016, with the purpose of:

- Broadening the sources of funding by taking advantage of the possibility to refinance bonds on the interbank market through repos (or other money market transactions); and



- Employ any surplus liquidity present within the Group over the medium/ long term.

Currently there are three Euro deals outstanding, all subscribed for entirely by Group companies and guaranteed by Mediobanca as part of the €5bn Medium Term Notes Programme:

- Secured issue in an amount of €200m, with a duration of 5 years and maturing on 25 June 2022 and guaranteed by a pool of corporate loans originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);
- Secured issue in an amount of €100m, with a duration of 7 years and maturing on 20 December 2024, and guaranteed by a pool of corporate loans 228 Consolidated financial statements as at 30 June 2018 originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);
- 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 SPV during the year under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	255,0	0,7	1,8	42,4
Quarzo S.r.l.	3.542,0	4.124,0	13,0	47,2	459,1
MB Funding Lux	344,4	83,1	—	—	1,1

Quantitative information

Standardized methodology: positions in securitizations

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

Risk weighting classes	Amounts as at 30/6/18									
	Cash risk assets				Off-balance-sheet risk assets				Early repayment clauses	
	Own securitizations		Third-party securitizations ¹		Own securitizations		Third-party securitizations ¹		Own securitizations	
	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	—	—	—	—	—	—	—	—	—	—
Weighting 50%	—	—	75,480	—	—	—	—	—	—	—
Weighting 100%	—	—	82,469	—	—	—	—	—	—	—
Weighting 350%	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - with rating	—	—	—	—	—	—	—	—	—	—
Weighting 1250% - without rating	—	—	—	—	—	—	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—	—	—	—	—	—	—
Look-through - other	—	—	3,693	—	—	—	—	—	—	—
Total	—	—	161,642	—	—	—	—	—	—	—

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



Table 9.2 - Trading book securitizations

Risk weighting classes	Amounts as at 30/6/18			
	Cash risk assets *			
	Own securitizations		Third-party securitizations	
	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	—	—	—	—
Weighting 50%	—	—	—	—
Weighting 100%	—	—	—	—
Weighting 350%	—	—	—	—
Weighting 1250% - with rating	—	—	18.809	—
Weighting 1250% - without rating	—	—	—	—
Look-through - second loss in ABCP	—	—	—	—
Look-through - other	—	—	—	—
Weighting 650%	—	—	—	—
Total	—	—	18.809	—

* No off-balance-sheet risk assets included.



Section 10 – Operational risk

Qualitative information

Operational risks are presented at the parent company level.

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

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

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

Quantitative information

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement 30 June 2018 was €311.8m, higher than the €284.1m recorded last year, in part due to expansion of the Group's scope of consolidation.

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

The merger of Banca Esperia into Mediobanca S.p.A. did not generate any particular loss events. For the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown below:



Event type	% on Total Loss
Clients, products and business practices	61.3%
Execution, delivery and process management	21.6%
External fraud	13.1%
Employment practices and workplace safety	3.9%
Other	0.1%

During the twelve months under review, more than half of the operating losses due to the “Clients, products and business practices” event type, which includes losses deriving from complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. These were followed by process risks (“Execution, delivery and process management”) and external fraud on retail financing products (fake documentation and/or cards), for which mitigation action has been taken.

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



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

Qualitative information

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

Equity investments

This heading consists of investments in:

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

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

AFS securities

AFS assets are initially recognized at fair value, which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.



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



Quantitative information

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

Items	Amounts as at 30/6/18										
	Book value		Fair value		Impairment	Gains/losses realized *		Gain/loss not realized		Gain/loss not realized included in Tier 1/Tier 2 capital	
	Listed	Unlisted	Listed	Unlisted		Gains	Losses	Gains	Losses	Gains	Losses
A. Equities											
A.1 Shares	3.412.410	65.640	2.912.993	65.640	(2.165)	376.144	—	1.821	(278.518)	24.125	(2.202)
A.2 Innovative equity instruments	—	—	—	—	—	—	—	—	—	—	—
A.3 Other equity instruments	—	—	—	—	—	—	—	—	—	—	—
B. OICR units											
B.1 Incorporated under Italian law	—	—	—	—	—	—	—	—	—	—	—
harmonized, open	—	32.150	—	32.150	—	—	(70)	624	(51)	—	(54)
not harmonized, open	—	—	—	—	—	—	—	—	—	—	—
closed	—	126.025	—	126.025	(1.779)	—	—	4.074	(4.702)	7.264	(171)
reserved	—	—	—	—	—	—	—	—	—	—	—
speculative	—	5.860	—	5.860	—	1.173	—	73	(86)	339	—
B.2 Other EU states	—	—	—	—	—	—	—	—	—	—	—
harmonized	—	8.309	—	8.309	—	163	—	293	(221)	—	(87)
not harmonized, open	—	8.526	—	8.526	—	68	(46)	—	(332)	4	(125)
not harmonized, closed	—	320.868	—	320.868	(2)	940	—	7.366	(5.705)	4.880	(1.335)
B.3 Non-EU states	—	—	—	—	—	—	—	—	—	—	—
open	—	—	—	—	—	—	—	—	—	—	—
closed	—	3.318	—	3.318	—	1.130	—	55	(718)	307	—
Total	3.412.410	570.696	2.912.993	570.696	(3.946)	379.618	(116)	14.306	(290.333)	36.920	(3.975)

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



Table 11.2 - Banking book: equity instruments

Category	Book value as at 30/6/18	Book value as at 30/6/17
Private equity instruments held in a sufficiently diversified form	503.519	322.205
Equity instruments listed on regulated markets	5.511.581	7.114.272
Other equity instruments	69.248	72.379
Total equity instruments	6.084.348	7.508.856
Balance-sheet values, listed and unlisted	3.983.106	3.822.738
Deducted equity investments	1.535.765	1.016.042
Difference	2.447.341	2.806.696



Section 12 – Interest rate risk on banking book positions

Qualitative information

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

Quantitative information

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

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

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

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

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

With reference to the Group's banking book positions at 30 June 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates (“parallel down”), estimated net interest income would reduce by some €3m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the shock which produces the worst change occurs if the interest rate curve steepens as a result of the short-term rates falling and the long-term rates increasing (“steepener”). The reduction in this case would be €32m, which is



chiefly due to the decreases attributable to CheBanca! (€30m) and Compass (€32m), against an increase of (€23m) for Mediobanca.

Table 12.1 – Sensitivity analysis

Data in €m	Amounts at 30/6/18					
	Limit scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Sensitivity of Interest income margin	Parallel down	(3)	15	(7)	(7)	(4)
Sensitivity of Expected Cash Flows present values	Steeper	(32)	23	(30)	(32)	7

At Group level, the figures obtained in both scenarios were within the limits set by the Group policy for managing interest rate risk on the banking book, which were respectively 12% (sensitivity NII/estimated Group NII) and 6.5% (sensitivity Economic Value/CET1 capital).



Section 13 – Market risk

Table 13.1 – Balance-sheet requirements divided by calculation method

Description	Balance-sheet requirement	
	30/6/18	30/6/17
Risk-weighted exposures: concentration risk	2.363.665	2.239.129
Standardized methodology	189.093	179.130
<i>Debt-securities-exposure risk</i>	136.160	123.970
<i>Equity-securities-exposure risk</i>	52.933	55.160
<i>Exchange risk</i>	—	—
<i>Commodities-exposure risk</i>	—	—
Internal models	—	—
Risk-weighted exposures: concentration risk	—	—

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

RWAs facing market risk at 30 June 2018 totalled €2.4bn, slightly up from last year (€2.2bn) because of the exposures to interest rate generic risk for positions in debt securities, while the risk exposures for equity securities and funds remained stable. Exchange rate risk continued not to determine capital absorptions, given the limited exposures, below the predetermined threshold for the calculation of related requirements.

Exposure to financial risks on the trading book (faced entirely within the Group by Mediobanca S.p.A., since on 1 January 2018, CMB wound up its trading book versus the parent company as part of the project to centralize Group treasury operations) is measured on a daily basis by calculating the following main indicators:

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

VaR is calculated daily to ensure that the operating and back-testing limits on the Bank's trading book are complied with. Stress tests are also carried out daily and monthly on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest



or exchange rates, calibrated on the basis of extreme but historically accurate changes in market variables.

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

With reference to market risks, the value-at-risk on the trading ranged from a low of €1.1m (in October 2017) and a high of approx. €7.1m (June 2018). The average reading for the twelve months was €2.3m, down on the average figure for last year (€3m). The VaR for the trading book stood at around €3.5m at the start of the year, before falling gradually due to the sale of certain directional positions, reaching its lowest values at the start of October, then rising again with the increase in market volatility and settling from end-November 2017 to early June 2018 at around €2m. The indicator then climbed again to reach a high of €7.1m, due solely to the addition of an equity position which was subsequently reduced gradually before the reporting date.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €4.5m to €3m, due to the widespread reduction in the trading positions.

The results of the daily back-testing based on calculations of theoretical profits and losses, show three events where the notional losses were in excess of the VaR. Two occurred in May 2018, in conjunction with the Italian market crisis, and the other in the month of June (in connection with the single equity position referred to above which was then sold).

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

Trading-portfolio Value at Risk and Expected Shortfall (€'000)	Risk factors	30/6/18			12 mths to 30/6/17	
		30 June	Min	Max		Avg
Interest rates		2.046	248	2.046	559	916
Credit		1.928	317	1.928	784	1.201
Shares prices		1.307	807	6.297	1.986	2.006
Exchange rates		733	64	771	320	581
Inflation		45	25	495	161	649
Volatility		691	401	1.395	626	1.394
Diversification effect *		(3.901)	—	—	(2.105)	(3.703)
Total		2.848	1.129	7.109	2.330	3.044
Expected Shortfall		4.065	1.771	8.049	3.080	4.504

* Due to mismatch between risk factors.



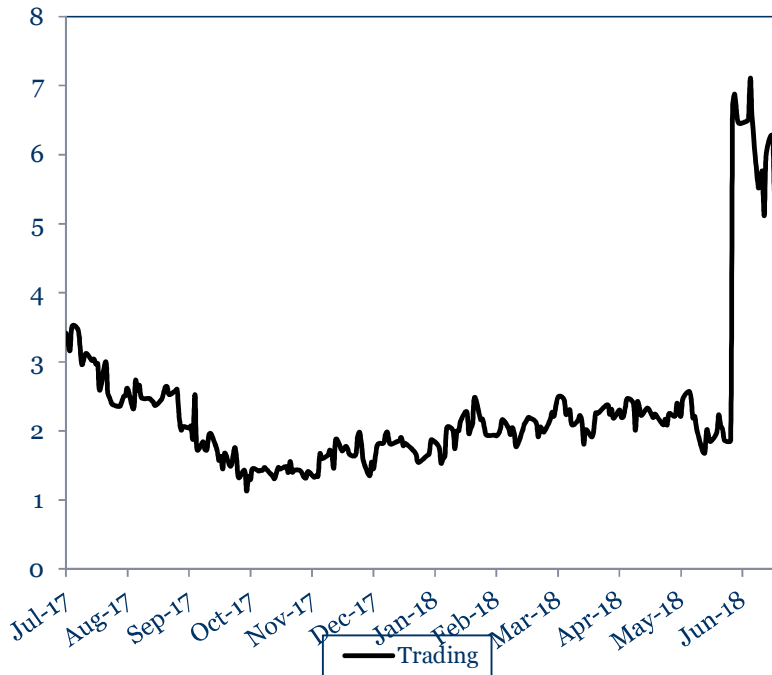
Apart from the overall VaR limit for the trading and General Management books, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks like last year reflect long delta and short vega positions, albeit with a higher exposure to equity markets than last year. The exposure to interest rates ranged from minus €152,000 to €534,000, with an average reading which again was low, at around €30,000 (30/6/17: €36,000). The exchange rate trend reflected an exposure which was higher on average than last year in terms of highs and lows, but with average readings which were in any case low.

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

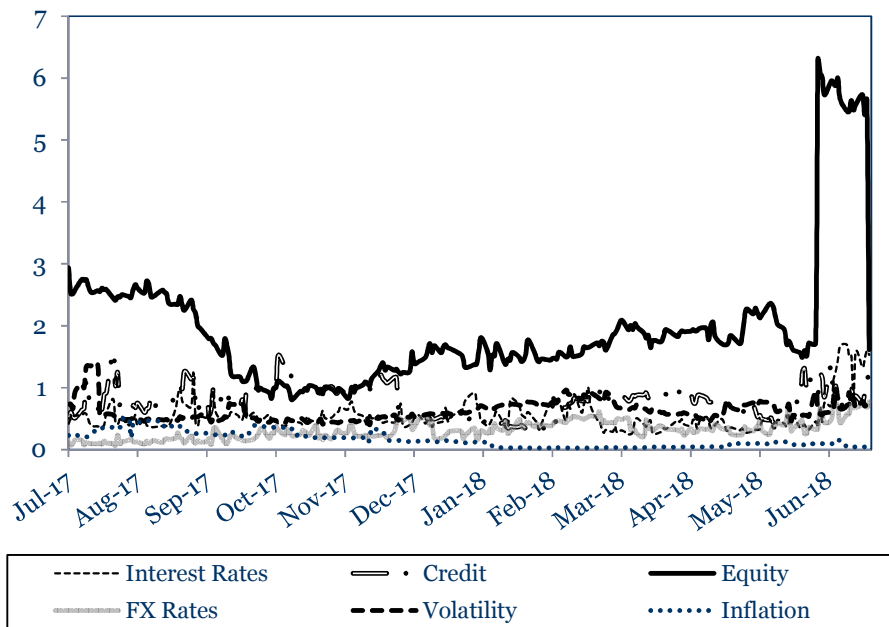
Risk factors (€'000)	12 mths to 30/6/18			
	30/6/18	Min	Max	Avg.
Equity delta (+1%)	741.318	589.715	2.619.223	1.166.546
Equity vega (+1%)	174.068	(856.632)	905.314	(131.505)
Interest rate delta (+1bp)	422.435	(151.749)	533.791	30.265
Inflation delta (+1 bp)	4.145	(23.965)	42.125	10.118
Exchange rate delta (+1%)	(1.073.090)	(1.239.569)	1.732.332	295.358
Credit delta (+1bp)	524.814	65.847	565.985	253.825



Trends in VaR



Trends in VaR constituents (trading book)





Section 14 – Remuneration and incentivization systems and practices

Section 1

Staff remuneration and incentivization policies for FY 2017-18

Introduction

The Mediobanca Group delivered record results in the twelve months ended 30 June 2018, measured by revenues, GOP and profit. The main highlights were as follows:

- Total revenues up 10%, to €2.4bn, with net interest income up 6% and fee income up 19%
- Net profit up 15%, to €864m
- ROTE 10%
- GOP up 24%, to €1,057m (meaning the 2019 strategic plan target has already been reached)
- CET1 ratio 14.2%, total capital ratio 18.1%
- Dividend per share: up 27%, to €0.47 (payout ratio 48%).
- The results reflect a healthy performance by all business divisions:
- Wealth management, with AUM/AUA rising to €37.3bn and revenues up 14.5% to reach €526m, driven by fee income (up 27.4%) which at end-June accounted for over 40% of the Group total; ROAC 13%;
- Consumer Banking delivered record results: revenues up 6% to €996.2m, net profit up 22% to €315m, ROAC 30%;
- Corporate & Investment Banking enhanced its positioning and diversified its revenues, with lower capital absorption and ROAC at 14%.

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



Governance

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

In particular, as described *inter alia* in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions, and the meetings on average lasted around 1 hour and 45 minutes. The Committee is made up of five non-executive members, a majority of whom qualify as independent under Article 19 of the Bank's Articles of Association. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in the case of two meetings) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer and the head of Human Resources also took part as guests, along with other members of the Group's staff.

The main items discussed in Committee meetings, in addition to this report, are as follows: formulation of proposals to the Board of Directors regarding the variable remuneration of the Chief Executive Officer and General Manager (defining and marking their scorecards); decisions made by the Chief Executive Officer regarding the variable remuneration of the other staff; review of the internal processes and procedures adopted in connection with the remuneration system; review of developments in the regulatory framework, with a particular focus on the remuneration of financial advisors and of staff working in the Asset Management area; analysis of the Bank of Italy consultation document on changes to the supervisory instructions regarding remuneration and incentivization policies and practices, in view of the Italian regulations' imminent alignment with the EBA Guidance issued in December 2015 and in force since January 2017; and analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; application of the severance policy. Specific training and induction sessions were also held on these issues.

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

The Compliance unit has issued the report stating that the remunerations policies conform to the Bank of Italy and internal regulations, and the Group Audit Unit checked that they were implemented correctly. The Risk Management unit, too, has been involved in the activity of ascertaining that the gateways have been met. The



Planning, Accounting and Financial Reporting areas also provided the data for determining the business areas' performances and gateways.

Incentivization system: determination of variable remuneration and allocation using risk-adjusted metrics based on sustainable results over time

Variable remuneration is paid to "identified staff" at each of the Group's organizational divisions only if the following conditions, by shareholders at the last general meeting are met:

- a) Capital adequacy and liquidity requirements³ adopted in the Risk Appetite Framework⁴ approved by the Board of Directors;
- b) Positive operating profit delivered at Group level.⁵

For the Wholesale Banking division⁶ (the area in which the highest number staff with the potential to impact on Mediobanca's risk profile are employed), the Mediobanca S.p.A. Chief Executive Officer identifies the share of the Economic Profit earned by the division to be earmarked for variable remuneration. For the individual business areas, it is calculated on the basis of scorecards which generally use Economic Profit as their primary metric as well as other secondary quantitative and qualitative metrics, whereas individual awards are made on the basis of overall assessment of personal performance, with particular attention being paid to reputational and compliance issues as well. For the new Mediobanca Private Banking division, following the merger of Banca Esperia into Mediobanca S.p.A., the variable remuneration is determined on the basis of gross profit. The variable component for staff employed by the control units and staff and support areas is established based on qualitative criteria, to limit the correlation with the Bank's results and so guarantee the role's independence. The Chief

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

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

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

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



Executive Officer's decisions are illustrated to the Remunerations Committee and the Board of Directors. The remuneration paid to the head of company financial reporting and the heads of the control units is approved by the Board. For the other divisions and/or business lines (Consumer, and Wealth Management Affluent/Premier, CMB and the other entities which perform asset management activities, and Specialty Finance), the amounts are decided by the CEOs of the relevant legal entities, after consulting with the General Manager and Group HR of Mediobanca S.p.A.

The Group's results for the year ended 30 June 2018 were as follows:

- Stronger capital solidity indicators (CET1 >14%) despite the RAM acquisition;
- Growth in gross operating profit to €1.6bn, up 247% on last year and 17% over budget. Revenues were up 10% to €2.4bn, with net interest income rising despite the market interest rates continuing to be negative. Fee income also performed well, up 19%, as did trading (up 30% year-on-year), with the cost of risk declining (from €317m to €247m) for the fourth year running;
- Profit before tax up 20%.

The Wholesale Banking division's results in the twelve months ended 30 June 2018 reflect a gross operating profit of €347m, substantially unchanged and confirming its position of market leadership. CIB Client in particular delivered the following results:

- Economic Profit up 7%, from €233m to €253m;
- Investment banking revenues showed strong growth in Corporate Finance and Debt Capital Markets (the former up 37%, the latter up 47%), low capital-absorption products with higher pay-outs consistent with market practice, and growth in Capital Market Solutions business. The overall figure was penalized by the downturn in lending activity, where revenues were down 13% in a difficult market scenario, driving a 6% reduction in total revenues overall;
- Administrative expenses and fixed labour costs were down slightly, due to improvements in efficiency made in certain teams and the favourable GBP/EUR exchange rate;
- Loan loss provision figures positive following writebacks credited to profit and loss account.

For Mediobanca Private Banking, the results were as follows:



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- GOP of €14.1m, up 19%;
- Significant improvement in the quality of revenues, with recurrent fees (management and banking) up from 81% to 85%. AUM/AUA stood at €14.9bn, versus €13.7bn last year, on net new money of approx. €1.3bn.

For the Consumer Banking division (Compass and Futuro):

- Revenues up 6%, and above budget, on resilient returns and volumes, with the cost/income ratio stable;
- Further improvement in asset quality drove a reduction in loan loss provisions, from €276m to €242m, on the back of effective risk-taking policies and recovery action;
- Non-recurring items include the €6.7m contribution to a solidarity fund.

With regard to the Wealth Management – Affluent / Premier division (CheBanca!):

- Growth of 22% in gross profit (from €33m to €41m), which soars to 223% net of the PPA process release;
- Positive, 1% growth in revenues, translating to 96% of the budget due primarily to a delay in asset management fees; AUM rose from €20.4bn to €22.6bn, on indirect funding up from €7bn to €8.4bn.

Principal Investing delivered a high net profit of €374m with a ROAC at 15%.

All the Group's gateways for the year ended 30 June 2018 were thus met: consolidated gross operating profit €1,057m; CET 1 ratio 14.2%; leverage ratio 8.8%; AFR/ECAP 181.37%; liquidity coverage ratio 186%; retail funding ratio 62.9%; net stable funding ratio 108%. For the individual Group companies which adopt their own RAF on an individual basis (Compass, CB! and Mediobanca International), in the course of the twelve months their risk profile remained consistent with the objectives and limits set, with no breaches of the thresholds recorded.

The Economic Profit earned by the Wholesale Banking division as stated in the accounts, which is not one of the gateways but is used as a risk-adjusted indicator in assessing the variable WB component, totalled €261m, some 7% higher than in 2017 due to the positive trend in investment banking fees, the cost of risk and to lower capital absorption attributable to use of the AIRB models. From a qualitative standpoint, Mediobanca confirmed its position of leadership in M&A and ECM, with a growing role in DCM as well. Economic Profit on the proprietary trading portfolio was also positive.



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

Having therefore ascertained that all the conditions precedent to the distribution of the variable component had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer, after consulting with the General Manager, Group HR and the control units, thus established the overall amount for distribution to the Mediobanca S.p.A. divisions at €74.4m (30/6/17: €67.3m). The increase is chiefly due to the addition of the former Banca Esperia employees plus the centralization of certain staffing functions. Variable remuneration for the WB division was set at €47.7m (€48.8m), of which €7.2m (€46m) for CIB Client, corresponding to a payout ratio of 19% (21%) and 18% (21%) of the Economic Profit respectively. The variable remuneration for Private Banking totalled €6.6m, for a payout ratio of 30%.

These amounts include the variable remuneration reserved to the Chief Executive Officer and the General Manager. The variable/fixed remuneration ratio for WB division staff was 101%, compared with 99% in 2017, and 44% in Private Banking. The ratio rises to 135% (compared 124% for WB and 174% for PB in 2017), if only identified staff members are considered. Considering the headcount as a whole for Mediobanca, the ratio is 67%, compared to 75% in 2017.

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

The amount of the variable remuneration for the Consumer division and CheBanca! reflect excellent earnings results, including on a risk-adjusted basis. The total variable remuneration awarded to the Consumer division was approx. €7.5m, compared with €6.8m in 2017, with Compass's commercial network, like in the previous two years, reaching the cap instituted as part of the incentivization system. For CheBanca! the increase from €10.2m to €11.5m reflects the new business and organizational structure, featuring attractive incentivization forms for specialist figures in the Wealth Management segment. The cost/income and compensation/income ratios were stable for Compass and improved for CheBanca!



The variable/fixed ratio for identified staff in the Consumer division was around 54% of the fixed remuneration, compared with 57% in 2017, and around 51% (53%) for CheBanca! identified staff. Considering for the headcount as a whole for the Consumer division, the ratio was stable at 10%, as in 2017, and 15% for CheBanca! (19%).

As at 30 June 2018 management with strategic responsibilities other than the executive directors and referred to in the Consob resolution issued in 2011, consisted of eight persons: the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and the Wealth Management/Affluent-Premier business line, plus the two co-heads of the Corporate and Investment Banking division. Their remuneration package reflects the provisions of the Remuneration policies, based on the individual category of identified staff to which they belong.

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

This reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. In general terms, if the quantitative objectives are met, the amount of the variable remuneration payable to the CEO and the General Manager may be between 50% and 180% of their gross annual salary. This amount may be adjusted by the BoD according to whether or not qualitative objectives have also been met (without prejudice to the 2:1 cap).

The quantitative performance indicators assigned for the financial year ended 30 June 2018 were for the CEO as follows:

Objective	Weighting	Reached
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by Wealth Management division (with focus on growing the division)	30%	Partially achieved
iii) Group Return on Assets (ROA) (to maximize asset profitability)	25%	Comfortably exceeded



iv) CET 1 Ratio (to preserve capital adequacy)	15%	Comfortably exceeded
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For the General Manager, the following objectives were assigned:

Objective	Weighting	Reached
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by the Private Banking business line (with focus on growing Private Banking)	30%	Partially achieved
iii) Result before tax posted by Holding Functions (to optimize management of holding functions)	20%	Comfortably exceeded
iv) Group cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%	Comfortably exceeded

For the CEO the qualitative objectives involved management of initiatives related to organizational climate analysis in progress at the Group and those in the area of Corporate Social Responsibility; and for the General Manager, reorganization of the former Banca Esperia scope of operations, and implementation of organizational projects to improve the Group's efficiency, with particular attention to the Operations & IT area. In both cases the objectives were held to have been achieved.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of €2,484,000 to the CEO (€2,700,000 in 2017) and of €2,070,000 to the General Manager (the same as last year), equal in both cases to 138% of their fixed salaries, compared with 150% and 1380% awarded last year. Contributions to the complementary pension scheme are also paid on the upfront cash component only. Of the variable remuneration awarded, half in cash and half shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a two-year holding period.



Means of distributing the variable component

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

The equity component ("performance shares") to be paid to identified staff are equal to approx. €15m which in part will be booked to the accounts over the next five financial years under the accounting standards currently in force. Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,871,084 performance shares⁷ (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €8.22 per share) including those awarded to identified staff employed at Group companies. For identified staff employed in the asset management area (Mediobanca SGR), the financial instruments component was awarded in cash linked to an index representative of the SGR funds' stock units, as permitted by the sector regulations in force.

7) Of these, 150,981 were awarded to the CEO and 125,818 to the General Manager. The total also includes 126,415 performance shares already awarded to the Group's identified staff under recruitment/severance agreements in the period from October 2017 – April 2018 and CMB for the year ended 31 December 2017.



Section 2

New staff remuneration and incentivization policies

Introduction

As in the past, the new policies:

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

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

Governance

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

a) Corporate governance

Under the current Articles of Association:

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



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- At the Board of Directors' proposal, shareholders in general meeting may, with the requisite majorities, establish the variable remuneration of Group staff and collaborators up to the limit of 200% of their fixed salaries or any other limit set by the regulations in force at the time.
- The Board of Directors institutes the committees envisaged by the regulations in force from among its own number, including the Remunerations Committee, establishing their composition and powers.

Under the regulations in force:

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



- The Risks Committee ascertains whether the incentives provided by the remuneration system take adequate account of the Group's risks and comply with the minimum capital and liquidity requisites at consolidated level, liaising with the Remunerations Committee.
- The Chief Executive Officer presents the proposed Group staff remuneration and incentivization policies to the governing bodies, is responsible for staff management, and after consulting with the General Manager, determines the variable remuneration based on the criteria established by the Board of Directors and then distributes it.

b) Organizational governance

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



also carries out annual controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

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

Definition of “identified staff”

The criteria adopted to identify relevant staff with a substantial impact on the Mediobanca Group's risk profile and the processes adopted in order to assess them are as provided under the regulations in force. The assessments are:

- ◆ Qualitative, linked to the role covered within the company organization (including non-executive directors), relevant business units, control and staff units;
- ◆ Quantitative, based on total overall remuneration received in the previous financial year.⁸

Mediobanca regularly carries out analysis of the Group's organizational structure via a documented process. At 30 June 2018 the Group's “identified staff” (including non-executive directors) broke down as follows:

8) Mediobanca may also decide that individual staff members do not impact on the Group's risk profile despite receiving total remuneration \geq €500,000, as permitted by the regulations in force. For the twelve months ended 30 June 2018, a total of four such staff members were identified, employed in asset management in the United Kingdom, with overall remuneration in the previous year in excess of €500,000, for who the notification process for exclusion from the definition of identified staff has been launched.



Cluster	Definition	EBA regulations	PPR # 2017
1) Non-executive directors	Non-executive members of BoD, including Chairman	Article 3.2	1 (+11)
2) Directors with executive duties	Management who are members of Executive Committee	Article 3.1	2
3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)	<ul style="list-style-type: none"> ◆ Co-Head CIB Client /Head Madrid ◆ Co-Head CIB/Head Corporate Finance AD Compass/CB ◆ Head Principal Investing ◆ Head MB Private Banking ◆ Head Governance & Treasury ◆ Head Equity Capital Markets ◆ Head Debt Capital Markets ◆ Head Lending and Structured Finance ◆ Head Capital Markets Solutions ◆ Head Equity Markets ◆ Head Global Coverage ◆ Head Frankfurt ◆ Head MB Turkey ◆ CEO CMB 	Article 3.3 Article 3.5 Article 3.6	15
4) Heads and senior staff of internal control units	<ul style="list-style-type: none"> ◆ Compliance and Group AML ◆ Group Risk Management ◆ Group Audit 	Article 3.4 Article 3.7 Article 3.15	16
5) Staff with managerial responsibilities in relevant business units	<ul style="list-style-type: none"> ◆ Heads of trading desks, liquidity and trading origination ◆ Staff with significant responsibility in the business areas and other heads of product areas (Equity Research) ◆ General and Commercial Managers, Compass and CBI ◆ CEOs of SelmaBPM, Spafid, MB SGR and MBFacta 	Article 3.8 Article 3.15	23
6) Heads and senior staff in Staff and support units	<ul style="list-style-type: none"> ◆ Group HR ◆ Head of company financial reporting ◆ Planning and control ◆ Legal counsel ◆ Macroeconomic strategist ◆ COO ◆ CIO 	Article 3.9 Article 3.15	8
7) Quantitative criteria	Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above	Article 4	23
TOTAL as at 30/6/18⁹			88 (99)
% of total Mediobanca S.p.A. staff			9%
% of total Mediobanca Group staff			1.86%

9) As at 30 June 2017 the Mediobanca Group had a total of 79 (92) identified staff, representing 1.65% of the total Group headcount and 10.4% of that of Mediobanca S.p.A.



Management with strategic responsibilities as defined in the Consob resolution issued in 2011 other than directors (i.e. the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and Wealth Management/Affluent-Premier business line, and the two co-heads of the Corporate and Investment Banking division) are all included in the definition of identified staff.

Pay mix

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

a) Remuneration structure for non-executive directors

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

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

b) Remuneration structure for the CEO and General Manager

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

- 1) A fixed salary;
- 2) A variable annual component (or short-term incentive) which only accrues if the gateways stipulated in these policies are met (see below the section entitled "Determination of variable remuneration and correlation between risks and



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performance"), commensurate with the quantitative/financial and qualitative/non-financial performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being reached.

The scorecards provide for performance objectives for each individual manager's sphere of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to them by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the quantitative/financial objectives are met, this triggers the payment of a variable bonus ranging from 50% (or 40% if the minimum target is only partially met, i.e. at least 85%) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 180% in the event of particularly positive performances. Regarding the qualitative objectives, the variable component deriving from the quantitative objectives may be adjusted by the Board of Directors based on the degree to which the non-financial objectives have been reached, in a range from -10% to +15%. The qualitative objectives are considered as having equal weighting, and are to be assessed individually. The 200% cap applies in all cases.

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

For the financial year ending 30 June 2019, the Chief Executive Officer has been assigned the following quantitative objectives:



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Objective	Weighting
i) RWA density: RWA/total assets (to focus on asset quality)	25%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	25%
iii) Group ROTE (to ensure optimal use of overall capital)	25%
iv) Growth in Total Financial Assets - AUM/AUA/direct funding (with focus in growth in assets in WM division)	25%

The General Manager has been assigned the following objectives:

Objective	Weighting
i) Loans/funding ratio (to ensure effective balance between deposits and applications of funds)	20%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	30%
iii) Banking activities cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%
iv) Net New Money in Private Banking business line (focus on growth in Private Banking)	30%

With reference to the non-financial objectives for the financial year ending on 30 June 2019, the following have been assigned: for the CEO, management of Corporate Social Responsibility initiatives, and activities geared towards growing the Group's management, in relation to the succession planning; and for the General Manager, the Data Quality project and implementation of the new governance/organizational structure for the Wealth Management division.



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

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

The Chief Executive Officer and General Manager also receive their emoluments as directors, but not those due in respect of participation in committees. An insurance policy is available to cover them for third-party liability, and they also benefit from participation in the complementary pension and welfare schemes operated for Mediobanca Group management staff.

The Chief Executive Officer is required to hold a number of Mediobanca shares equal in value to twice the amount of his fixed remuneration, and the General Manager one time, even after the shares deriving from the award of the variable component have actually been assigned, until the respective vesting/holding periods expire. The equivalent amount of shares, to be delivered in a timespan of five years from the date of their first award, must be held throughout the duration of their terms of



office, to ensure their actions are aligned with the interests of creating value over the medium/long term.¹⁰

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

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

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

d) Remuneration structure for other "identified staff"

- Fixed salary: this reflects technical, professional and managerial capabilities, and the related responsibilities. Mediobanca devotes continuous attention to the value of the fixed salaries it pays, which are monitored in relation to its competitors and adapted to changes in the market scenario from time to time, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.
- Variable remuneration: this is the incentivizing component which functions as recognition and reward for the results achieved and objectives met, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking, Private Banking and Wealth Management divisions in particular) may form a significant portion of their annual pay, in line with reference market practice,

¹⁰⁾ At 30 June 2018, the Chief Executive Officer held 2,724,500 Mediobanca shares and the General Manager 1,028,500 Mediobanca shares, equal to approx. 12x and approx. 5.5x their fixed remuneration.



without prejudice to the cap and to the other conditions established by the regulations in force.

- The variable remuneration is paid in cash and equity instruments, in part upfront and in part in subsequent years, subject to performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes. The section entitled "Variable component structure" describes the criteria and means of deferral in more detail.
- Benefits: in line with the market, compensation package is completed by a series of fringe benefits which are evidence of the ongoing attention paid by Mediobanca to the personal needs and welfare of its own staff, even after retirement. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes can be distinguished by families of professionals and geographical areas, but do not make provision for individual discretionary systems. The Bank's supplementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company. Company cars are provided only for the most senior figures.

e) Other information on remuneration structure

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

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



For specific categories of staff and/or on an individual basis, in cases which involve ongoing employment or its termination, contracts may be signed with minimum guaranteed duration clauses (sometimes referred to as stability pacts), or non-competition agreements or other arrangements as permitted under the applicable employment law and other regulations.

Any compensation paid to Group management for positions held on behalf of Mediobanca in Group or investee companies is paid to Mediobanca itself.

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

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

Limit on variable remuneration

Subject to approval by shareholders in general meeting, and in accordance with the national and supranational regulations, the upper limit on the variable remuneration for all staff belonging to the Mediobanca Group¹¹ and hence for all identified staff has been set at 200% the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units, Human Resources and the Head of company financial reporting).¹²

The reasons justifying this proposed limit are primarily:

- The need to attract and retain the most talented staff, in investment banking especially, by aligning the Bank's practice with that of its competitors;
- The need to maintain the appropriate operating flexibility, minimizing the risks that would be associated with increasing the fixed labour cost component excessively;

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

12) As at 30 June 2018, the Group's headcount comprised 4,717 staff made up as follows: 587 in Corporate & Investment Banking (with 41 qualifying as identified staff), 1,888 in Wealth Management (11 identified staff), 1,429 in Consumer Banking (3 identified staff), 801 in Holding Functions (32 identified staff), and 12 in Principal Investing (1 identified staff).



- To ensure that the remuneration policy is consistent with incentives which seek to promote virtuous conduct in the pursuit of business objectives and value creation;
- To align the Bank with the policies adopted by the leading Italian and international banks;
- The increasing presence of competitors in sectors (financial institutions which are not banks, private equity, hedge funds) or geographies (United States, Far East) with a liberalized regulatory framework;
- The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

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

Incentivization system: determination of variable remuneration and correlation between risks and performance

Determination of the variable remuneration and the correlation between risks and performance is achieved via a process which has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, in accordance with the risk profile defined in the Risk Appetite Framework (RAF), from the perspective of business continuity and sustainable results over the long term.

In more detail:

a) Gateways

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



- a) Capital adequacy and liquidity requirements¹³ indicated by the risk metrics adopted in the Risk Appetite Framework¹⁴ approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP;
- b) Positive operating profit delivered at Group level.¹⁵

b) Budgeting phase

Under the process for defining the incentivization system and subsequently determining the divisional variable remuneration, in preparing the budget approved by the Board of Directors, the cost of labour is calculated for the financial year to come, including the amount of variable component, determined on the basis of the all the Mediobanca Group divisions' expected earnings performance targets, the market scenario and historical pay trends.

c) Determination of divisional variable remuneration

Once the final results have been closed, the variable remuneration payable to the Group's business divisions, including the share attributable to identified staff, is calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC and/or other risk-adjusted metrics) and on other secondary quantitative and qualitative objectives.

For the Wholesale Banking division,¹⁶ (the area in which the highest number of staff with a substantial impact on Mediobanca's risk profile are employed), the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit to be used for the variable remuneration. The amount determined is related to the results of the scorecards for the individual business units, which may be fine-tuned to ensure that overall sustainability is maintained. The aggregate amount also reflects assessment of other quantitative parameters (Group results, Risk Appetite

13) CET 1 ratio, Leverage ratio, AFR/ECAP, liquidity coverage ratio, net stable funding ratio.

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

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

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



Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual budget objectives and the three-year business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and market share, retention of key staff, need to recruit new professional talent).

For the Private Banking division, the Chief Executive Officer of Mediobanca identifies the share of ordinary gross operating profit, net of the cost of risk, to be set aside as variable remuneration. To determine this amount, other secondary quantitative metrics, such as inter-company cross-selling, cash/AUA transformation to AUM, and operational risk assessment) and qualitative metrics (management of resources, compliance with regulations) are also used.

For the other divisions and business lines (Consumer, Wealth Management Affluent/Premier, CMB and the entities performing asset management activities, Specialty Finance), the amounts are determined by the Chief Executive Officers of the relevant related legal entities, who to this end liaise with the General Manager and Human Resources department of Mediobanca S.p.A. (see section entitled "Remuneration policies for staff employed at Group companies").

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

d) Distribution and allocation of variable remuneration

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

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



organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

e) Exceptions (variable remuneration for retention purposes and floors)

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

Furthermore, if the gateways are met but an Economic Profit or other divisional indicator is delivered which is negative or small, the Chief Executive Officer may also propose a variable remuneration floor pool for identified staff, agreeing the rationale for distributing the proceeds with the governing bodies based on the individual contributions of the business activities to the company's results.

f) Assessment of individual quantitative and qualitative performance in the award of the variable remuneration

The individual incentivization system and assignment of variable remuneration to individual beneficiaries are established via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed, the variable remuneration may either not be paid or may be reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary fully maintaining their status as an employee¹⁷ of the Mediobanca Group throughout the assessment period and still being in the company's employment at the actual date of distribution and/or not serving a period of notice for resignation or dismissal. The remuneration may not be split over fractions of years, hence if the

¹⁷) The other contractual forms provided for by the regulations apart from full employment contracts (e.g. collaboration or employment agency contracts) are considered equivalent.



employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the performance assessments are ratified individually by the Chief Executive Officer and General Manager of Mediobanca with the support of Group HR.

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

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

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

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

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



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

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

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



capabilities based on a global organizational approach, without neglecting to monitor the market on an ongoing basis. Growth and career development pathways are devised for such staff, including involvement in specific strategic projects, exposure to Board/committee meetings, and international and intra-Group rotation. Selection is based on assessment of professional and technical skills, as shown by CV and company record as well as performance over time, possession and development of key leadership capabilities.

The remunerations policies are therefore co-ordinated with the selection, appointment, succession and assessment of the adequacy of company representatives and Key Function Holders and the Staff management policies.

Variable component structure: timescale for distribution and instruments

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

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

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

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

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

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

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



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

Mediobanca also applies a 30% deferral over a three-year time horizon, all in cash and subject to malus conditions, to all staff not included in the definition of identified staff who receive variable remuneration equal to or higher than €100,000¹⁸.

Performance conditions, malus condition and clawback

The deferred variable remuneration component is paid, provided that:

- The beneficiary is still a Group employee¹⁹ and not serving a period of notice for resignation or dismissal;
- In each of the financial years, the performance conditions equating to the gateways described in the section entitled "Incentivization system: determination of variable remuneration and correlation between risks and performance" are met;
- The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as ratified by the Risk Management unit;
- The beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary measures under the terms, *inter alia*, of Mediobanca's Code of ethics, Organizational model, Business conduct policy and other internal regulations²⁰) and no losses have been incurred which were attributable to their actions.

18) The same deferral structure also applies in those Group companies which do not have a specific policy of their own and which therefore adopt the Group policy directly.

19) Equivalent provisions are made for other forms of employment relationships (e.g. collaboration or agency contracts). For Directors of Group companies who are not tied to the Group by employment contracts, when their terms of office come to an end as a result of expiring naturally or failing to be renewed, the rights are maintained subject to the provisions of the specific individual agreements and provided that the person concerned has not left office due to compliance breaches or other deeds attributable to them.

20) The remuneration and incentivization system must not only discourage inappropriate behaviour but must also contribute to promoting good conduct. For this reason conduct is an important issue of the remuneration policies, which must take due account of individual and collective responsibilities in the event of misconduct and establish their impact on remuneration. To this end Mediobanca has drawn up a Group directive which lays down the rules for identifying and assessing compliance breaches and their impact on the variable remuneration component, whether already awarded or still to be awarded. In more detail, in the event of compliance breaches being committed malus mechanisms can be activated to reduce or wipe out the value of: (i) the variable remuneration to be assigned for each year in connection with the annual performance assessment of the individual concerned or a specific unit; and/or (ii) deferred component for previous years as yet unpaid; or clawback mechanisms, which require an amount of the variable remuneration already distributed to be repaid. For the purposes of identifying a



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

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

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

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

compliance breach, account is principally taken of violations noted by the control units (Compliance & Group AML, Group Audit and Group Risk Management) and the authorities (e.g. Bank of Italy, Consob). To ensure greater effectiveness, and in accordance with the principle of proportionality, under the terms of the Directive only relevant violations constitute compliance breaches, i.e. incidents which have exposed Mediobanca to a significant risk of non-compliance with the regulations. In general terms, this involves violations which give rise to criminal or administrative liability as a result of a crime being committed (e.g. those contemplated in Italian Legislative Decree 231/01) and violations specific to the banking and financial sector (e.g. market abuse, provision of banking or investment services, anti-money-laundering, business conduct). Any more minor breaches noted by the control units and/or behavioural violations detected by Group HR, despite not constituting compliance breaches, may in any case be taken into consideration in connection with payment of variable remuneration as part of the performance assessment process, which always includes assessment of general conduct among the objectives, along with the individual operating targets. The relevance of the violation is assessed on the basis of the following issues: seriousness of the violation, extent of the violation, and external relevance. Each compliance breach is assessed on the basis of each of the foregoing criteria, assigning a value of nil, low, medium or high and establishing an overall score. For each score the variable component is reduced by a certain amount affecting the remuneration for the current financial year (in-year adjustment) and/or the deferred component assigned in previous years but not yet distributed. In the event of enquiries or disciplinary proceedings being launched by the authorities which have not resulted in procedural violations being clearly established, it may be decided to suspend payment of the variable remuneration, either the upfront and/or deferred component as yet unpaid depending on the results of the enquiries. The outcome of the assessment and the impact on the variable remuneration, individual or unit scorecard, is formalized and stored by the Compliance unit, with regular reporting to the governing bodies.



professional qualifications and independence) or, where relevant to the party involved, Article 53, paras. 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Performance share schemes

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

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

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

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

The shares received are personal, without prejudice to inheritance rights. The right to receive shares is retained in the event of retirement or the beneficiary being permanently disabled and/or suffering from an illness which makes them unable to



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

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for award to Mediobanca Group staff members before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code, which was approved by shareholders on 28 October 2015. A total of 6,856,737 shares remain, and at present there is a total of 6,840,878 performance shares assigned against the resolution adopted by shareholders but not yet allocated on account of their being subject to vesting and/or holding periods. Alternatively and/or in addition, those of the 8,714,833 treasury shares currently held by the Bank and not reserved for other purposes may be used to this end.²¹ The fully-diluted percentage of the share capital accounted for by the equity instruments assigned to Group staff amounts to 0.78%. The impact on the stock's value and the possible dilution of the share capital is negligible, given that there are several schemes in operation over different years and with different vesting and holding periods over a medium-/long-term time horizon.²²

Remuneration policies for staff employed at Group companies

Mediobanca liaises constantly with its Group companies to ensure that the remuneration and incentivization systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation,

21) Any other treasury shares acquired in accordance with the provisions of the resolution adopted by shareholders in the annual general meeting held on 27 October 2018 may be used for the same purposes.

22) At the extraordinary annual general meeting held on 27 June 2007, the shareholders of Mediobanca adopted a stock option, which was then revised by the Board of Directors at a meeting held on 24 June 2011 to become a performance stock option scheme. A total of 150,000 options assigned in 2011 at €6.430 under the terms of this scheme remain outstanding, and may be exercised by 30 June 2019. The 24,464,000 shares remaining from the capital increase (to be implemented by 1 July 2022) can no longer be used.



organizational structures, regulations applicable according to type of business and geographical location. In particular the parent company manages the process of defining identified staff, issues guidance to be adopted and takes part in drafting documents relating to the remunerations policies to be compiled by the subsidiaries.

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

The incentivization system is reserved specifically to senior staff who, on account of their professional specialization, organizational role and importance to the business, have an impact on their companies' performance and value creation. The beneficiaries are identified by the Chief Executive Officer and/or General Managers of the companies themselves, after consulting with the General Manager and the Human Resources department of Mediobanca. Each beneficiary is notified of their inclusion in the incentives scheme, with a defined annual bonus target and calculation method. The bonus is determined annually on an individual basis in view of the risk-adjusted earnings performance delivered by the company (the indicator used for the Group companies is usually the economic profit earned by the business area and/or the ROAC delivered by the business division in which they work or by other specific risk-adjusted metrics based on the type of activity, as is the case with asset management activity) and other secondary, quantitative objectives. For the commercial branch network and credit management, establishment of the variable component is based on specific quantitative indicators which can be applied individually or collectively by organizational unit. Valuation indicators are also adopted to incentivize proper relations with clients, including (but not limited to): customer satisfaction analysis, commodity checks, absence of complaints attributable to specific responsibilities for improper conduct versus clients, assessment of other quality indicators (e.g. correct MiFID profiling, absence of contractual irregularities, observance of internal processes in the area of powers, proxies and guidelines). Due consideration is also taken of the results of checks made by the control units. The assessment is completed by consideration of whether or not individual and project objectives have been achieved. The completed assessment is validated by Mediobanca S.p.A. For the staff, support and control units, allocation is based primarily on qualitative criteria.



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

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

External networks and financial advisors

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

In view *inter alia* of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components.

The recurring component chiefly consists of direct commissions (on various products, such as Asset Management, Individual Asset Management, Insurance, Asset Administration, Direct Funding, Bank Services, bank products offered by the Mediobanca Group), and indirect commissions ("oven" fees if a management mandate is issued, calculated based on the business promoted by the advisors coordinated and concluded by the Bank).

These are credited back on various grounds (e.g. sales, maintenance, management, negotiation and distribution fees) based on the commission table in force from time to time and attached as an annex to the agency contract. They constitute the more stable, ordinary component of their remuneration and in themselves do not serve for incentivization purposes (comparable to the fixed remuneration component for employees).



The non-recurring component does serve for incentivization purposes (and is therefore comparable to the variable remuneration component for employees) and is linked, for example, to beating certain targets in terms of funding (bonus for developing portfolios or growing the Bank's customers), launch of new products, long-term incentivization schemes operative over several years, etc.

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

In accordance with the provisions for employees, for financial advisors too, particular attention is paid to the issue of assessment of proper individual conduct and control of operational and reputational risks (such as compliance with the regulations and internal procedures, and transparency versus clients) through adoption of the mechanism known as compliance breach. Specific events or behaviours are monitored *ex post*, including (without limitation): sanctions or precautionary measures taken by the supervisory authorities against the financial advisor, complaints made by clients for facts attributable to the financial advisor, fraudulent behaviour or wilful misconduct by the financial advisor, failure to comply with the sector regulations, internal procedures and conduct obligations versus clients, with reference in particular to the duty to act in accordance with the principles of professionalism and proper conduct in relations with clients. Appropriate organizational procedures to prevent such situations from occurring are put in place *ex ante*.

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

Asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, Switzerland, Luxembourg, Principality of Monaco). They are subject to the sector regulations instituted by the local



regulators (for the European companies this means the national regulations transposing the UCITS V and AIFMD directives²³) based *inter alia* on the criteria of proportionality and within the broader framework of the consolidated banking regulations on subjects including:

- Role of shareholders in general meeting, governing bodies, Remunerations Committee, and governance processes in general where applicable;
- Definition of identified staff at individual and consolidated levels;
- Remuneration and incentivization system structures correlated to performance indicators for the manager and the UCITS and AIFs managed and measured net of the risk concerning their operations, and which take account of the level of the capital and liquidity resources necessary to cover the activities and investments made;
- Application of specific means of deferral between different categories of risk-takers, including the assignment of variable remuneration in the form of financial instruments linked to shares in funds or equivalent non-cash instruments;
- Caps on variable remuneration, if any, as a result of forming part of the banking group and the regulations applicable to it from time to time and/or the relevant jurisdiction;
- Specific malus clauses and clawback mechanisms;
- Dismissal or resignation;
- Disclosure requirements.

Policies in the event of employment being terminated or otherwise ending

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

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



a) Treatment for directors leaving office early

Mediobanca does not make payments other than the ordinary component to directors who leave office for any reason.

b) Treatment for employees

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

- The amount established and due in accordance with the provisions of law and the locally applicable contractual regulations in respect of the cost of the failure to provide notice²⁴ and other entitlements payable upon termination (severance provision, holiday leave etc.);
- A possible additional amount by way of severance: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment relationship is terminated by mutual consent, with a view to minimizing the earnings and reputational risks, present and future, which the Bank might face as a result of possible disputes;
- Other types of arrangement, e.g. to cover non-competition agreements or settlements paid in respect of potential moral or material damages.

c) Severance pay amount

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual), as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation given the variety of individual cases, the following factors in particular are taken into account: number of years' service within the Group, age and personal and social conditions, role and organizational position held, the historical performance in qualitative/quantitative terms delivered by the individual concerned, the reasons underlying the termination of the employment relationship (which in some cases may be organizational and strategic rather than

24) In Italy the period of notice required is established on the basis of the national collective labour contracts in force at the time. Usually the notice period will be from six to twelve months, depending on the number of years' service the employee concerned has accrued.



related to the question of individual performance), the performance of activities which have generated criticalities for the risk profile established by the Group, the adoption of personal conduct which does not conform to company values, and the existence of risks for the Bank linked to possible disputes. The approach adopted reflects the effective and long-term results of the individual and company performance.

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

Mediobanca defines the total maximum amount payable by way of severance as 24 monthly salaries, as previously defined and in any case no more than €5m, unless provided otherwise by shareholders in general meeting. This amount includes any non-competition agreements. The amount does not include any amounts paid as indemnity for failure to give notice and the other amounts due in connection with termination of the employment relationship (severance provision, holiday leave etc.) referred to under the first bullet point of the foregoing point b).²⁵ Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

Severance may not be paid in cases where the conduct of individual staff members has resulted in damages to the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

d) Timescales for payment and instruments used

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Definition of identified staff", the methods and timescales provided for in making severance payments and any compensation for non-competition agreements entered into upon terminating an employment relationship include payment of a deferred share of at least 40% over a time horizon of at least three years, use of shares or instruments related to them, payment being made subject to malus conditions in the event of liability being established in cases of fraud and/or wilful misconduct and/or attributed in a court of law to the individual staff member's own responsibility during the period in which they worked for the company which emerge after the employment

²⁵ In terms of the number of years' fixed remuneration, if an employee has received variable remuneration throughout the time horizon considered equal to twice their annual fixed salary (cf. 2:1 cap), a total of six years' annual salary would be considered. This provision, which is entirely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.



relationship has been terminated. For other identified staff, forms of deferral and risk adjustment may be applied, with the appropriate methods to be identified based on the amount to be paid by way of severance, in addition to the considerations described under point c) above. The Bank also reserves the right to use the claw back mechanism in the cases provided for in the applicable employment law regulations.

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

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

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

f) Decisions by third parties

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

g) Involvement of governing bodies

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

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

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



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



Section 3

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

(A) Name and surname	(B) Post	(C) Period for which post has been held	Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance
				Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/2017 - 30/06/2018	30/06/2020	100.000	1.800.000					350.396				
	Member of Appointments committee									of which complementary pension scheme				
	(I) Compensation in company preparing the accounts			100.000	1.800.000	1.900.000				346.411				
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			100.000	1.800.000	1.900.000				350.396			2.250.396	
Maurizio Angelo Comeno	Deputy Chairman of Board of Directors	01/07/2017 - 30/06/2018	30/06/2020	135.000		135.000								
	Member of Executive Committee	01/07/2017 - 30/06/2018	30/06/2020	90.000		90.000								
	(I) Compensation in company preparing the accounts			225.000		225.000								
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			225.000		225.000							225.000	
Alberio Pecci	Deputy Chairman of Board of Directors	01/07/2017 - 30/06/2018	30/06/2020	123.589		123.589								
	Member of Remunerations committee	01/07/2017 - 30/06/2018	30/06/2020	30.000		30.000								
	(I) Compensation in company preparing the accounts			153.589		153.589								
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			153.589		153.589							153.589	
Alberio Nagel	CEO	01/07/2017 - 30/06/2018	30/06/2020	100.000	1.800.000	1.900.000		748.800						
										448.356			3.097.156	951.375
	(I) Compensation in company preparing the accounts			100.000	1.800.000	1.900.000		748.800		443.463				
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			100.000	1.800.000	1.900.000		748.800		448.356			3.097.156	951.375
Francesco Savio Vinci	General Manager	01/07/2017 - 30/06/2018	30/06/2020	100.000	1.500.000	1.600.000		539.520						
										375.660			2.515.180	694.220
	(I) Compensation in company preparing the accounts (5)			100.000	1.500.000	1.600.000		539.520		369.136				
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			100.000	1.500.000	1.600.000		539.520		375.660			2.515.180	694.220
Marie Bolloré	Director	01/07/2017 - 30/06/2018	30/06/2020	100.000		100.000								
	Member of Appointments committee	01/07/2017 - 30/06/2018	30/06/2020	20.000		20.000								
	(I) Compensation in company preparing the accounts			120.000		120.000								
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			120.000		120.000							120.000	
Cesar Aleria	Director	28/10/2017 - 08/03/2018	08/03/2018	36.164		36.164								
	Member of Remunerations committee	28/10/2017 - 08/03/2018	08/03/2018	10.849		10.849								
	(I) Compensation in company preparing the accounts			47.013		47.013								
	(II) Compensation from subsidiaries/associates of 30/06/2018 (III) Total			47.013		47.013							47.013	
Maurizio Carfagna	Director	01/07/2017 - 30/06/2018	30/06/2020	100.000		100.000								
	Member of Risks committee and Related parties committee	01/07/2017 - 30/06/2018	30/06/2020	80.000		80.000								
	Member of Remunerations committee	01/07/2017 - 30/06/2018	30/06/2020	30.000		30.000								
	(I) Compensation in company preparing the accounts			210.000		210.000								
(II) Compensation from subsidiaries/associates of 30/06/2018 (2)			22.699		22.699									
(III) Total			232.699		232.699								232.699	



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(A) Name and surname	(B) Post	(C) Period for which post has been held		Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Maurizio Costa	Director	01/07/2017	30/06/2018	30/06/2020	100,000		100,000					100,000			
	Member of Remunerations committee	01/07/2017	27/10/2017	30/06/2020	9,780		9,780					9,780			
	Chairman of Appointments committee	01/07/2017	30/06/2018	30/06/2020	20,000		20,000					20,000			
	(I) Compensation in company preparing the accounts				129,780		129,780					129,780			
	(II) Compensation from subsidiaries/associates at 30/06/2018											129,780			
	(III) Total				129,780		129,780					129,780			
Angela Gamba	Director	28/10/2017	30/06/2018	30/06/2020	67,397		67,397					67,397			
	Member of Risks committee and Related parties committee	28/10/2017	30/06/2018	30/06/2020	53,918		53,918					53,918			
	(I) Compensation in company preparing the accounts				121,315		121,315					121,315			
	(II) Compensation from subsidiaries/associates at 30/06/2018											121,315			
	(III) Total				121,315		121,315					121,315			
Valérie Horfeux	Director	28/10/2017	30/06/2018	30/06/2020	67,397		67,397					67,397			
	Member of Remunerations committee	28/10/2017	30/06/2018	30/06/2020	20,219		20,219					20,219			
	Member of Risks committee and Related parties committee	28/10/2017	30/06/2018	30/06/2020	53,918		53,918					53,918			
	(I) Compensation in company preparing the accounts				141,534		141,534					141,534			
	(II) Compensation from subsidiaries/associates at 30/06/2018											141,534			
	(III) Total				141,534		141,534					141,534			
Alberio Lupoi	Director	28/10/2017	30/06/2018	30/06/2020	67,397		67,397					67,397			
	Member of Remunerations committee	28/10/2017	30/06/2018	30/06/2020	20,219		20,219					20,219			
	Member of Appointments committee	28/10/2017	30/06/2018	30/06/2020	13,479		13,479					20,219			
	(I) Compensation in company preparing the accounts				101,096		101,096					101,096			
	(II) Compensation from subsidiaries/associates at 30/06/2018											101,096			
	(III) Total				101,096		101,096					101,096			
Elisabetta Magistrelli	Director	01/07/2017	30/06/2018	30/06/2020	100,000		100,000					100,000			
	Chairman of Risks committee and Related parties committee	01/07/2017	30/06/2018	30/06/2020	80,000		80,000					80,000			
	Member of Appointments committee	01/07/2017	30/06/2018	30/06/2020	20,000		20,000					20,000			
	Member of Remunerations committee	01/07/2017	27/10/2017	30/06/2020	9,781		9,781					9,781			
(I) Compensation in company preparing the accounts				209,781		209,781					209,781				
	(II) Compensation from subsidiaries/associates at 30/06/2018											209,781			
	(III) Total				209,781		209,781					209,781			
Massimo Tononi	Director	28/10/2017	30/06/2018	30/06/2020	67,397		67,397					67,397			
	Member of Risks committee and Related parties committee	28/10/2017	30/06/2018	30/06/2020	53,918		53,918					53,918			
	(I) Compensation in company preparing the accounts				121,315		121,315					121,315			
	(II) Compensation from subsidiaries/associates at 30/06/2018											121,315			
	(III) Total				121,315		121,315					121,315			
Gabriele Villa	Director	28/10/2017	30/06/2018	30/06/2020	67,397		67,397					67,397			
	Member of Executive Committee	28/10/2017	30/06/2018	30/06/2020	60,458		60,458					60,458			
	(I) Compensation in company preparing the accounts				128,055		128,055					128,055			
	(II) Compensation from subsidiaries/associates at 30/06/2018											128,055			
	(III) Total				128,055		128,055					128,055			
Marco Tronchetti Provera	Deputy Chairman of Board of Directors	01/07/2017	27/10/2017	30/06/2017	44,014		44,014					44,014			
	(I) Compensation in company preparing the accounts (1)				44,014		44,014					44,014			
	(II) Compensation from subsidiaries/associates at 30/06/2018											44,014			
	(III) Total				44,014		44,014					44,014			



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(A) Name and surname	(B) Post	(C) Period for which post has been held		Term of office expires	(1) Fixed compensation			(2) Fees payable for participation in committees	(3) Variable compensation (non-equity)		(4) Non-cash benefits	(5) Other forms of compensation	(6) Total	(7) Fair value of equity compensation	(8) Indemnity payable on leaving office/severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Tarak Ben Ammar	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	(I) Compensation in company preparing the accounts				32.603		32.603								
	(II) Compensation from subsidiaries/associates at 30/06/2018				32.603		32.603								
Giberto Benetton	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	(I) Compensation in company preparing the accounts				32.603		32.603								
	(II) Compensation from subsidiaries/associates at 30/06/2018				32.603		32.603								
Mauro Bini	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	Member of Risks committee and Related parties committee	01/07/2017	27/10/2017	30/06/2017	26.082		26.082								
	Chairman of Appointments committee	01/07/2017	27/10/2017	30/06/2017	6.521		6.521								
Angelo Casò	(I) Compensation in company preparing the accounts				46.204		46.204								
	(II) Compensation from subsidiaries/associates at 30/06/2018				65.206		65.206								
	(III) Total				65.206		65.206								
Marina Natale	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	(I) Compensation in company preparing the accounts				32.603		32.603								
	(II) Compensation from subsidiaries/associates at 30/06/2018				32.603		32.603								
Vanessa Labérienne	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	Chairman of Remunerations committee	01/07/2017	27/10/2017	30/06/2017	9.781		9.781								
	Member of Risks committee and Related parties committee	01/07/2017	27/10/2017	30/06/2017	26.082		26.082								
Gian Luca Sichel	(I) Compensation in company preparing the accounts				68.466		68.466								
	(II) Compensation from subsidiaries/associates at 30/06/2018				68.466		68.466								
	(III) Total				68.466		68.466								
Alexandra Young	Director	01/07/2017	27/10/2017	30/06/2017	32.603		32.603								
	(I) Compensation in company preparing the accounts				32.603		32.603								
	(II) Compensation from subsidiaries/associates at 30/06/2018				200.000		200.000			2.420					
Alexandra Young	(III) Total				32.603	200.000	232.603			2.420					
	Director	01/07/2017	27/10/2017	30/06/2017	32.603	113.333	145.936			13.957					159.893
	(I) Compensation in company preparing the accounts				32.603		32.603			12.322					
Alexandra Young	(II) Compensation from subsidiaries/associates at 30/06/2018				113.333		113.333			13.957					
	(III) Total				145.936		145.936			13.957					



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

A	B	(1)	Options held at start of financial year			Options awarded during the year						Options exercised during the year			Options expired during the year	Options held at year-end	Options attributable to the year
			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2)+(5)-(11)-(14)	(16)
Name and surname	Post	Scheme	No. of options	Strike price	Possible exercise period (from-to)	No. of options	Strike price	Possible exercise period (from-to)	Fair value at award date	Award date	Market price of shares underlying award	No. of options	Strike price	Market price of underlying shares at exercise date	No. of options	No. of options	Fair value
Renato Pagliaro	Chairman	27/10/07	150.000	6.537	From 2 August 2013 to 1 August 2018							150.000	6.537	9.822			
Alberto Nagel	CEO	27/10/07	350.000	6.537	From 2 August 2013 to 1 August 2018							350.000	6.537	9.822			
Francesco Saverio Vinci	GM	27/10/07	250.000	6.537	From 2 August 2013 to 1 August 2018							250.000	6.537	9.822			
Managerial staff with strategic responsibilities		27/10/07	25.000	6.537	From 2 August 2013 to 1 August 2018							25.000	6.537	9.822			
(III) Total			775.000									775.000					

Managerial staff with strategic responsibilities at 30 June 2018



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

A	B	(1)	Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and allocated	(11)	Financial instruments attributable to the year	
			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		(12)	
Name and surname	Post	Scheme	No. and type of instrument	Vesting period	No. and type of financial instrument	Fair value at award date	Vesting period	Award date	Market price at award	No. and type	No. and type	Value upon vesting	Fair value	
Alberto Nagel CEO		28-ott-10	73.563 Performance shares	Nov. 2018 – Nov. 2019							49.042	461.976	128.658	
		28-ott-15	183.956 Performance shares	Nov. 2018 – Nov. 2021									242.787	
		28-ott-15	152.387 Performance shares	Nov. 2019 – Nov. 2022										314.329
		28-ott-15				150.981 Performance shares	1.005.871	Nov. 2020 – Nov. 2023	27-set-18	9.122				265.601
Francesco Saverio Vinci GM		28-ott-10	61.140 Performance shares	Nov. 2018 – Nov. 2019							40.758	375.789	110.971	
		28-ott-15	91.627 Performance shares	Nov. 2018 – Nov. 2021									120.929	
		28-ott-15	116.830 Performance shares	Nov. 2019 – Nov. 2022										240.985
		28-ott-15				125.818 Performance shares	838.229	Nov. 2020 – Nov. 2023	27-set-18	9.122				221.335
Managerial staff with strategic responsibilities		28-ott-10	20.646 Performance Shares	Nov. 2018							41.291	388.961	24.638	
		28-ott-10	101.883 Performance shares	Nov. 2018 – Nov. 2019							69.955	658.976	191.079	
		28-ott-15	323.752 Performance shares	Nov. 2018 – Nov. 2021										432.107
		28-ott-15	256.802 Performance shares	Nov. 2019 – Nov. 2022										534.885
		28-ott-15				254.309 Performance shares	1.697.921	Nov. 2020 – Nov. 2023	27-set-18	9.122				453.172
Total			1.382.586		531.108	3.542.021				201.046	1.885.702	3.281.476		

Managerial staff with strategic responsibilities at 30 June 2018



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

A Name and surname	B Post	(1) Scheme	(2) Bonus for the year			(3) Previous years' bonuses			(4) Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/paid	Deferred	Deferral period	No longer payable	Payable/paid	Still deferred	
Alberto Nagel CEO		FY 2017/2018	496.800	745.200	Nov. 2019 - Nov. 2023				
		FY 2016/2017						810.000	
		FY 2015/2016					252.000	378.000	
		FY 2014/2015						337.500	
Francesco Saverio Vinci GM		FY 2017/2018	414.000	621.000	Nov. 2019 - Nov. 2023				
		FY 2016/2017						621.000	
		FY 2015/2016					125.520	188.280	
		FY 2014/2015						280.500	
Management with strategic responsibilities		FY 2017/2018	991.200	1.216.800	Nov. 2019 - Nov. 2023				
		FY 2016/2017						1.331.500	
		FY 2015/2016					446.585	631.377,5	
		FY 2014/2015						344.065	
		FY 2013/2014					140.000		
Total			1.902.000	2.583.000			964.105	4.922.222,5	

Managerial staff with strategic responsibilities at 30 June 2018



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

Name and surname	Post	Investee company	No. of shares held at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
PAGLIARO RENATO	Chairman	MEDIOBANCA	2.500.000	150.000 ¹	450.000	2.200.000
NAGEL ALBERTO	CEO	MEDIOBANCA	2.626.050	397.992 ¹	299.542	2.724.500
VINCI FRANCESCO SAVERIO	GM	MEDIOBANCA	945.000	290.758 ¹	207.258	1.028.500
MAURIZIO CARFAGNA	Director	MEDIOBANCA	40.000 ²	11.000 ³	==	51.000 ⁴
PECCI ALBERTO	Director	MEDIOBANCA	4.707.500 ⁵	==	30.000	4.677.500 ⁵

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

(1) Shares awarded in execution of stock option/performance shares scheme

(2) of which n. 20.000 shares owned through subsidiaries

(3) of which n. 1.000 shares inherited

(4) of which n. 30.000 shares owned through subsidiaries and n. 1.000 through marriage

(5) Investment owned through subsidiaries

Investments held by other managerial staff with strategic responsibilities

No. of managerial staff with strategic responsibilities	Investee company	No. of shares owned at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
8*	MEDIOBANCA	167.708**	243.601	229.599	181.710

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

* Managerial staff with strategic responsibilities as at 30.6.2018

** Shares awarded in execution of performance share scheme.



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

Mediobanca area of activity	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1) Management body Supervisory function - Mediobanca	3.968.616	-	-	-	-	-	-	-
2) Management body Management function (CEO/GM) - Mediobanca	3.500.000	4.554.000	200%	130,1%	910.800	910.800	1.366.200	1.366.200
3) Staff, Support, holding units	97.810.962	20.162.574	200%	20,6%	17.070.855	235.000	594.113	207.500
4) Control functions (Risk Management, Compliance, Audit)	17.968.621	3.406.612	33%	19,0%	3.298.499	37.200	46.113	24.800
5) Investment Banking - business	53.596.849	50.122.226	200%	93,5%	31.194.292	5.116.500	10.335.540	5.531.000
6) Retail e Consumer - business	72.408.156	8.682.214	200%	12,0%	7.230.954	404.800	643.260	403.200
7) Private Banking / Asset Management - business	32.685.007	17.513.539	200%	53,6%	14.324.894	505.000	2.193.645	490.000
	281.938.211	104.441.165	-	37,0%	74.030.294	7.209.300	15.178.871	8.022.700

Gross amounts included for Group Directors emoluments payable in respect of their office.

Mediobanca Group business sectors, EBA Guidelines

Includes Group companies which ended FY on 31 December 2017. RAM not included.

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

Mediobanca Group - Material Risk Takers		#	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1)	Non-executive directors (non-executive members of BoD, including Chairman)	1	1.800	-	-	-	-	-	-	-
2)	CEO	1	1.800	2.484	200%	138%	496,8	496,8	745,2	745,2
	GM	1	1.500	2.070	200%	138%	414	414	621	621
3)	Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	15	9.342,1	9.090	200%	106%	1.970	1.970	2.967	2.967
4)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	16	2.470,6	739,5	33%	30%	652,7	37,2	24,8	24,8
5)	Staff with managerial responsibilities in relevant business units	23	6.187,7	7.361	200%	119%	1.823,8	1.823,8	1.856,7	1.856,7
6)	Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	8	1.897,9	663	200%	35%	397	114	76	76
7)	Quantitative criteria	20	6.129,1	7.245	200%	118%	2.072,5	2.072,5	1.550	1.550
		85	31.127,4	30.452,5	-	98%	7.834,80	6.936,30	7.840,70	7.840,70

Gross amounts in €'000 – Performance variable FY ending 30 June 2018

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

Includes relevant staff employed at Group company which financial year ended 31 December 17. RAM not included.



Mediobanca Group - Material Risk Takers	#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in number of MB shares ¹
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) CEO - GM	2	377.520	2	89.800
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	13	1.582.029	11	370.305
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	2	90.740		
5) Staff with managerial responsibilities in relevant business units	23	1.497.701,7	11	193.183
6) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	2	45.516	1	5.656
7) Quantitative criteria	16	1.533.178,6	6	138.962
	58	5.126.685	31	797.906

¹ Number of Mediobanca shares.

Mediobanca Group - Material Risk Takers	#	Treatment at start of relationship	#	Treatment at end of relationship ¹
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) CEO - GM	-	-	-	-
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	-	-	3	3.175.562
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	1	121.705	1	470.000
5) Staff with managerial responsibilities in relevant business units	2	655.000	-	-
6) Heads and senior staff in Staff and support units (Head of company financial reporting, HR, Operations and IT, Legal)	-	-	1	600.000
7) Quantitative criteria	1	230.000	2	923.743
	4	1.006.705	7	5.169.305*

¹ With reference to the identified staff identified as of 30 June 2017.

* Of which € 1.635.415 by way of incentive, deferred between 40% - 60% over the three/five-year horizon, cash/equity.

The highest amount paid to an individual person was € 2.185.562 included notice and complementary pension scheme contributions.



Total remuneration awarded over € 1 mln.	#
€ 1 million - 1,5 millions	12
€ 1,5 - 2 millions	1
€ 2 - 2,5 millions	3
€ 2,5 - 3 millions	
€ 3 - 3,5 millions	1
€ 3,5 - 4 millions	1
€ 4,5 - 5 millions	1



MEDIOBANCA

Declaration by Head of Company Financial Reporting

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

Milan, 28 October 2018

Head of Company Financial
Reporting

Emanuele Flappini