MEDIOBANCA

Quarterly Report

for the period ended 31 March 2007

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL FULLY PAID UP € 408,781,457.50

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

Registered as a Bank. Parent Company of the Mediobanca Banking Group

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for the period ended 31 March 2007

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REVIEW OF GROUP OPERATIONS

The Mediobanca Group's results for the nine months under review reflect a net profit of €710.4m (31/3/06: €670.7m), confirming both the trend shown by the first six months and the targets set in the Group's 2005-2008 business plan.

Total income grew by 6.5%, from €1,077.4m to €1,147.7m, including net trading income of €88.4m, higher than the figure reported at 31 December 2006, but still far below the €190.2m posted this time last year, which, however, was boosted by €40.8m in non-recurring income from disposal of the Group's holding in Ciments Français. As for the other main sources of income:

— net interest income rose by 16.5%, from €423.8m to €493.6m, on the strength of higher business volumes in corporate banking, up 23%, and retail financial services, up 18.1%;

— net fee and commission income grew by 25.1%, from €214.9m to €268.9m, as a result of healthy contributions from lending, advisory and capital markets activities in particular;

— income from equity-accounted companies rose by 19.6%, from €245.4m to €293.6m, driven by a positive earnings performance by Assicurazioni Generali.

The 9.8% increase in operating costs, from €263.3m to €289.1m, is once again linked to the strengthening of both parent and Group companies' activities in terms of staff, with a 5.4% increase in headcount, and new branches being opened by the Compass group, with a total of fifteen branches being added during the nine months under review.

Profit from ordinary activities rose by 5.5%, from €814.1m to €858.6m.

Among the other items, bad debt writeoffs rose by 38.9%, from €84.1m to €116.8m, in part reabsorbing the 51% increase reported at end-December. The increase was again due to higher business levels in higher-profit, higher-risk retail financial services products, in line with market trends. Gains on disposals of securities grew from €109.6m to €174.4m, and are chiefly the result of disposal of the Ferrari shareholding, which was completed during the first quarter of the current financial year.

Of the Group's different business areas, both equity investment and private banking show higher net profits, the former up 29.1%, from €202.5m to €261.4m, the latter up 11.4%, from €35.1m to €39.1m, while retail financial services and wholesale banking both posted results which were virtually stable in terms of bottom line, with net profit at the former up 4.1%, from €60.5m to €63m, and at the latter up 2%, from €353.1m to approx. €346.1m net of the aforementioned non-recurring net trading income deriving from the Ciments Français disposal.

On the balance-sheet side, loans and advances to customers rose again during the three months under review, to €24.2bn, up from €23.1bn at 31 December 2006, and compared with €22.2bn at 31 March 2006, as did funding, from €31.5bn to €33.5bn, against €25.7bn at the same time last year.

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	9 mths to 31/3/06	6 mths to 31/12/06	9 mths to 31/3/07	Y.o.Y. chg.
	€m	€m	€m	%
Net interest income	423.8	332.0	493.6	+16.5
Net trading income	190.2	29.9	88.4	–53.5
Net fee and commission income	214.9	189.6	268.9	+25.1
AFS securities	3.1	3.2	3.2	+3.2
Share in profits earned by equity-accounted companies	245.4	213.8	293.6	+19.6
TOTAL INCOME	**1,077.4**	**768.5**	**1,147.7**	**+6.5**
Labour costs	(141.3)	(103.1)	(153.6)	+8.7
Administrative expenses	(122.0)	(91.4)	(135.5)	+11.1
OPERATING COSTS	**(263.3)**	**(194.5)**	**(289.1)**	**+9.8**
PROFIT FROM ORDINARY ACTIVITIES	**814.1**	**574.0**	**858.6**	**+5.5**
Gain (loss) on disposal of AFS securities	109.6	169.3	174.4	+59.1
Gain (loss) on disposal of other assets	0.5	—	—	n.m.
Bad debt writeoffs	(84.1)	(78.2)	(116.8)	+38.9
Extraordinary provisions	—	(6.0)	(6.0)	—
PROFIT BEFORE TAX	**840.1**	**659.1**	**910.2**	**+8.3**
Income tax for the period	(162.8)	(127.7)	(191.2)	+17.4
Minority interest	(6.6)	(5.4)	(8.6)	+30.3
NET PROFIT	**670.7**	**526.0**	**710.4**	**+5.9**

RESTATED BALANCE SHEET

	30/6/06	31/12/06	31/3/07
	€m	€m	€m
Assets			
Treasury funds	6,320.6	7,628.8	8,441.5
AFS securities	5,502.7	5,183.3	5,619.3
of which: fixed-income	*2,833.9*	*2,485.1*	*2,490.1*
equities	*2,423.0*	*2,285.9*	*2,551.4*
Financial assets held to maturity	626.5	629.9	626.6
Loans and advances to customers	21,388.1	23,130.3	24,177.1
Equity investments	2,354.9	2,484.7	2,638.8
Tangible and intangible assets	305.7	314.0	311.8
Other assets	510.2	448.4	480.1
of which tax assets	*321.5*	*284.4*	*296.4*
Total assets	37,008.7	39,819.4	42,295.2
Liabilities			
Funding	29,067.7	31,477.4	33,534.8
of which debt securities in issue	*21,118.0*	*23,090.3*	*25,059.5*
Other liabilities	915.3	1,003.0	1,067.6
of which tax liabilities	*645.6*	*697.7*	*739.4*
Provisions	191.3	196.7	187.7
Net equity	5,976.0	6,616.3	6,794.7
of which: share capital	*406.0*	*408.8*	*408.8*
reserves	*5,480.8*	*6,106.6*	*6,281.7*
minority interest	*89.2*	*100.9*	*104.2*
Profit for the period	858.4	526.0	710.4
Total liabilities	37,008.7	39,819.4	42,295.2

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

31 March 2007	Wholesale banking	Retail financial services	Private banking	Equity investment portfolio	Group
	€m	€m	€m	€m	€m
Profit-and-loss figures					
Net interest income (expense)	145.4	339.5	17.6	(6.5)	493.6
Dividends on AFS securities	3.2	—	—	—	3.2
Net trading income	79.6	0.1	9.9	—	88.4
Net fee and commission income	204.0	31.1	66.9	—	268.9
Share of profits earned by equity-accounted companies	5.6	—	—	280.0	293.6
TOTAL INCOME	**437.8**	**370.5**	**94.4**	**273.5**	**1,147.7**
Labour costs	(77.2)	(49.6)	(31.4)	(2.9)	(153.6)
Administrative expenses	(45.9)	(78.7)	(19.9)	(0.9)	(135.5)
OPERATING COSTS	**(123.1)**	**(128.3)**	**(51.3)**	**(3.8)**	**(289.1)**
PROFIT FROM ORDINARY ACTIVITIES	**314.7**	**242.2**	**43.1**	**269.7**	**858.6**
Gain (loss) on disposal of AFS securities	165.9	—	8.5	—	174.4
Gain (loss) on disposal of other securities	—	—	—	—	—
Extraordinary provisions	—	—	(6.0)	—	(6.0)
Bad debt writeoffs	(1.6)	(115.2)	(0.1)	—	(116.8)
PROFIT BEFORE TAX	**479.0**	**127.0**	**45.5**	**269.7**	**910.2**
Income tax for the period	(125.9)	(55.4)	(6.4)	(8.3)	(191.2)
Minority interest	—	(8.6)	—	—	(8.6)
NET PROFIT	**353.1**	**63.0**	**39.1**	**261.4**	**710.4**
Balance-sheet data					
AFS securities	4,768.0	—	870.2	—	5,619.3
Equity investments	192.7	—	—	2,402.7	2,638.8
Loans and advances to customers	17,909.6	9,698.1	732.6	—	24,177.1
of which to Group companies	*4,022.7*	—	—	—	—
No. of staff	441	1,066	269*	—	1,741
Cost/income ratio (%)	28.1	34.6	54.3	1.4	25.2

31 March 2006	Wholesale banking	Retail financial services	Private banking	Equity investment portfolio	Group
	€m	€m	€m	€m	€m
Profit-and-loss figures					
Net interest income (expense)	122.4	292.2	14.7	(4.9)	423.8
Dividends on AFS securities	3.2	—	—	—	3.1
Net trading income	182.5	1.5	8.1	—	190.2
Net fee and commission income	150.3	27.3	63.8	—	214.9
Share of profits earned by equity-accounted companies	16.6	—	—	221.6	245.4
TOTAL INCOME	**475.0**	**321.0**	**86.6**	**216.7**	**1,077.4**
Labour costs	(65.8)	(48.5)	(32.1)	(2.4)	(141.3)
Administrative expenses	(41.4)	(69.0)	(18.0)	(1.7)	(122.0)
OPERATING COSTS	**(107.2)**	**(117.5)**	**(50.1)**	**(4.1)**	**(263.3)**
PROFIT FROM ORDINARY ACTIVITIES	**367.8**	**203.5**	**36.5**	**212.6**	**814.1**
Gain (loss) on disposal of AFS securities	107.1	—	2.5	—	109.6
Gain (loss) on disposal of equity investments	—	—	—	—	—
Gain (loss) on disposal of other securities	—	—	0.5	—	0.5
Bad debt writeoffs	—	(84.4)	0.2	—	(84.1)
PROFIT BEFORE TAX	**474.9**	**119.1**	**39.7**	**212.6**	**840.1**
Income tax for the period	(102.3)	(50.5)	(4.6)	(10.1)	(162.8)
Minority interest	—	(8.1)	—	—	(6.6)
NET PROFIT	**372.6**	**60.5**	**35.1**	**202.5**	**670.7**
Balance-sheet data					
AFS securities	4,344.6	—	1,237.3	—	5,562.1
Equity investments	150.2	—	—	2,223.6	2,405.3
Loans and advances to customers	16,826.1	8,384.9	532.6	—	22,172.5
of which to Group companies	*3,461.2*	—	—	—	—
No. of staff	409	1,012	263*	—	1,652
Cost/income ratio (%)	22.6	36.6	57.9	1.9	24.4

* Includes 89 staff employed by the Esperia Group pro-forma (31/3/06: 79) not included in the Group total.

Notes to statements on pp. 9-10:

1) Divisions comprise:
   - *wholesale banking*: Mediobanca S.p.A., Mediobanca International, Mediobanca Securities USA LLC and Prominvestment;
   - *retail financial services*: Compass, Micos Banca, Cofactor and Creditech (consumer credit), SelmaBipiemme Leasing, Palladio Leasing and Teleleasing (leasing);
   - *private banking*: Compagnie Monégasque de Banque, Spafid and Prudentia Fiduciaria, plus 48.5% of Banca Esperia pro-forma;
   - *equity investment portfolio*: shareholdings owned by the Group in Assicurazioni Generali and RCS MediaGroup.
2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (48.5%) rather than equity-accounted;
   - adjustments/differences arising upon consolidation between different business areas, which led to shortfalls of €0.5m at 31 March 2007 and €1.9m at 31 March 2006;
   - notional expenses attributable to Mediobanca in respect of the stock option scheme operated by Banca Esperia amounting to €5.7m (31/3/06: €2m).

Review of key items

Balance sheet

The main balance-sheet items reflected the following trends in the third quarter (i.e. since 31 December 2006):

Funding — this rose by 6.5%, from €31,477.4m to €33,534.8m, following issuance of approx. €1.5bn in short-term notes, i.e. Euro CDs and commercial paper, which increased the debt security component from €23,090.3m to €25,059.5m, while other items, i.e. current accounts, borrowings and deposits, remained virtually stable at €8,475.3m, compared with €8,387.1m three months previously.

Loans and advances to customers — these rose by approx. 4.5%, from €23,130.3m to €24,177.1m, with around 60% of the growth on the corporate side. The increase in finance disbursed by Compagnie Monégasque de Banque is due to enhanced lending activity supporting asset management business.

	31/12/06	31/3/07	Change
	€m	€m	%
Corporate	13,253.6	13,885.4	+4.8
Retail	9,371.7	9,676.9	+3.3
– *of which: consumer credit*	*3,450.3*	*3,520.8*	*+2.0*
mortgage lending	*1,912.0*	*2,008.3*	*+5.0*
leasing	*3,940.9*	*4,085.2*	*+3.7*
Other (CMB)	505.0	614.8	+21.7
TOTAL LOANS AND ADVANCES TO CUSTOMERS	23,130.3	24,177.1	+4.5

Loan book composition remained unchanged, with 57% made up of corporate loans and structured finance, 24% of consumer credit, 17% of leasing, and the other 2% loans disbursed by Compagnie Monégasque de Banque.

Equity investments — this item rose by €154.1m, from €2,484.7m to €2,638.8m, on the back of contributions for the three months from:

Assicurazioni Generali, amounting to €99.7m, €65.2m of which was the Group's share in the company's profit for the period; Burgo Group, €40.4m, due to the increase in the valuation reserve as a result of changes in the accounting policies adopted; RCS MediaGroup, €11.1m, after €12.9m in profit for the period; and Banca Esperia, €3.5m, representing pro-rata profit for the three months. Based on share prices at 31 March 2007 the portfolio reflected a surplus of €3,750m (31/12/06: €4,097.7m), which rises to €4,154m based on current prices.

	Percentage shareholding*	Book value	Market value based on prices at 31/3/07	Surplus
	%	€m	€m	€m
LISTED INVESTMENTS				
Assicurazioni Generali	14.09	2,099.0	5,736.1	3,637.1
RCS MediaGroup, *ordinary*	13.66	303.7	416.6	112.9
		2,402.7	6,152.7	3,750.0
OTHER INVESTMENTS				
Banca Esperia	48.50	43.4		
Burgo Group S.p.A.	22.13	145.5		
Athena Private Equity class A	23.88	33.8		
MB Venture Capital Fund I Partecipating Company A N.V. class B	45.0	10.1		
Fidia	25.0	2.9		
Other minor investments		0.4		
		236.1		
		2,638.8		

* Percentage of entire share capital.

Financial assets held to maturity — these declined from €629.9m to €626.6m, following adjustments to amortized cost of €3.3m after coupons were collected.

AFS securities — a €436m increase was posted, from €5,183.3m to €5,619.3m, which chiefly involved equities, following €147.3m in new investments and €118.2m in upward adjustments to fair value, the main items among which were as follows:

	€m
Fiat	93.4
Italmobiliare	12.4
Pirelli & C.	16.7
Commerzbank	15.0
Finmeccanica	8.2
Fondiaria - SAI	(4.8)
Telecom Italia	(31.8)

Debt securities increased by €5m, after downward adjustments at the reporting date of €16.6m.

Since 31 March 2007, Mediobanca, in conjunction with other financial and industrial partners (Assicurazioni Generali, Intesa Sanpaolo, Sintonia and Telefonica), has entered into an agreement which will involve it transferring its holding in Telecom Italia to Telco S.p.A., a company that will hold a 23.6% stake in Telecom Italia. Mediobanca will have a 10.6% interest in Telco S.p.A.

Treasury funds — this item rose from €7,628.8m to €8,441.5m, and includes securities worth €12,654.6m, of which €8,139.5m in bonds and €4,515.1m in equities. The latter were up €3,112.1m, *inter alia* as a result of purchases, chiefly Endesa, covered by equity swaps with Enel as part of market transactions. These positions were mostly financed by short-term funding, e.g. repos, deposits, etc., which rose from €828.4m to €4,570.1m. Cash and cash equivalents held at banks were virtually unchanged, at €357m, compared with €376.2m. Income from trading grew from €29.9m to €88.4m during the third quarter.

Provisions — this heading comprises the provision for liabilities and charges, which declined from €163.8m to €157.4m, and the staff severance indemnity provision, which reduced from €32.9m as at 31 December 2006 to €30.3m.

Net equity — net of the profit for the nine months, the share of net equity attributable to the Group rose by €175.1m, from €6,515.4m to €6,690.5m, mostly due to a €98.3m increase in valuation reserves and a €74.6m rise due to investee companies being equity-accounted.

PROFIT AND LOSS ACCOUNT

Net interest income — this rose by 16.5%, from €423.8m to €493.6m, as a result of higher lendings. Some 70% of net interest income is generated by retail operations, which improved by 16%, and the remainder by corporate finance, which delivered 18.8% growth.

Net trading income — net trading income of €88.4m (31/3/06: €190.2m, including the €40.8m gain on Ciments Français) reflects the balance between marking the portfolio to market as at the reporting date, which amounted to €42.3m, realized gains totalling €44.3m, and dividends collected during the period in an amount of €1.8m.

	31/3/06	31/3/07
	€m	€m
Net trading income (expense)	112.6	44.3
Mark-to-market as at reporting date	63.1	42.3
Dividends	14.5	1.8
TOTAL	190.2	88.4

Two-thirds of net trading income was generated on equities and the other one-third through fixed-income trading.

Net fee and commission income — the increase in this item, from €214.9m to €268.9m, is largely attributable to corporate and investment banking fees, which account for over three-quarters of the total, and were up 36%, from €148.9m to €202.5m, due to a healthy performance by all the main areas. The heading also includes €28.5m in fees earned by the Compass group (31/3/06: €27.3m), and €37.9m (€38.7m) by other Group companies, chiefly Compagnie Monégasque de Banque.

Operating costs — these rose by 9.8%, from €263.3m to €289.1m, and comprise:

— labour costs amounting to €153.6m (€141.3m): this includes €3.7m in directors' emoluments (€5.6m), and €6.9m in notional costs in respect of stock option schemes (€4.9m). The increase obviously reflects the growth in the Group's headcount referred to above;

— sundry costs and expenses amounting to €135.5m (€122m), including €8.4m (€9.3m) in ordinary depreciation charges, €5.7m in commitments entered into under the terms of the stock option scheme operated by Banca Esperia, and administrative expenses totalling €121.4m (€104.4m), made up as follows:

	9 mths to 31/3/06	9 mths to 31/3/07
	€m	€m
EDP and financial information subscriptions ...	23.8	24.8
Outside service and consultancy fees..........	8.6	15.5
Bad debt recovery and legal fees..............	12.0	14.0
Rent, equipment leasing, maintenance charges .	9.6	12.9
Advertising..................................	9.5	12.5
Bank charges.................................	9.7	11.4
Stationery, publication costs and utilities.......	10.5	10.9
Travel, transport and entertainment...........	4.0	5.0
Others......................................	16.7	14.4
TOTAL......................................	104.4	121.4

The increase in outside service and consultancy fees chiefly reflects expenses to upgrade IT systems and higher legal fees.

Bad debt writeoffs

The 38.9% increase in this item, from €84.1m to €116.8m, derives from the higher degree of risk involved in the increase in new retail loans, against a general worsening in the risk profile of lending to households.

Review of Group businesses

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

Wholesale banking

	9 mths to 31/3/06	6 mths to 31/12/06	9 mths to 31/3/07	Y.o.Y. change
	€m	€m	€m	%
Net interest income	122.4	104.2	145.4	+18.8
Dividends on AFS securities	3.2	3.2	3.2	—
Net trading income	182.5	23.4	79.6	-56.4
Net fee and commission income	150.3	147.1	204.0	+35.7
Share of profits earned by equity-accounted companies	16.6	7.5	5.6	–66.3
Total income	475.0	285.4	437.8	–7.8
Operating costs	(107.2)	(82.2)	(123.1)	+14.8
Profit from ordinary activities	367.8	203.2	314.7	–14.4
Other items	107.1	158.8	164.3	+53.4
Income tax for the period	(102.3)	(85.3)	(125.9)	+23.1
Net profit	372.6	276.7	353.1	–5.2
Cost/income ratio (%)	22.6	28.8	28.1	
Bad loans/total loans (%)	—	—	—	

	30/6/06	31/12/06	31/3/07	Changes in 3 mths to 31/3/07
	€m	€m	€m	%
Treasury funds	6,112.6	7,046.0	7,640.3	+8.4
AFS securities	4,065.8	4,103.3	4,768.0	+16.2
Financial assets held to maturity	626.5	630.0	626.6	–0.5
Equity investments	146.8	152.8	192.7	+26.1
Loans and advances to customers	15,855.9	17,135.9	17,909.6	+4.5
of which to Group companies	*3,608.4*	*3,882.3*	*4,022.7*	+3.6
Funding	22,433.8	24,427.1	26,294.9	+7.6

A net profit of €353.1m was recorded for the nine months, down slightly versus the €372.6m posted one year previously due to lower net trading income, which reduced from €182.5m to €79.6m. Net of this item profit from ordinary activities improved 26.9% on healthy performances from lending, advisory and capital markets activities, which drove an 18.8% increase in net interest income, from €122.4m to €145.4m, and a 35.7% rise in net fee and commission income, from €150.3m to €204m.

The 14.8% increase in costs, from €107.2m to €123.1m, reflects the staff strengthening, with 32 more employees on the books than at the same time last year, due to enhanced operations. Below the operating line there were gains of €165.9m on disposals of securities (31/3/06: €107.1m), most of which were in connection with the Ferrari share sale which took place during the first three months of the financial year.

On the balance-sheet side, there was growth of 4.5% for the three months in loans and advances to customers, from €17,135.9m to €17,909.6m, of 7.6% in funding, from €24,427.1m to €26,294.9m, and of 8.4% in treasury accounts, from €7,046m to €7,640.3m. Compared with the figures at 31 March 2006 these increases were respectively 6.4%, 38%, and more than fivefold. The AFS securities portfolio also grew, from €4,103.3m to €4,768m, compared with €4,344.6m at 31 March 2006, comprising €2,236.2m in fixed-income securities and €2,531.8m in equities which consisted of the following:

	Percentage shareholding*	Book value at 31 March 2007	Adjustments to fair value	Overall AFS reserve
Fiat	1.94 ÷ 1.66	399.4	179.3	278.4
Telecom Italia	1.54 ÷ 1.06	441.0	(4.8)	(81.4)
Pirelli	4.45 ÷ 4.34	192.7	35.4	21.1
Italmobiliare	9.5 ÷ 5.47	183.3	40.5	148.7
Intesa San Paolo	0.23 ÷ 0.21	154.8	31.6	55.4
Gemina	12.66 ÷ 12.53	151.5	29.7	95.8
Commerzbank	0.53	115.5	15.4	56.3
Fondiaria-SAI	2.06 ÷ 1.53	88.5	6.5	54.3
Mediolanum	1.96	86.8	8.2	10.1
Finmeccanica	0.97	92.8	21.1	31.4
Enel	0.11	54.5	8.9	5.6
Other listed securities		322.5	37.4	52.7
TOTAL LISTED SECURITIES		2,283.3	409.2	728.4
Delmi	6.0	124.8	14.7	14.7
Speed	19.2	63.9	—	—
Other unlisted securities		59.8	1.5	1.8
TOTAL UNLISTED SECURITIES		248.5	16.2	16.5
TOTAL		2,531.8	425.4	744.9

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

Retail financial services

	9 mths to 31/3/06	6 mths to 31/12/06	9 mths to 31/3/07	Y.o.Y. chg.
	€m	€m	€m	%
Total income	321.0	244.3	370.5	+15.4
Operating costs	(117.5)	(85.3)	(128.3)	+9.2
PROFIT FROM ORDINARY ACTIVITIES	**203.5**	**159.0**	**242.2**	**+19.0**
Bad debt writeoffs	(84.4)	(76.1)	(115.2)	+36.5
Income tax for the period	(50.5)	(37.3)	(55.4)	+9.7
Profit attributable to minorities	(8.1)	(5.4)	(8.6)	+6.2
NET PROFIT	**60.5**	**40.2**	**63.0**	**+4.1**
Loans and advances to customers	8,384.9	9,389.5	9,698.1	+3.3*
New loans	3,345.6	2,264.0	3,457.0	+3.3
No. of branches	130	144	150	+15.4
Cost/income ratio (%)	36.6	34.9	34.6	—
Bad loans/total loans (%)	0.95	0.89	0.82	—

* Compared with figure at 31 December 2006.

The Compass group's consolidated highlights for the nine months reflect growth in net profit, from €60.5m to €63m. There was a 3.3% increase on the commercial side, reflecting more modest, 7% growth in consumer credit along with the downturn in leasing activity recorded during the first six months of the year and only recovered in part in the third quarter, the reduction at nine months being 3% as opposed to 11% at 31 December 2006. On a 15.4% increase in total income, from €321m to €370.5m, and slower growth in costs of 9.2%, from €117.5m to €128.3m, despite the opening of fifteen new branches (five of which were in France by Micos), profit from ordinary activities rose by 19%, from €203.5m to €242.2m. However, the higher cost of risk, with bad debt writeoffs rising from €84.4m to €115.2m, largely attributable to consumer credit, swallowed up a considerable part of the additional margin.

At 31 March 2007 loans and advances to customers, including securitized lendings, amounted to €9,698.1m, compared with €9,389.5m at 31 December 2006 and €8,384.9m at 31 March 2006, with new loans for the period up 3.3% year-on-year, from €3,345.6m to €3,457m.

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

Retail financial services 31 March 2007	Consumer credit	Mortgage lending	Total consumer finance	Leasing	Total RFS
	€m	€m	€m	€m	€m
Total income	281.1	30.0	311.1	59.4	370.5
Operating costs	(90.8)	(16.4)	(107.2)	(21.1)	(128.3)
PROFIT FROM ORDINARY ACTIVITIES	**190.3**	**13.6**	**203.9**	**38.3**	**242.2**
Provisions and bad debt writeoffs	(104.4)	(4.2)	(108.6)	(6.6)	(115.2)
Profit attributable to minorities	—	—	—	(8.6)	(8.6)
Income tax for the period	(38.7)	(4.2)	(42.9)	(12.5)	(55.4)
NET PROFIT	**47.2**	**5.2**	**52.4**	**10.6**	**63.0**
New loans	1,762.6	445.1	2,207.7	1,249.3	3,457.0
Loans and advances to customers	3,583.3	2,011.4	5,594.7	4,103.4	9,698.1
No. of branches	113	27	140	10	150
No. of employees	654	193	847	219	1,066

Retail financial services 31 March 2006	Consumer credit	Mortgage lending	Total consumer finance	Leasing	Total RFS
	€m	€m	€m	€m	€m
Total income	234.5	26.6	261.1	59.9	321.0
Operating costs	(82.4)	(12.8)	(95.2)	(22.3)	(117.5)
PROFIT FROM ORDINARY ACTIVITIES	**152.1**	**13.8**	**165.9**	**37.6**	**203.5**
Provisions and bad debt writeoffs	(74.6)	(4.0)	(78.6)	(5.8)	(84.4)
Profit attributable to minorities	—	—	—	(8.1)	(8.1)
Income tax for the period	(32.3)	(4.3)	(36.6)	(13.9)	(50.5)
NET PROFIT	**45.2**	**5.5**	**50.7**	**9.8**	**60.5**
New loans	1,695.6	367.0	2,062.6	1,283.0	3,345.6
Loans and advances to customers	3,103.2	1,573.6	4,676.8	3,708.1	8,384.9
No. of branches	99	21	120	10	130
No. of employees	626	172	798	214	1,012

Private banking

	9 mths to 31/3/06	6 mths to 31/12/06	9 mths to 31/3/07	Y.o.Y. chg.
	€m	€m	€m	%
Total income	86.6	59.5	94.4	+9.0
of which net fee and commission income	*63.8*	*41.8*	*66.9*	*+4.9*
Operating costs	(50.1)	(33.9)	(51.3)	+2.4
Profit from ordinary activities	36.5	25.6	43.1	+18.1
Other income (expenses)	3.2	2.2	2.4	-25.0
Income tax for the period	(4.6)	(3.7)	(6.4)	+39.1
Net profit attributable to the Group	35.1	24.1	39.1	+11.4

	30/6/06	31/12/06	31/3/07	Y.o.Y. chg.
	€m	€m	€m	%
Assets under management	11,216.9	12,358.1	12,942.0	+4.7
Securities under trust	1,077.6	1,120.8	1,125.2	+0.4

Total income from private banking rose by 9% for the nine months, from €86.6m to €94.4m, due to higher net trading income, up from €8.1m to €9.9m, and net fee and commission income, up 4.9%, from €63.8m to €66.9m, partly as a result of the contribution from performance fees earned by Banca Esperia in the last three months. Against a modest, 2.4% increase in costs, profit from ordinary activities rose by 18.1%, from €36.5m to €43.1m. The 11.4% increase in net profit, from €35.1m to €39.1m, reflects a lower contribution from other net income, down from €3.2m to €2.4m (including an €8m gain arising on disposal of CMB's 1% share in Ferrari partly offset by net extraordinary provisions of €6m linked to a programme of long-term commitments vis-à-vis the Principality of Monaco), and higher tax, up from €4.6m to €6.4m. Assets under discretionary and non-discretionary management grew by 4.7% during the three months, from €12.4bn to €12.9bn, €7.9bn of which was attributable to Compagnie Monégasque de Banque, up 2.1%, and €5bn to Banca Esperia (pro-rata), up 9.1%.

Private banking 31 March 2007	CMB	Banca Esperia 48.5%	Others	Total PB
	€m	€m	€m	€m
Total income	57.9	31.3	5.2	94.4
of which net fee and commission income	*34.0*	*28.0*	*4.9*	*66.9*
Operating costs	(29.7)	(17.6)	(4.0)	(51.3)
PROFIT FROM ORDINARY ACTIVITIES	**28.2**	**13.7**	**1.2**	**43.1**
Other income (expense)	2.5	(0.1)	—	2.4
Income tax for the period	—	(5.6)	(0.8)	(6.4)
NET PROFIT	**30.7**	**8.0**	**0.4**	**39.1**
Assets under management	7,913.0	5,029.0	—	12,942.0

Private banking 31 March 2006	CMB	Banca Esperia 48.5%	Others	Total PB
	€m	€m	€m	€m
Total income	56.0	26.2	4.4	86.6
of which net fee and commission income	*35.8*	*23.7*	*4.3*	*63.8*
Operating costs	(30.9)	(14.6)	(4.6)	(50.1)
PROFIT FROM ORDINARY ACTIVITIES	**25.1**	**11.6**	**(0.2)**	**36.5**
Other income (expense)	3.6	(0.2)	(0.2)	3.2
Income tax for the period	—	(4.3)	(0.3)	(4.6)
NET PROFIT	**28.7**	**7.1**	**(0.7)**	**35.1**
Assets under management	7,122.0	3,979.4	—	11,101.4

REVIEW OF PERFORMANCES BY GROUP COMPANIES

MEDIOBANCA

RESTATED PROFIT AND LOSS ACCOUNT

	9 mths to 31/3/06*	6 mths to 31/12/06	9 mths to 31/3/07	Y.o.Y. chg.
	€m	€m	€m	%
Net interest income	128.6	100.4	143.7	+11.7
Net trading income	172.5	23.1	78.6	–54.4
Net fee and commission income	152.8	147.9	199.5	+30.6
Dividends on AFS securities	3.2	3.2	3.2	—
TOTAL INCOME	**457.1**	**274.6**	**425.0**	**–7.0**
Labour costs	(68.7)	(55.6)	(81.3)	+18.3
Administrative expenses	(49.6)	(35.6)	(52.5)	+5.8
OPERATING COSTS	**(118.3)**	**(91.2)**	**(133.8)**	**+13.1**
PROFIT FROM ORDINARY ACTIVITIES	**338.8**	**183.4**	**291.2**	**–14.0**
Gain (loss) on disposal of AFS securities	107.1	160.9	165.9	+54.9
Gain (loss) on disposal of other securities	—	—	(0.1)	n.m.
Bad debt writeoffs	—	(2.1)	(1.6)	n.m.
PROFIT BEFORE TAX	**445.9**	**342.2**	**455.4**	**+2.1**
Income tax for the period	(97.0)	(83.0)	(120.0)	+23.7
NET PROFIT	**348.9**	**259.2**	**335.4**	**–3.9**

* IAS/IFRS-compliant.

RESTATED BALANCE SHEET

	30/6/06*	31/12/06	31/3/07
	€m	€m	€m
Assets			
Treasury funds	6,068.6	7,017.8	7,607.5
AFS securities	4,043.0	4,103.2	4,768.0
of which: fixed-income	*1,661.8*	*1,836.8*	*2,236.2*
equities	*2,381.2*	*2,266.4*	*2,531.8*
Financial assets held to maturity	625.5	629.0	625.7
Loans and advances to customers	15,870.5	17,127.7	17,902.9
Equity investments	1,673.2	1,670.0	1,670.0
Tangible and intangible assets	122.9	122.5	122.3
Other assets	268.1	174.9	222.5
of which tax assets	*182.8*	*130.5*	*133.8*
Total assets	28,671.8	30,845.1	32,918.9
Liabilities			
Funding	22,491.1	24,480.3	26,347.5
of which debt securities in issue	*20,192.1*	*21,260.9*	*21,759.1*
Other liabilities	539.4	616.9	649.8
of which tax liabilities	*449.6*	*493.9*	*513.3*
Provisions	165.7	165.7	163.5
Net equity	4,930.1	5,323.0	5,422.7
of which: share capital	*406.0*	*408.8*	*408.8*
reserves	*4,524.1*	*4,914.2*	*5,013.9*
Profit for the period	545.5	259.2	335.4
Total liabilities	28,671.8	30,845.1	32,918.9

* IAS/IFRS-compliant.

In the nine months ended 31 March 2007, Mediobanca earned a net profit of €335.4m, not far off the €348.9m recorded one year previously. There was a significant increase of €55.5m in net trading income during the third quarter, and healthy performances by all the other main sources of income. Net interest income rose by 11.7% year-on-year, from €128.6m to €143.7m, on the back of higher business volumes; net fee and commission income rose by 30.6%, from €152.8m to €199.5m, thus bearing out the positive trend in wholesale banking. The 13.1% increase in operating costs, from €118.3m to €133.8m, reflects both the rise in employee headcount, from 399 to 431, and the increased levels of activity. Net of trading income profit from ordinary activities rose by 27.8%, from €166.3m to €212.6m.

On the balance-sheet side, loans and advances to customers rose in the third quarter, from €17,127.7m to €17,902.9m, as did funding, from €24,480.3m to €26,347.5m, and treasury funds, from €7,017.8m to €7,607.5m. The AFS securities portfolio also grew during the period, from €4,103.2m to €4,768m.

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

— *Compass S.p.A.*: this company's accounts for the nine months ended 31 March 2007 reflect a net profit of €46.6m (31/3/06: €44.6m); loans and advances were up 1.6% compared with 31 December 2006, from €3,516.2m to €3,571.7m.

— *SelmaBipiemme Leasing S.p.A.*: this company earned a net profit of €14.8m (€14.7m); as at 31 March 2007, amounts leased to clients had risen by 3.9% compared with 31 December 2006, from €2,230.2m to €2,317.3m.

— *Palladio Leasing S.p.A.*: Palladio's accounts for the period under review reflect a net profit of €7.1m (€6.6m); as at 31 March 2007, amounts leased to clients were 2.7% higher than at 31 December 2006, up from €1,290.2m to €1,325.1m.

— *Teleleasing S.p.A.*: this company earned a net profit of €6.7m (€7.8m) during the period; as at 31 March 2007, amounts leased to clients had risen by 3.9% compared with the figure at 31 December 2006, from €492.8m to €512.2m.

— *Micos Banca S.p.A.*: Micos's accounts for the nine months reflect net profit of €5.1m (€5.5m), after €1.7m in non-recurring costs linked to the start of operations in France, with five new branches being opened; at 31 March 2007, loans outstanding were up 5.5% compared with 31 December 2006, from €1,901.6m to €2,006.6m.

— *Compagnie Monégasque de Banque*, Monaco: CMB posted a net profit of €11.5m (€10.2m) in the first quarter of the new financial year, with management fees unchanged at €9.5m and assets managed on a discretionary and non-discretionary basis amounting to €7.9bn (31/12/06: €7.7bn).

— *Spafid - Società per Amministrazioni Fiduciarie S.p.A.:* this company recorded a net profit of €1.1m (€0.4m). Securities and value items under trust as at 31 March 2007 amounted to €1,267.9m, compared with €1,266.1m at 31 December 2006.

— *Mediobanca International (Luxembourg) S.A.,* Luxembourg: during the period under review, this company earned a profit of €3.9m (€2.7m), after net fee income from lending activities amounting to €3.7m. Loans and advances to customers doubled during the third quarter, from €1,234m to €2,531.3m, as did funding, from €1,258.3m to €2,691.6m.

* * *

Outlook

In the fourth quarter, the different areas of the Group's activities are not expected to depart significantly from the performances recorded by them during the first nine months: growth should continue in wholesale banking by all the main income streams, with the exception of trading, where the result will obviously be lower than that posted last year. Retail financial services should deliver growth in total income for the full year, on the strength of the continuing buoyant trend in consumer credit, albeit against a worsening risk scenario. Equity investment should reflect the healthy performances by the equity-accounted companies, in particular Assicurazioni Generali, while in private banking, the positive performance recorded in the first quarter of 2007 is expected to continue.

Milan, 11 May 2007

THE BOARD OF DIRECTORS

PART A - ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

As from the present financial year, the Mediobanca Group's consolidated financial statements for the period ended 31 December 2006 are drawn up, as required by Italian Legislative Decree 38/05, in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks was governed by Bank of Italy circular no. 262 issued on 22 December 2005. A summary of the main accounting policies adopted by the Group is provided below. This financial statement has been drawn up in conformity with Article 81 of Consob resolution 11971/99 implementing provisions on issuers.

Section 2

Area and method of consolidation

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

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

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

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

		Registered office	Type of relation ship[1]	Shareholding		% voting rights[2]
				Investor company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	*Line-by-line*					
1.	MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.p.A.	Rome	1	A.1.1	70.00	70.00
3.	PRUDENTIA FIDUCIARIA S.p.A	Milan	1	A.1.1	100.00	100.00
4.	SETECI - Società per l'Elaborazione, Trasmissione dati, Engineering e Consulenza Informatica S.p.A.	Milan	1	A.1.1	100.00	100.00
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.00	100.00
6.	TECHNOSTART S.p.A.	Milan	1	A.1.1	6900	69.00
7.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.	Monte Carlo	1	A.1.1	100.00	100.00
8.	C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.7	99.94	99.94
9.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.7	99.70	99.70
10.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.7	99.92	99.92
11.	MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.7	99.00	99.00
12.	MOULINS 700 S.A.M.	Monte Carlo	1	A.1.8	99.80	99.80
13.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.14	1.00	1.00
14.	COMPASS S.p.A.	Milan	1	A.1.1	100.00	100.00
15.	MICOS BANCA S.p.A.	Milan	1	A.1.14	100.00	100.00
16.	COFACTOR S.p.A.	Milan	1	A.1.14	100.00	100.00
17.	SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.14	60.00	60.00
18.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.17	95.00	100.00
				A.1.18	5.00	
19.	TELELEASING S.p.A.	Milan	1	A.1.17	80.00	80.00
20.	SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.00	100.00
21.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.00	100.00
22.	CREDITECH S.p.A.	Milan	1	A.1.14	100.00	100.00
23.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
24.	QUARZO S.r.l.	Milan	4	A.1.14	7.00	7.00
25.	QUARZO LEASE S.r.l.	Milan	4	A.1.17	10.00	10.00

Legend

[1] Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.
3 = agreements with other shareholders.
4 = other forms of control.
5 = unified management as defined in Article 26, paragraph 1 of Italian Legislative Decree 87/92.
6 = unified management as defined in Article 26, paragraph 2 of Italian Legislative Decree 87/92.
7 = jointly controlled.

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

Section 3

Significant accounting policies

Financial assets held for trading

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

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

After initial recognition they continue to be measured at fair value, which for listed instruments is calculated on the basis of market prices ruling at the reporting date. If no market prices are available, valuation methods and models are used based on market-derived data, e.g. valuations of listed instruments with similar features, discounted cash flow analysis, option price calculation methods, or valuations used in comparable transactions. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost. 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 profit and loss under the heading *Net trading income*.

AFS securities

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

AFS assets comprise equities held for non-trading purposes which do not qualify as controlling interests, investments in associates or jointly-controlled operations.

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

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in profit and loss on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to profit and loss for debt securities and equity for shares, up to the value of amortized cost.

Financial assets held to maturity

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

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

Assets are tested for impairment at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in profit and loss on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to profit and loss up to the value of amortized cost.

Loans and receivables

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

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

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

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

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

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

Accounts for which there is objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to profit and loss, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Leasing

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

Hedges

There are two types of hedge:

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

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

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

Hedge derivatives are recognized at fair value as follows:

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

– the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity, while the gain or loss deriving from the ineffective portion is recognized through profit and loss only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

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

Equity investments

This heading consists of investments in:

– associates, which are accounted for using the equity method. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment (which may not be less than 10%) is sufficient to ensure an influence in the governance of the investee company;
– jointly-controlled companies, which are also recognized using the equity method;
– other investments of negligible value, which are stated at cost.

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

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.

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 profit and loss.

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 profit and loss. If the reasons which gave rise to the loss in value cease to apply, the adjustment is written back to earnings with the proviso that the amount credited may not exceed the value which the asset would have had net of depreciation, which is calculated assuming no impairment took place.

Intangible assets

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

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

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 profit and loss 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 profit and loss as the difference between the carrying amount and the recoverable value of the asset concerned.

Derecognition of assets

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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 profit and loss.

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

Financial trading liabilities

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

Staff severance indemnity provision

This is stated to reflect the actuarial value of the deferred benefit obligation, which is calculated using the projected unit credit method. Future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates. The values thus obtain are booked under labour costs as the net amount of contributions paid, prior year contributions not yet capitalized, interest accrued, and actuarial gains and losses.

Provisions for liabilities and charges

This heading comprises amounts set aside to cover risks not necessarily associated with defaults on loans or advances that could lead to future expenses. If the time effect is material, provisions are discounted using current market rates. Provisions are recognized in profit and loss.

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 profit and loss in part or in full.

Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates ruling as at the reporting date 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 profit and loss, whereas those on non-cash items are taken through profit and loss or to equity depending on their category.

Tax assets and liabilities

Income taxes are recorded in profit and loss, with the exception of tax payable on items debited or credited directly to 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.

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 on business combinations is recognized when this is likely to result in a charge for one of the companies concerned.

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

Stock options

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

Treasury shares

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

CONSOLIDATED BALANCE SHEET (IAS/IFRS-compliant)*

	Assets	IAS-compliant 31/3/07	IAS-compliant 31/12/06	IAS-compliant 31/3/06
10.	Cash and cash equivalents	8.1	7.4	8.4
20.	Financial assets held for trading	15,232.0	11,962.1	8,024.8
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	5,619.3	5,183.3	5,562.1
50.	Financial assets held to maturity	626.6	629.9	609.5
60.	Due from banks	5,707.7	4,503.4	4,409.7
	of which:			
	other trading items	*4,924.7*	*3,664.1*	*3,612.8*
	other items	*12.8*	*3.4*	—
70.	Due from customers	25,415.1	26,307.1	22,271.0
	of which:			
	other trading items	*1,947.7*	*3,964.9*	*880.9*
	other items	—	*14.5*	—
80.	Hedge derivatives	823.4	797.9	1,351.8
	of which:			
	funding hedge derivatives	*793.0*	*769.7*	*1,297.3*
	lending hedge derivatives	*3.9*	*5.0*	*3.5*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	2,638.8	2,484.7	2,405.3
110.	Total reinsurer's share of technical reserves	—	—	—
120.	Property, plant and equipment	299.5	301.8	300.6
130.	Intangible assets	12.3	12.2	4.2
	of which:			
	goodwill	*8.0*	*8.0*	—
140.	Tax assets:	296.4	284.4	182.4
	a) current	*141.9*	*130.2*	*38.6*
	b) advance	*154.5*	*154.2*	*143.8*
150.	Non-current and groups of assets being sold	—	—	—
160.	Other assets	292.1	237.2	198.4
	of which:			
	other trading items	*164.1*	*114.4*	*14.4*
	TOTAL ASSETS	**56,971.3**	**52,711.4**	**45,328.2**

* **Figures in €m.**

The balance sheet provided on page 8 reflects the following restatements:

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

	Liabilities and net equity	IAS-compliant 31/3/07	IAS-compliant 31/12/06	IAS-compliant 31/3/06
10.	Due to banks	14,312.8	9,978.2	10,403.0
	of which:			
	other trading items	*8,046.4*	*4,119.5*	*4,701.0*
20.	Due to customers	4,677.6	5,966.7	3,447.6
	of which:			
	other trading items	*2,454.2*	*3,415.1*	*1,010.0*
	other liabilities	*14.4*	*22.9*	—
30.	Debt securities in issue	24,371.6	22,510.7	17,996.0
40.	Financial trading liabilities	2,536.1	3,850.7	3,899.0
50.	Financial liabilities recognized at fair value	—	—	—
60.	Hedge derivatives	1,526.4	1,408.0	877.2
	of which:			
	funding hedge derivatives	*1,481.0*	*1,349.5*	*855.0*
	lending hedge derivatives	*25.3*	*38.2*	*18.1*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities:	739.4	697.7	587.7
	a) current	*318.6*	*274.8*	*155.7*
	b) deferred	*420.8*	*422.9*	*432.0*
90.	Liabilities in respect of groups of assets being sold	—	—	—
100.	Other liabilities	1,114.5	960.3	1,264.2
	of which:			
	other trading items	*798.3*	*698.8*	*856.5*
110.	Staff severance indemnity provision	30.4	32.9	35.5
120.	Provisions:	157.4	163.8	152.9
	a) post-retirement and similar benefits	—	—	—
	b) other provisions	*157.4*	*163.8*	*152.9*
130.	Technical reserves	—	—	—
140.	Valuation reserves	720.2	621.8	462.2
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	3,442.6	3,366.0	3,087.5
180.	Share premium reserve	2,119.3	2,119.3	1,960.0
190.	Share capital	408.8	408.8	399.0
200.	Treasury shares	(0.4)	(0.4)	(0.4)
210.	Net equity attributable to minorities	104.2	100.9	86.1
220.	Profit (loss) for the period	710.4	526.0	670.7
	TOTAL LIABILITIES AND NET EQUITY	**56,971.3**	**52,711.4**	**45,328.2**

CONSOLIDATED PROFIT AND LOSS ACCOUNT*

		9 mths to 31/3/07	6 mths to 31/12/06	9 mths to 31/3/06
10.	Interest and similar income	1,706.2	1,201.8	1,286.2
20.	Interest and similar expense	(1,255.0)	(892.4)	(860.5)
30.	**Net interest income**	**451.2**	**309.4**	**425.7**
40.	Fee and commission income	274.6	184.7	205.3
50.	Fee and commission expense	(34.5)	(14.0)	(18.5)
60.	**Net fee and commission income**	**240.1**	**170.7**	**186.8**
70.	Dividends and similar income	5.1	5.0	17.7
80.	Net trading income	130.0	50.6	175.6
90.	Net hedging income (expense)	(1.8)	(0.1)	(4.8)
100.	Gain (loss) on disposal of:	175.0	169.5	112.5
	a) loans and receivables	—	—	—
	b) AFS securities	*174.4*	*169.3*	*109.6*
	c) financial assets held to maturity	—	—	—
	d) financial liabilities	*0.6*	*0.2*	*3.0*
120.	**Total income**	**999.6**	**705.1**	**913.5**
130.	Value adjustments for impairment to:	(116.8)	(78.2)	(84.1)
	a) loans and receivables	*(117.4)*	*(78.4)*	*(84.6)*
	b) AFS securities	—	—	—
	c) financial assets held to maturity	*0.6*	*0.2*	*0.5*
	d) other financial assets	—	—	—
140.	**Net income from financial operations**	**882.8**	**626.9**	**829.4**
150.	Net premium income	—	—	—
160.	Income less expense from insurance operations	—	—	—
170.	**Net income from financial and insurance operations**	**882.8**	**626.9**	**829.4**
180.	Administrative expenses:	(294.1)	(195.5)	(258.6)
	a) labour costs	*(153.7)*	*(103.0)*	*(141.3)*
	b) other administrative expenses	*(140.4)*	*(92.5)*	*(117.3)*
190.	Net transfers to provisions for liabilities and risks	(6.0)	(6.0)	(0.7)
200.	Net adjustments to property, plant and equipment	(7.2)	(4.8)	(7.2)
210.	Net adjustments to intangible assets	(1.2)	(0.8)	(2.1)
	of which: goodwill	—	—	—
220.	Other operating income (expense)	42.3	25.5	33.4
230.	**Operating costs**	**(266.2)**	**(181.6)**	**(235.2)**
240.	Profit (loss) from equity-accounted companies	293.6	213.8	245.4
270.	Profit (loss) from disposal of investments	—	—	0.5
280.	**Profit (loss) before tax from ordinary activities**	**910.2**	**659.1**	**840.1**
290.	Income tax on ordinary activities for the period	(191.2)	(127.7)	(162.8)
300.	**Profit (loss) after tax from ordinary activities**	**719.0**	**531.4**	**677.3**
310.	Profit (loss) after tax on current assets being sold	—	—	—
330.	Profit (loss) for the period attributable to minorities	(8.6)	(5.4)	(6.6)
340.	**Net profit (loss) for the period**	**710.4**	**526.0**	**670.7**

* **Figures in €m.**

The profit and loss account shown on page 7 reflects the following restatements:

— *Net interest income* includes the totals reported under Heading 90, gains (losses) on financial liabilities as reported under Heading 100, plus margins on swaps reported under Heading 80 and amounting to €42.2m, €21.5m, and (€0.1m) respectively, while as from the last half-year €0.1m in interest income (31/12/06: €0.1m) and €1.5m (€1.1m) in interest expense is shown in *Net trading income*;

— amounts reported under Heading 220 have been treated as *Net fee and commission income*, save for redemptions/amounts recovered totalling €13.5m, €6.7m and €5.2m respectively which adjust operating costs; net transfers to provisions for risks and liabilities include €6m booked under *Extraordinary provisions*.