MEDIOBANCA

Summary of IFRS 9 accounting standard adoption

1 July 2018

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1. IFRS 9 and Mediobanca Group

1.1 Regulatory scenario

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

The Mediobanca Group, which ends its financial year on 30 June each year, has adopted the new standard as from 1 July 2018.

In accordance with the guidance of the European Securities and Markets Authority (ESMA), contained in the document entitled "European common enforcement priorities for 2017 financial statements" dated 27 October 2017, and pursuant to the requirements of IAS8 sections 30 and 31, this section provides disclosure on implementation of the new standard.

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

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

- On the first issue, the classification and method used to measure financial assets (apart from shares) will be subject to two tests: one on the business model, and the other on the contractual features of the cash flows involved (known as the "SPPI test", i.e. "Solely Payment of Principal and Interest"). Only those instruments which pass both tests can be recognized at amortized cost; otherwise, the assets will have to be recognized at fair value and the effects taken through the profit and loss account (this category therefore becomes the residual portfolio). There is also an intermediate portfolio (Held to collect and sell), which, like the current Available for Sale portfolio, involves recognition at fair value against a matching entry in net equity ("Other Comprehensive Income"). Shares must always be recognized at fair value, with the possibility, for those not held for trading purposes, of the fair value effects being recognized in a net equity reserve (rather than through the profit and loss account); "recycling", however, is abolished (i.e. the effects of the disposals will no

longer be taken through the profit and loss account). No major changes will be made to the treatment of financial liabilities in terms of their classification and measurement. Indeed, the existing rules will remain in force apart from the accounting treatment of own credit risk: for financial liabilities recognized at fair value (or under the fair value option), the standard stipulates that the changes in fair value attributable to changes in own credit risk must be booked to net equity, unless such treatment creates or inflates an accounting asymmetry in the profit for the period, whereas the remaining amount of the changes in the fair value of the liabilities must be taken through profit and loss.

- On the issue of impairment, for instruments recognized at amortized cost and fair value against a matching entry in net equity (apart from equity instruments), the new standard marks the transition from an incurred to an expected loss calculation model; with the focus on the expected losses in value, provisioning has to be made in respect of the entire portfolio (including performing items) and on the basis of estimates which take into account macroeconomic factors. In particular, at the initial recognition stage (stage 1), the instrument must already reflect an expected loss over a twelvemonth time horizon; if a significant increase in credit risk then occurs, the asset is classified in the under-performing portfolio (stage 2), which means incorporating an expected loss across the entire outstanding life of the asset; and finally, if further impairment occurs, the asset is classified as non-performing (stage 3), in which the final recovery value is estimated. The expected loss must be based on point-in-time data reflecting the internal credit models used.
- As for hedge accounting, the new model rewrites the rules for designating a hedge relationship and for checking its effectiveness, with the objective of aligning accounting representation with risk management activities, and improving the disclosure on risk management activities performed by the entity preparing the financial reporting.

1.2 Current project

An internal project was launched in 2015, led jointly by Risk Management and Group Financial Reporting, with the involvement of all the other areas affected (in particular Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury). The testing phase of the new IFRS 9 systems and processes began in January 2018, in which IAS 39 and IFRS 9 ran in parallel to allow the system of internal regulations (methodologies, processes and procedures) to be updated, and the IT systems to be checked.

In the course of 2017, the framework for implementation was the subject of a Thematic Review by the Single Supervisory Mechanism to assess the state of preparation for application of IFRS 9, which resulted in certain limited “recommendations” that have already been addressed in an action plan shared with the supervisory authority.

The main results, in terms of impacts expected and decisions taken within the Mediobanca Group are set out below, divided according to the main project areas.

1.3 Classification and measurement

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

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

For the purposes of classifying financial instruments, the business model analysis was performed by valuing the Group's portfolio of assets in the light of the strategy adopted by senior management, risk management for the portfolios concerned, remuneration mechanisms, reporting methods, and movements (past sales and future expectations). Such considerations are incorporated into the internal management policies, which reiterate the correlation between business model and accounting treatment, and introduce thresholds in terms of frequency and significance for movements in portfolios recognized at amortized cost.

The analysis showed the following results:

- The loan books – which under IAS 39 were recognized at amortized cost as "Loans and Receivables" – have a management strategy which is consistent with a Hold to Collect business model;
- Debt securities held as part of the banking book which constitute "Financial assets held to maturity" under IAS 39, are classified based on a Hold to Collect model;
- Debt securities held as part of the banking book which constitute "Financial assets available for sale" under IAS 39 are classified almost entirely on the basis of a Hold to Collect and Sell business model; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
- Debt securities held as part of the trading book move to the "Other" business model, apart from certain limited cases in which portfolios have been reclassified from financial assets measured at fair value to Other Comprehensive Income to reflect changes in business model;

– As for equities, shares held for trading purposes also move to the “Other” business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and loss account (accounting category: “Fair Value to Other Comprehensive Income”, or “FVOCI”). For funds, stock units held over the medium-/ long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the “Other” business model.

It should be noted that although the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account (“Fair Value Through Profit & Loss”, or “FVPL”), the Group has not decided to take up this option for assets but to use it only for a limited number of liability instruments, to eliminate or significantly reduce accounting asymmetries.

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

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

Shares held in UCITS formerly classified as Available for Sale fail the SPPI test and, according to recent decisions taken by IFRS Interpretation Committee, fall into the category of equity instruments mandatorily measured at fair value with impact to profit and loss.

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

1.4 Impairment

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

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

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

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

- Assessment of significant increase in credit risk: the assessment is based on both qualitative and quantitative criteria to identify whether or not a there has been a significant increase in the credit risk associated with the counterparty for each facility. The recognition of forbearance measures or the "30 days past due" criterion are considered as backstop indicators. As per the supervisory authority's expectations, only limited use will be made of the simplified approach, or "low credit risk exemption". The criteria defined for exposures to transition from stage 2 to stage 1 mirror those for the significant increase in credit risk (i.e. when the aspects which denote the significant deterioration cease to exist, the exposure returns to stage 1);

- Inclusion of forward-looking information in the model used to calculate the expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, to ensure a time horizon held to be reasonable is considered. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;

- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. Alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);

- Validation and back-testing: in connection with the models based on recording expected losses, a process has been finalized for validation and back-testing. The reference framework adopted means that the unit which develops the model must be independent of the unit which validates it, with a clear definition of the roles and responsibilities between them. Regular testing is also carried out to ensure that the assumptions on which the model is based continue to be valid, and that any new information which becomes available is factored in accordingly;

- Calculation of expected losses at twelve months and over life-time: the IFRS 9 estimate of the PD, LGD and EAD indicators is based on the existing prudential models (e.g. internal models where present) and on specific models adapted with the necessary adjustments to incorporate the forward looking information and the multi-period time horizon.

1.5 Hedge accounting

As for the IFRS 9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS 39, the Group will opt in to the new criteria introduced for general hedging, and does not foresee any significant impact in doing so.

2. Effects of first-time adoption (FTA)

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

With respect to "Classification and measurement", the analysis carried out for the portfolio of financial assets (see Paragraph 3) has not revealed any significant impact.

In some cases, however, changes in the business models used to manage the financial instruments or contractual cash flows not in line with the SPPI notion have been detected, hence the transition from IAS 39 to IFRS 9 with reference to "Classification and Measurement" will entail reclassification as follows (further detail is provided in Table 1 and 2):

- €219.3m of loans and receivables will be reclassified as FVPL in view of the fact that the instruments' characteristics (subordination, equity convertible options, indirect exposure to equity) mean they would not pass the SPPI test. The impact, in terms of measurement, amounts to €3.3m, detail of which is provided in Table 3;
- €649m of available-for-sale debt securities will be reclassified as HTC to provide a better representation of the business model's strategies, which will lead to the net equity reserve accumulated written back and the historical acquisition cost being recovered. The impact, in terms of measurement, amounts to €3.3m, detail of which is provided in Table 3;
- €54m of debt securities held as part of the banking book will be reclassified as FVPL, as a result of failing the SPPI test;
- €511.4m of stock units held in investment funds classified as AFS have been reclassified as assets compulsorily recognized at fair value with effects taken through profit and loss and the current AFS reserve being transferred to the earnings reserve;
- €260.8m of AFS equities will be reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
- €193.9m of held-for-trading financial assets will be reclassified as FVOCI following changes to the business model.

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

	4° update, Bank of Italy Circular 262
20.	Financial assets held for trading
30.	Financial assets at fair value through profit or loss
40.	Financial assets available-for-sale
50.	Financial assets held-to-maturity
60.	Due from banks
70.	Due from customers

	5° update, Bank of Italy Circular 262
20.	Financial assets at fair value with impact taken to profit or loss:
	a) Financial assets held for trading
	b) Financial assets designated at fair value
	c) Other financial assets mandatorily at fair value
30.	Financial assets at fair value with impact taken to comprehensive income
40.	Financial assets at amortized cost:
	a) Due from banks
	b) Due from customers

* * *

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

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

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

	4° update, Bank of Italy Circular 262
10.	Due to banks
20.	Due to customers
30.	Debt securities in issue
40.	Trading liabilities
50.	Financial liabilities designated at fair value

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

Adoption of the new classification rules for financial instruments generated an almost null effect on net equity, as a consequence of positive impact deriving from business model changes (€3.4m) and negative impact of failing the SPPI test (minus €3.4m)[1].

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

The most significant impact of the transition to IFRS 9, however, derives from the changes in relation to "Impairment". Compared to IAS 39-compliant provisions there is an overall increase in expected losses for €118.7m, for 67% attributable to bonis exposures (stages 1 and 2) and for the remaining 33% to non-performing exposures (stage 3).

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

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

The restatements and higher write-downs referred to above led to an increase in deferred tax assets (DTA) of €37.8m.

All changes and variations lead to a change in the value of net equity of €118.7m (€80.9m net of the tax effect) with an overall impact of some 20 bps on the CET1 ratio.

The impacts recorded represent the best information that the Group has available at the current date and hence are subject to possible changes as a result of completion of the first application of IFRS 9 standard, which is forecast to end by 31 December 2018.

In order to mitigate the impact of the new standards on the prudential ratios, Regulation (EU) 2017/2395 of the European Parliament and of the Council as regards "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", amending Regulation (EU) 575/2013 (the "CRR"), with the new Article 473-bis "Introduction of IFRS 9", offers the possibility for banks to distribute the impact of the introduction of IFRS 9 on own funds for a transitional period of five years, by including a decreasing amount of the impact in CET1. The Group will apply the static approach, to neutralize the effect of the higher provisioning for performing assets, starting from the first-time adoption of IFRS 9 and for the next five years[2].

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS 9 and IFRS1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must

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

nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

2.1 Reconciliation between IAS 39-compliant and IFRS 9-compliant balance sheet

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

Table 1: Reconciliation between IAS39 and IFRS9 – Balance Sheet Assets

(€000)

IAS 39 / IFRS 9	10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	
	Cash and cash equivalents	Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Financial assets held-to-maturity	Due from banks	Due from customers	Hedging derivatives	Adjustment of hedging financial assets (+/-)	Equity investments	Reinsured portion of technical reserves	Property, plant and equipments	Intangible assets	Tax assets	Assets classified as held for sale	Other assets	Total assets
10 Cash and cash equivalents	1.238.001	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1.238.001
20 Financial assets at fair value with impact taken to profit and loss	—	8.008.776	—	565.431	2	—	219.394	—	—	—	—	—	—	—	—	3.842,0	8.797.445
a) Financial assets held for trading	—	8.008.494	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8.008.494
b) Financial assets designated at fair value	—	—	—	53.509,0	—	—	—	—	—	—	—	—	—	—	—	—	53.509,0
c) Other financial assets mandatorily at fair value	—	282,0	—	511.922	2	—	219.394	—	—	—	—	—	—	—	—	3.842,0	735.442
30 Financial assets at fair value with impact taken to comprehensive income	—	196.134	—	4.507.087	—	—	—	—	—	—	—	—	—	—	—	—	4.703.221
40 Financial assets at amortized cost	—	1,0	—	649.000	2.595.745	7.552.958	40.758.495	-	—	—	—	—	—	—	—	4.080,0	51.560.279
50 Hedging derivatives	—	—	—	—	—	—	—	225.814	—	—	—	—	—	—	—	—	225.814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
70 Equity investments	—	—	—	—	—	—	—	—	—	3.210.839	—	—	—	—	—	—	3.210.839
80 Reinsured portion of technical reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
90 Property, plant and equipments	—	—	—	—	—	—	—	—	—	—	—	287.809	—	—	—	—	287.809
100 Intangible assets	—	—	—	—	—	—	—	—	—	—	—	—	739.864	—	—	—	739.864
110 Tax assets	—	—	—	—	—	—	—	—	—	—	—	—	—	816.484	—	—	816.484
120 Assets classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
130 Other assets	—	—	—	359,0	—	—	—	—	—	—	—	—	—	—	—	720.407	720.766
Total assets	**1.238.001**	**8.204.911**	—	**5.721.877**	**2.595.747**	**7.552.958**	**40.977.889**	**225.814**	—	**3.210.839**	—	**287.809**	**739.864**	**816.484**	—	**728.329**	**72.300.522**

Table 2: Reconciliation between IAS39 and IFRS9 – Balance Sheet Liabilities

(€000)

IAS 39 / IFRS 9	10 Due to banks	20 Due to customers	30 Debt securities in issue	40 Trading liabilities	50 Financial liabilities designated at fair value	60 Hedging derivatives	70 Adjustment of hedging financial liabilities (+/-)	80 Tax liabilities	90 Liabilities included in disposal groups classified as held for sale	100 Other liabilities	110 Staff severance indemnity provision	120 Provisions	130 Insurance reserves	140 Revaluation reserves	150 Redeemable shares repayable on demand	160 Equity instruments repayable on demand	170 Reserves	180 Share premium reserve	190 Share capital	200 Treasury share (-)	210 Minority interests (+/-)	220 Profit/(loss) for the period (+/-)	Total liabilities and net equity
10 Financial liabilities at amortized cost	12.263.459	21.320.043	20.557.091	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**54.140.593**
20 Trading financial liabilities	—	—	—	6.462.404	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**6.462.404**
30 Financial liabilities designated at fair value	—	—	51.427,0	-	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**51.427**
40 Hedging derivatives	—	—	—	—	—	233.086	-	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**233.086**
50 Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
60 Tax liabilities	—	—	—	—	—	—	—	531.587	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**531.587**
70 Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
80 Oher liabilities	—	—	—	—	—	—	—	—	—	746.945	—	—	—	—	—	—	—	—	—	—	—	—	**746.945**
90 Staff severance indemnity provision	—	—	—	—	—	—	—	—	—	-	27.510	—	—	—	—	—	—	—	—	—	—	—	**27.510**
100 Provisions	—	—	—	—	—	—	—	—	—	13.430	—	185.482	—	—	—	—	—	—	—	—	—	—	**198.912**
110 Insurance reserves	—	—	—	—	—	—	—	—	—	—	—	—	175.853	—	—	—	—	—	—	—	—	—	**175.853**
120 Revaluation reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	764.255	—	—	—	—	—	—	—	—	**764.255**
130 Redeemable shares repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
140 Equity instruments repayable on demand	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
150 Reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.490.450	—	—	—	—	—	**5.490.450**
160 Share premium reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2.191.743	—	—	—	—	**2.191.743**
170 Share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	443.275	—	—	—	**443.275**
180 Treasury share (-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(109.338)	—	—	**(109.338)**
190 Minority interests (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	87.900	—	**87.900**
200 Profit/(loss) for the period (+/-)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	863.920	**863.920**
Total liabilities and net equity	**12.263.459**	**21.320.043**	**20.608.518**	**6.462.404**	**—**	**233.086**	**—**	**531.587**	**—**	**760.375**	**27.510**	**185.482**	**175.853**	**764.255**	**—**	**—**	**5.490.450**	**2.191.743**	**443.275**	**(109.338)**	**87.900**	**863.920**	**72.300.522**

2.2 Reconciliation of assets and liabilities

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

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

Table 3: Reconciliation of balance-sheet items – assets (€000)

Heading		30/6/18	Transition effect		IFRS 9
			Classification and measurement	Impairment	1/7/18
10	Cash and cash equivalent	1.238.001	—	—	1.238.001
20	Financial assets at at fair value with impact taken to profit and loss	8.797.445	(411)	—	8.797.034
	a) financial assets held for trading	8.008.494	—	—	8.008.494
	b) Financial assets designated at fair value	53.509	—	—	53.509
	c) Other financial assets mandatorily at fair value	735.442	(411)	—	735.031
30	Financial assets at fair value with impact taken to comprehensive income	4.703.221	—	—	4.703.221
40	Financial assets at amortized cost	51.560.279	5.751	(118.767)	51.447.263
50	Hedging derivatives	225.814	—	—	225.814
60	Adjustment of hedging financial assets (+/-)	—	—	—	—
70	Equity investments	3.210.839	—	—	3.210.839
80	Reinsured portion of technical reserves	—	—	—	—
90	Property, plant and equipment	287.809	—	—	287.809
100	Intangible assets	739.864	—	—	739.864
110	Tax assets	816.484	3.847	41.345	861.676
120	Assets classified as held for sale	—	—	—	—
130	Other assets	720.766	—	—	720.766
	Total assets	**72.300.522**	**9.187**	**(77.422)**	**72.232.287**

Table 4: Reconciliation of balance-sheet items – liabilities (€000)

	Heading	30/6/18	Transition effect		IFRS 9
			Classification and measurement	Impairment	1/7/18
10.	Financial liabilities at amortized cost	54.140.593	—	—	54.140.593
20.	Trading liabilities	6.462.404	—	—	6.462.404
30.	Financial liabilities designated at fair value	51.427	5.938	—	57.365
40.	Hedging derivatives	233.086	—	—	233.086
50.	Adjustment of hedging financial liabilities (+/-)	-	—	—	—
60.	Tax liabilities	531.587	5.413	1.927	538.927
70.	Liabilities included in disposal groups classified as held for sale	-	—	—	—
80.	Oher liabilities	746.945	457	(1.829)	745.573
90.	Staff severance indemnity provision	27.510	—	—	27.510
100.	Provisions	198.912	(1.015)	1.728	199.625
110.	Insurance reserves	175.853	—	—	175.853
120.	Revaluation reserves	764.255	(19.930)	2.197	746.522
130.	Redeemable shares repayable on demand	-	—	—	—
140.	Equity instruments repayable on demand	-	—	—	—
150.	Reserves	5.490.450	18.324	(76.394)	5.432.380
160.	Share premium reserve	2.191.743	—	—	2.191.743
170.	Share capital	443.275	—	—	443.275
180.	Treasury share (-)	(109.338)	—	—	(109.338)
190.	Minority interests (+/-)	87.900	—	(5.051)	82.849
200.	Profit/(loss) for the period (+/-)	863.920	—	—	863.920
	Total liabilities and net equity	**72.300.522**	**9.187**	**(77.422)**	**72.232.287**

2.3 Reconciliation of post-FTA net equity

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

€000

	Values
Net equity as at 30 June 2018	**9.732.205**
– *Group*	*9.644.305*
– *of which: minorities*	*87.900*
Total effects of IFRS9 transition - 1 July 2018	**(80.859)**
of which: Classification	**(19)**
of which: Impairment	**(118.666)**
- Stage 1 and 2	*(79.257)*
- Stage 3	*(39.409)*
of which: Tax effect	**37.826**
Net equity (IFRS9) as at 1 July 2018	**9.689.172**
– *Group*	*9.606.323*
– *of which: minorities*	*82.849*

3. New accounting policies

Financial assets recognized at amortized cost

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

- The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;
- Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

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

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

- Operating procedure adopted by management in the process of performance evaluation;
- Risk type and procedure for managing risks taken, including indicators for portfolio rotation;
- Procedures for determining remuneration mechanisms for decision-making managers.

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

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

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

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

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The effective interest rate is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

The original effective interest rate for each receivable remains unchanged over time unless the account has been renegotiated, leading to a change in the contractual interest rate taking it below the market rate, including cases where the asset becomes non-interest-bearing. The value adjustment is taken through the profit and loss account.

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

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

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

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;

- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;

- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the

value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

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

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

Financial assets recognized at fair value through profit and loss

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

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

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

At the settlement date for securities and loans and at the execution date for derivatives contracts, such assets are recognized at fair value without considering any transaction costs or income directly attributable to the instrument itself which are taken through the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

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

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

Financial assets recognized at fair value through other comprehensive income

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

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

- The contractual terms which pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized 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 taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

At the same time as fair value is determined, the expected losses are calculated as well via the same impairment process as used for financial assets recognized at amortized cost. However, the expected losses are not deducted from the carrying value but recorded directly in other comprehensive income, against a matching entry in the profit and loss account. Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

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

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded. If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

At present, the main areas of operation performed by the Group which do not result in the underlying instrument being derecognized are securitizations, repos and securities lending. Conversely, items received in connection with the Group's activity as depositor bank are not

recognized, as this activity is rewarded in the form of a commission, given that all related risks and benefits are transferred to the end subjects.

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

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

Leasing

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

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

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

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

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

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

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

Hedges

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

There are two types of hedge adopted by the Group:

- Fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;

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

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

Hedge derivatives are measured and recognized at fair value as follows:

- For fair value hedges, changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;

- For cash flows hedges, fair value changes are recorded in the net equity for the effective part of the hedge while the gain or loss deriving from the ineffective portion is recognized through the profit and loss account only when, in relation to the hedged item, the cash flows variation to be compensated arises.

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

Equity investments

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

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

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

When the equity method is applied, if there is objective evidence that the value of an investment may be impaired, estimates are made of its recoverable value using the present value of estimated cash flows generated by the investment, including its final disposal value.

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

Provisions for liabilities and charges

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

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

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

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities in cases this may result in prejudice for the company itself.

This heading also includes credit risk provisions in respect of commitments to disburse funds and guarantees issued falling within the scope of application of the rules on impairment introduced by IFRS 9. In such cases the same staging and expected loss calculation criteria are used for both financial assets recognized at amortized cost and/or fair value through other comprehensive income.

Financial liabilities recognized at amortized cost

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

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

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the profit and loss account.

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

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

Trading liabilities

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

Staff severance indemnity provision

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

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method, which entails: future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

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

Foreign currency transactions

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

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

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

Tax assets and liabilities

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

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

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

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

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

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

Stock options and performance shares

The stock option and performance share schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs.

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

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

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

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

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

Treasury shares

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

Fees and commissions receivable in respect of services

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

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

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

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

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies

qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

Recognition of costs

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

Related parties

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

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;
b) Associate companies, joint ventures and entities controlled by them;
c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;
d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);
e) Close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals;
f) Pension funds for employees of the parent company or any other entity related to it;
g) Transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

4. Consolidated financial statements

4.1. Reconciliation between restated financial statements and financial statements drawn up in accordance with Bank of Italy circular 262/05

The restated balance sheet reflects the following structure:

Assets:

— *Treasury assets* comprises heading 10 “Cash and cash equivalents”; loans for current accounts and demand deposits, repos and other deposits for securities lending and derivatives booked in the heading “Assets measured at fair value – Due from banks and Due from customers” (respectively headings 40a and 40b), and other items of the heading 130 “Other assets”;

— *Banking book debt securities* comprises debt securities under heading “Financial assets at fair value with impact taken to profit and loss”, including those mandatorily classified (respectively headings 20b and 20c), under heading 30 “Financial assets at fair value with impact taken to comprehensive income” and under heading 40c “Financial assets measured at amortized cost”;

— *Equity holdings* comprises equity shares under heading 30 “Financial assets at fair value with impact taken to comprehensive income”, heading 70 “Equity investments” and funds mandatorily measured at fair value under heading 20c;

— *Loans and advances to customers* comprises loans and advances booked under the heading “Assets measured at fair value – Due from banks and Due from customers” (respectively headings 40a and 40b) and those mandatorily measured at fair value through profit and loss under heading 20c, net of heading 60 “Adjustment to hedging financial assets” relating to loans and advances;

— *Other assets* comprises heading 130 “Other assets”, heading 110 “Tax assets” and heading 50 “Hedging derivatives”, and debtors items booked under heading “Assets measured at fair value – Due from banks and Due from customers” (headings 40a and 40b respectively).

Liabilities:

— *Funding* comprises the heading “Financial liabilities measured at amortized cost – a) Due to banks and b) Due to customers” net of amounts booked under *Treasury funding* and *Other liabilities*;

— *Treasury funding* comprises debt for current accounts and demand deposits, repos and other deposits for securities lending and derivatives under heading 10 “Financial liabilities measured at amortized cost – a) Due to banks and b) Due to customers”;

— *Other liabilities* includes heading 40 “Hedging derivatives”, heading 60 “Tax liabilities”, heading 110 “Technical reserves” and debtors other than those booked under heading 10 “Financial liabilities measured at amortized cost – a) Due to banks and b) Due to customers”.

Balance sheet as at 30 June 2018 — assets *

(€m)

Assets	Financial assets held for trading	Treasury assets	Banking book debt securities	Loans and advances to customers	Equity holdings	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1.238,0	—	—	—	—	—	**1.238,0**
20. Financial assets at fair value with impact taken to profit and loss	8.008,5	—	57,8	219,0	511,7	—	—	**8.797,0**
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4.442,8	—	260,5	—	—	**4.703,3**
40. Financial assets measured at amortized cost	—	7.105,8	3.443,1	40.800,1	—	—	81,5	**51.430,5**
50. Hedging derivatives	—	—	—	—	—	—	225,8	**225,8**
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	**—**
70. Equity investments	—	—	—	—	3.210,8	—	—	**3.210,8**
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	**0,0**
90. Property, plant and equipments	—	—	—	—	—	287,8	—	**287,8**
100. Intangible assets	—	—	—	—	—	739,9	—	**739,9**
110. Tax assets	—	—	—	—	—	—	861,7	**861,7**
120. Assets classified as held for sale	—	—	—	—	—	—	—	**—**
130. Other assets	—	14,3	—	—	—	—	723,2	**737,5**
Total assets	**8.008,5**	**8.358,1**	**7.943,7**	**41.019,1**	**3.983,0**	**1.027,7**	**1.892,2**	**72.232,3**

* Includes the effect of the first application of IFRS15 and IFRS9 standards

Balance sheet as at 30 June 2018 — liabilities *

(€m)

	Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10.	Financial liabilities at amortized cost	48.798,3	5.290,3	—	52,1	—	—	**54.140,7**
20.	Trading financial liabilities	—	—	6.462,4	—	—	—	**6.462,4**
30.	Financial liabilities designated at fair value	57,4	—	—	—	—	—	**57,4**
40.	Hedging derivatives	—	—	—	233,1	—	—	**233,1**
50.	Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60.	Tax liabilities	—	—	—	537,0	—	—	**537,0**
70.	Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80.	Oher liabilities	—	—	—	751,4	—	—	**751,4**
90.	Staff severance indemnity provision	—	—	—	—	27,5	—	**27,5**
100.	Provisions	—	—	—	—	199,6	—	**199,6**
110.	Insurance reserves	—	—	—	175,9	—	—	**175,9**
120.	Revaluation reserves	—	—	—	—	—	746,5	**746,5**
130.	Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
140.	Equity instruments repayable on demand	—	—	—	—	—	—	**—**
145.	Dividends prepayment	—	—	—	—	—	—	**—**
150.	Reserves	—	—	—	—	—	5.428,4	**5.428,4**
160.	Share premium reserve	—	—	—	—	—	2.191,7	**2.191,7**
170.	Share capital	—	—	—	—	—	443,3	**443,3**
180.	Treasury share (-)	—	—	—	—	—	(109,3)	**(109,3)**
190.	Minority interests (+/-)	—	—	—	—	—	82,8	**82,8**
200.	Profit/(loss) for the period (+/-)	—	—	—	—	—	863,9	**863,9**
	Total liabilities and net equity	**48.855,7**	**5.290,3**	**6.462,4**	**1.749,5**	**227,1**	**9.647,3**	**72.232,3**

* Includes the effect of the first application of IFRS15 and IFRS9 standards

Balance sheet as at 30 September 2018 — assets

(€m)

	Assets	Financial assets held for trading	Treasury assets	Banking book debt securities	Loans and advances to customers	Equity holdings	Tangible and intangible assets	Other assets	Total assets
10.	Cash and cash equivalents	—	1.610,2	—	—	—	—	—	**1.610,2**
20.	Financial assets at fair value with impact taken to profit and loss	8.403,8	—	58,1	229,4	516,0	—	—	**9.207,3**
30.	Financial assets at fair value with impact taken to comprehensive income	—	—	4.613,0	—	128,6	—	—	**4.741,6**
40.	Financial assets measured at amortized cost	—	7.958,9	3.273,5	42.039,4	—	—	85,7	**53.357,5**
50.	Hedging derivatives	—	—	—	—	—	—	172,3	**172,3**
60.	Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	**—**
70.	Equity investments	—	—	—	—	3.103,4	—	—	**3.103,4**
80.	Reinsured portion of technical reserve	—	—	—	—	—	—	—	**0,0**
90.	Property, plant and equipments	—	—	—	—	—	286,0	—	**286,0**
100.	Intangible assets	—	—	—	—	—	741,4	—	**741,4**
110.	Tax assets	—	—	—	—	—	—	755,6	**755,6**
120.	Assets classified as held for sale	—	—	—	—	—	—	—	**—**
130.	Other assets	—	10,2	—	—	—	—	804,4	**814,6**
	Total assets	**8.403,8**	**9.579,3**	**7.944,6**	**42.268,8**	**3.748,0**	**1.027,4**	**1.818,0**	**74.789,9**

Balance Sheet as at 30 September 2018 — liabilities

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Financial liabilities at amortized cost	49.574,3	6.562,3	—	52,0	—	—	**56.188,6**
20. Trading financial liabilities	—	—	6.865,8	—	—	—	**6.865,8**
30. Financial liabilities designated at fair value	57,7	—	—	—	—	—	**57,7**
40. Hedging derivatives	—	—	—	216,3	—	—	**216,3**
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60. Tax liabilities	—	—	—	468,3	—	—	**468,3**
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80. Oher liabilities	—	—	—	1.316,1	—	—	**1.316,1**
90. Staff severance indemnity provision	—	—	—	—	26,9	—	**26,9**
100. Provisions	—	—	—	—	205,2	—	**205,2**
110. Insurance reserves	—	—	—	173,7	—	—	**173,7**
120. Revaluation reserves	—	—	—	—	—	541,0	**541,0**
130. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
140. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
145. Dividends prepayment	—	—	—	—	—	—	**—**
150. Reserves	—	—	—	—	—	5.871,5	**5.871,5**
160. Share premium reserve	—	—	—	—	—	2.194,7	**2.194,7**
170. Share capital	—	—	—	—	—	443,5	**443,5**
180. Treasury share (-)	—	—	—	—	—	(109,3)	**(109,3)**
190. Minority interests (+/-)	—	—	—	—	—	84,5	**84,5**
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	245,4	**245,4**
Total liabilities and net equity	**49.632,0**	**6.562,3**	**6.865,8**	**2.226,4**	**232,1**	**9.271,3**	**74.789,9**

4.2. Reconciliation between restated profit and loss account drawn up in accordance with Bank of Italy circular 262/05

The restated profit and loss account reflects the following structure:

- *Net interest income* comprises heading 10 "Interest and similar income", heading 20 "Interest expense and similar charges", margins on derivatives in respect of held-for-trading securities under heading 80 "Net trading income", and the as well as the net result from hedging loans and receivables to customers and funding underf heading 90 "Net hedging income (expense)";
- *Trading income* comprises heading 70 "Dividends and similar charges" (apart from amounts recorded as *Net interest income*), the net result from banking book securities under heading 100 "Gain (loss) on disposals/repurchases" and the share of securities lending under heading 40 "Fee and commission income" and heading 50 "Fee and commission expense";
- *Net fee and commission income* comprises heading 60 "Net fee and commission income", operating gains under heading 230 "Other operating income (expense)", writebacks following collections from non-performing loans acquired under heading 130 "Adjustments for impairment" net of amounts classified under *Trading income*;
- *Gains (losses) on disposal of loans and advances to customers* comprises the share of loans and advances to customers under heading 130 "Adjustments for impairment" (net of writebacks in respect of non-performing loans), heading 200 "Net transfers to provisions – a) commitments and guarantees given" and heading 100 "Gain (loss) on disposal of investments";
- *Gains (losses) on disposal of equity holdings* comprises the earnings effects of equity investments, other equities and funds under heading 250 "Gain (loss) on equity investments" and heading 110 "Net result of financial assets and liabilities mandatorily recognized at fair value";
- *Other gains (losses)* comprise non-recurring costs under heading 190 "Administrative expenses", in particular contributions to resolution funds and deposit guarantee schemes, sums set aside for restructuring operations and adjustments to tangible and intangible assets.

Profit and Loss account as at 30 September 2018

(€m)

Profit and Loss	Net interest income	Treasury income	Net fee and commission income	Equity-accounted company	Operating costs	Gains (losses) on disposal of equity holdings	Gains (losses) on disposal of loans and advances to customers	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	483,9	—	—	—	—	—	—	—	—	—	—	483,9
20. Interest expense and similar charges	(132,2)	—	—	—	—	—	—	—	—	—	—	(132,2)
30. Net interest income	**351,7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**351,7**
40. Fee and commission income	—	2,6	144,2	—	—	—	—	—	—	—	—	146,8
50. Fee and commission expense	—	(1,3)	(30,9)	—	—	—	—	—	—	—	—	(32,2)
60. Net fee and commission income	**—**	**1,3**	**113,3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**114,6**
70. Dividends and similar income	—	13,7	—	—	—	—	—	—	—	—	—	13,7
80. Net trading income	(9,2)	19,3	—	—	—	—	—	—	—	—	—	10,1
90. Net hedging income (expense)	1,6	—	—	—	—	—	—	—	—	—	—	1,6
100. Gain (loss) on disposal/repurchase	—	5,7	—	—	—	—	1,4	—	—	—	—	7,1
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	0,8	—	—	—	3,7	10,1	—	—	—	—	14,6
120. Total income	**344,1**	**40,8**	**113,3**	**—**	**—**	**3,7**	**11,5**	**—**	**—**	**—**	**—**	**513,4**
130. Net write-offs (write-backs) for credit risk	—	—	6,8	—	—	—	(71,0)	0,4	—	—	—	(63,8)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	(0,5)	—	—	—	—	(0,5)
150. Net income from financial operations	**344,1**	**40,8**	**120,1**	**—**	**—**	**3,7**	**(60,0)**	**0,4**	**—**	**—**	**—**	**449,1**
160. Premiums earned (net)	—	—	14,8	—	—	—	—	—	—	—	—	14,8
170. Other income (net) from insurance activities	—	—	(3,0)	—	—	—	—	—	—	—	—	(3,0)
180. Net profit from financial and insurance activities	**344,1**	**40,8**	**131,9**	**—**	**—**	**3,7**	**(60,0)**	**0,4**	**—**	**—**	**—**	**460,9**
190. Administrative expenses	—	—	—	—	(270,9)	—	—	—	—	—	—	(270,9)
200. Net transfers to provisions	—	—	—	—	(0,4)	—	1,2	—	—	—	—	0,8
210. Net adjustments to tangible assets	—	—	—	—	(3,4)	—	—	—	—	—	—	(3,4)
220. Net adjustments to intangible assets	—	—	—	—	(7,1)	—	—	—	—	—	—	(7,1)
230. Other operating income (expense)	—	—	23,2	—	9,9	—	—	—	—	—	—	33,1
240. Operating costs	**—**	**—**	**23,2**	**—**	**(271,9)**	**—**	**1,2**	**—**	**—**	**—**	**—**	**-247,5**
250. Gain (loss) on equity investments	—	—	—	97,7	—	—	—	—	—	—	—	97,7
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	0,0
270. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—	0,0
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	0,0
290. Profit (loss) on ordinary activity before tax	**344,1**	**40,8**	**155,1**	**97,7**	**(271,9)**	**3,7**	**(58,8)**	**0,4**	**—**	**—**	**—**	**311,1**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(64,4)	—	(64,4)
310. Profit (loss) on ordinary activities after tax	**344,1**	**40,8**	**155,1**	**97,7**	**(271,9)**	**3,7**	**(58,8)**	**0,4**	**—**	**(64,4)**	**—**	**246,7**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	0,0
330. Net profit (loss) for the period	**344,1**	**40,8**	**155,1**	**97,7**	**(271,9)**	**3,7**	**(58,8)**	**0,4**	**—**	**(64,4)**	**—**	**246,7**
340. . Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	—	(1,3)	(1,3)
350. Net profit (loss) for the period attributable to Mediobanca	**344,1**	**40,8**	**155,1**	**97,7**	**(271,9)**	**3,7**	**(58,8)**	**0,4**	**—**	**(64,4)**	**(1,3)**	**245,4**

5. Reconciliation between old and new restated balance sheet schemes (post-FTA)

With the adoption of the new IFRS 9, the restated balance sheet and profit and loss account schemes have been amended. The main changes are shown below; these, however, do not alter the substance of the schemes but have been aligned with the new categories for accounting for financial assets and liabilities and the corresponding profit and loss items.

5.1 New restated balance sheet: reconciliation

The new restated scheme mainly reflects the following changes:

- *Equity holdings* this heading comprises the equities under heading 30 "Financial assets recognized at fair value through other comprehensive income", heading 70 "Equity investments", and funds mandatorily recognized at fair value under heading 20c, combining the items previously accounted for as *AFS equities* and *Equity investments* (which included only IAS 28-compliant equity investments);

- *Provisions* now also comprise impairment charges to commitments and guarantees given, previously accounted for as *Other liabilities*;

A reconciliation grid for the balance sheet as at 30 June 2018 is shown below.

Table 1: Balance Sheet reconciliation – Assets: 30 June 2018

(€m)

IAS 39 / IFRS 9	Financial asset held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	**Total assets**
Financial asset held for trading	8.008,5	—	—	—	—	—	—	—	**8.008,5**
Treasury financial assets	—	8.358,2	—	—	—	—	—	—	**8.358,2**
Banking book debt securities	196,1	—	246,8	7.517,7	—	—	—	4,8	**7.965,4**
Loans and advances to customers	—	—	5,5	—	41.117,9	—	—	4,1	**41.127,5**
Banking book equity securities	0,3	—	763,2	—	8,9	—	—	(0,3)	**772,1**
Equity investments	—	—	—	—	—	3.210,8	—	—	**3.210,8**
Tangible and intangible assets	—	—	—	—	—	—	1.027,7	—	**1.027,7**
Other assets	—	—	0,4	—	—	—	—	1.829,9	**1.830,3**
Total assets	**8.204,9**	**8.358,2**	**1.015,9**	**7.517,7**	**41.126,8**	**3.210,8**	**1.027,7**	**1.838,5**	72.300,5

Table 2: Balance Sheet reconciliation – Liabilities: 30 June 2018

(€m)

IAS 39 / IFRS 9	Funding	Treasury funding	Financial liabilities held fot trading	Other liabilities	Provisions	Net equity	Minority interests	Profit for the period	**Total liabilities and net equity**
Funding	48.761,0	—	—	—	—	—	—	—	**97.522,0**
Treasury funding	—	5.290,4	—	—	—	—	—	—	**5.290,4**
Financial liabilities held fot trading	—	—	6.462,4	—	—	—	—	—	**6.462,4**
Other liabilities	131,9	—	—	1.696,2	—	—	—	—	**1.960,0**
Provisions	—	—	—	13,4	213,0	—	—	—	**226,4**
Net equity	—	—	—	—	—	8.780,4	—	—	**8.780,4**
Minority interests	—	—	—	—	—	—	87,9	—	**87,9**
Profit for the period	—	—	—	—	—	—	—	863,9	**863,9**
Total liabilities and net equity	**48.892,9**	**5.290,4**	**6.462,4**	**1.709,6**	**213,0**	**8.780,4**	**87,9**	**863,9**	**72.300,5**

5.2 New restated profit and loss account: reconciliation

Two new items have been added to the restated profit and loss scheme:

- *Gains (losses) on disposal of equity holdings* comprises the gains and losses on equity investments and funds, replacing the former heading *Gains (losses) on AFS, HTM and L&R*;

- *Gains (losses) on disposal of loans and advances to customers* includes net write-downs to financial assets accounted for as "Loans and advances to customers".

A reconciliation grid for the profit and loss account as at 30 June 2018 is shown below.

Table 3: Reconciliation of Profit and Loss scheme: 30 June 2018

(€m)

IAS 39 - IFRS 9	Net interest margin	Treasury income	Net fee and commission income	Equity accounted companies	**Total income**	Labour costs	Administrative expenses	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	**Profit before tax**	Income tax for the period	Minority interests	**Net profit**
Net interest margin	1.359,5	—	—	—	**1.359,5**	—	—	—	—	—	—	**1.359,5**	—	—	**1.359,5**
Treasury income	—	255,7	—	—	**255,7**	—	—	—	—	—	—	**255,7**	—	—	**255,7**
Net fee and commission income	—	—	622,2	—	**622,2**	—	—	—	—	—	—	**622,2**	—	—	**622,2**
Equity accounted companies	—	—	—	280,3	**280,3**	—	—	—	—	—	—	**280,3**	—	—	**280,3**
Total income	**1.359,5**	**255,7**	**622,2**	**280,3**	**2.517,7**	**—**	**—**	**—**	**—**	**—**	**—**	**2.517,7**	**—**	**—**	**2.517,7**
Labour costs	—	—	—	—	**—**	(557,8)	—	—	—	—	—	**(557,8)**	—	—	**(557,8)**
Administrative expenses	—	—	—	—	**—**	—	(557,4)	—	—	—	—	**(557,4)**	—	—	**(557,4)**
Gross operating result	**1.359,5**	**255,7**	**622,2**	**280,3**	**2.517,7**	**(557,8)**	**(557,4)**	**—**	**—**	**—**	**—**	**1.402,5**	**—**	**—**	**1.402,5**
Gains (losses) on disposal of equity holdings	—	—	—	—	**—**	—	—	—	—	—	—	**—**	—	—	**—**
Gains (losses) on disposal of loans and advances to customers	—	—	—	—	**—**	—	—	—	(244,3)	—	—	**(244,3)**	—	—	**(244,3)**
Provisions for financial assets	—	—	—	—	**—**	—	—	—	—	(4,7)	—	**(4,7)**	—	—	**(4,7)**
Other profits (losses)	—	—	—	—	**—**	—	—	—	—	0,5	(58,3)	**(57,8)**	—	—	**(57,8)**
Profit before tax	**1.359,5**	**255,7**	**622,2**	**280,3**	**2.517,7**	**(557,8)**	**(557,4)**	**—**	**(244,3)**	**(4,2)**	**(58,3)**	**1.095,7**	**—**	**—**	**1.095,7**
Income tax for the period	—	—	—	—	**—**	—	—	—	—	—	—	**—**	(228,1)	—	**(228,1)**
Minority interests	—	—	—	—	**—**	—	—	—	—	—	—	**—**	—	(3,8)	**(3,8)**
Net profit	**1.359,5**	**255,7**	**622,2**	**280,3**	**2.517,7**	**(557,8)**	**(557,4)**	**—**	**(244,3)**	**(4,2)**	**(58,3)**	**1.095,7**	**-228,1**	**(3,8)**	**863,8**